Condensed Interim Consolidated Financial Statements of

# Wow Unlimited Media Inc.

For the three and six months ended June 30, 2018 and 2017

(Unaudited)

# Wow Unlimited Media Inc.

## Condensed Interim Consolidated Statements of Financial Position

### As at June 30, 2018 and December 31, 2017 (Unaudited)

*Expressed in Canadian dollars*

| | Note | June 30, 2018 | December 31, 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current** | | | |
| Cash and cash equivalents | | $ 4,005,160 | $ 6,354,432 |
| Trade and other accounts receivable | 4 | 24,544,609 | 25,699,001 |
| Prepaid expenses, deposits and other | | 1,066,956 | 835,154 |
| | | 29,616,725 | 32,888,587 |
| Property, plant and equipment | | 1,283,922 | 1,395,228 |
| Investment in film and television programming | 5 | 10,831,713 | 7,764,141 |
| Other intangible assets | 6 | 5,264,784 | 5,951,652 |
| Goodwill | | 11,045,334 | 10,497,250 |
| Long-term accounts receivable | 4 | 2,935,070 | 257,025 |
| Deposits and other assets | | 287,580 | 278,226 |
| | | 31,648,403 | 26,143,522 |
| **TOTAL ASSETS** | | **$ 61,265,128** | **$ 59,032,109** |
| **LIABILITIES** | | | |
| **Current** | | | |
| Accounts payable and accrued liabilities | | $ 6,057,454 | $ 4,903,734 |
| Bank indebtedness | 7 | 670,000 | – |
| Interim production financing | 7 | 18,717,380 | 19,359,764 |
| Deferred revenue | 10 | 2,998,953 | 4,045,185 |
| Current portion of finance lease obligations | | 766,218 | 460,575 |
| | | 29,210,005 | 28,769,258 |
| Finance lease obligations | | 514,449 | 540,614 |
| Interim production financing | 7 | 845,550 | 525,146 |
| Convertible debentures | 8 | 3,900,943 | 3,815,364 |
| Deferred tax liabilities | | 416,137 | 1,168,408 |
| Other non-current liabilities | | 1,485,487 | 275,154 |
| | | 7,162,566 | 6,324,686 |
| **TOTAL LIABILITIES** | | **36,372,571** | **35,093,944** |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | | 78,921,793 | 76,596,510 |
| Reserves | | 4,013,342 | 3,141,678 |
| Accumulated deficit | | (58,042,578) | (55,800,023) |
| **TOTAL SHAREHOLDERS' EQUITY** | | **24,892,557** | **23,938,165** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **$ 61,265,128** | **$ 59,032,109** |

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

Approved by: the Directors

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

Michael Hirsh, Director Steve Hendry, Director

*See accompanying notes to these unaudited condensed interim consolidated financial statements*

# Wow Unlimited Media Inc.

## Condensed Interim Consolidated Statements of Comprehensive Loss

### For the three and six months ended June 30, 2018 and 2017 (Unaudited)

*Expressed in Canadian dollars*

| | | For the three months ended | | For the six months ended | |
|---|---|---|---|---|---|
| | Note | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| | | | (Restated - Note 6) | | (Restated - Note 6) |
| Revenue | 10 | $ 16,270,485 | $ 10,398,610 | $ 31,933,148 | $ 16,265,324 |
| Expenses | | | | | |
| Operating | 11 | 15,508,660 | 8,367,901 | 28,671,679 | 14,608,473 |
| Depreciation and amortization | | 1,716,881 | 2,737,776 | 3,424,778 | 3,966,641 |
| General and administration | 11 | 1,056,124 | 680,789 | 1,786,747 | 1,100,595 |
| Share based compensation expense | 13 | 216,838 | 452,846 | 477,797 | 633,028 |
| **Loss before finance costs and taxes** | | (2,228,018) | (1,840,702) | (2,427,853) | (4,043,413) |
| Finance costs | 14 | 299,771 | 99,601 | 653,008 | 188,065 |
| **Loss before taxes** | | **(2,527,789)** | **(1,940,303)** | **(3,080,861)** | **(4,231,478)** |
| Deferred income tax (recovery) expense | | (447,608) | 311,569 | (838,306) | (513,848) |
| **Net loss** | | **$ (2,080,181)** | **$ (2,251,872)** | **$ (2,242,555)** | **$ (3,717,630)** |
| Other comprehensive (income) loss: | | | | | |
| *Item that may be reclassified subsequently to profit or loss:* | | | | | |
| Foreign currency translation adjustment | | (188,398) | 384,685 | (393,867) | 562,973 |
| **Total comprehensive loss** | | **$ (1,891,783)** | **$ (2,636,557)** | **$ (1,848,688)** | **$ (4,280,603)** |
| **Loss per share** | | | | | |
| - basic and diluted | | **$ (0.08)** | **$ (0.09)** | **$ (0.09)** | **$ (0.15)** |
| **Weighted average number of shares outstanding** | | | | | |
| - basic and diluted | | 25,524,434 | 25,037,579 | 25,352,474 | 25,304,775 |

*See accompanying notes to these unaudited condensed interim consolidated financial statements*

# Wow Unlimited Media Inc.

## Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

### For the six months ended June 30, 2018 and 2017 (Unaudited)

*Expressed in Canadian dollars*

| | Note | Number of non-voting shares issued | Number of common voting shares issued (1) | Share capital | Escrow shares subject to retirement | Reserves: Equity component of convertible debentures | Reserves: Warrant Reserve | Reserves: Share-based payment reserve | Reserves: Foreign currency translation reserve | Accumulated deficit | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance as at January 1, 2017 (Restated - Note 6) | | 3,179,174 | 22,402,403 | $ 77,321,861 | $ (1,075,351) | $ – | $ 357,747 | $ 1,338,192 | $ 233,051 | $ (50,713,577) | $ 27,461,923 |
| *Six months ended June 30, 2017* | | | | | | | | | | | |
| Net loss | | – | – | – | – | – | – | – | – | (3,717,630) | (3,717,630) |
| Other comprehensive loss | | – | – | – | – | – | – | – | (562,973) | – | (562,973) |
| Total comprehensive loss for the period (Restated - Note 6) | | – | – | – | – | – | – | – | (562,973) | (3,717,630) | (4,280,603) |
| Equity settled share-based compensation expense | 13 | – | – | – | – | – | – | 633,028 | – | – | 633,028 |
| Options capitalized | | – | – | – | – | – | – | 625,630 | – | – | 625,630 |
| Common shares issued to settle remaining share issue costs | | – | 194,444 | 350,000 | – | – | – | – | – | – | 350,000 |
| Escrow shares cancelled | | (597,417) | – | (1,075,351) | 1,075,351 | – | – | – | – | – | – |
| Balance as at June 30, 2017 (Restated - Note 6) | | 2,581,757 | 22,596,847 | 76,596,510 | – | – | 357,747 | 2,596,850 | (329,922) | (54,431,207) | 24,789,978 |
| *Six months ended December 31, 2017* | | | | | | | | | | | |
| Net loss | | – | – | – | – | – | – | – | – | (1,368,816) | (1,368,816) |
| Other comprehensive loss | | – | – | – | – | – | – | – | (544,150) | – | (544,150) |
| Total comprehensive loss for the period | | – | – | – | – | – | – | – | (544,150) | (1,368,816) | (1,912,966) |
| Equity settled share-based compensation expense | | – | – | – | – | – | – | 709,302 | – | – | 709,302 |
| Fair value of equity component of convertible debentures on issuance, net of transaction costs | | – | – | – | – | 490,044 | – | – | – | – | 490,044 |
| Deferred tax liability relating to convertible debentures | | – | – | – | – | (138,193) | – | – | – | – | (138,193) |
| Balance as at December 31, 2017 | | 2,581,757 | 22,596,847 | 76,596,510 | – | 351,851 | 357,747 | 3,306,152 | (874,072) | (55,800,023) | 23,938,165 |
| *Six months ended June 30, 2018* | | | | | | | | | | | |
| Net loss | | – | – | – | – | – | – | – | – | (2,242,555) | (2,242,555) |
| Other comprehensive income | | – | – | – | – | – | – | – | 393,867 | – | 393,867 |
| Total comprehensive income for the period | | – | – | – | – | – | – | – | 393,867 | (2,242,555) | (1,848,688) |
| Common shares issued in private placement | 12 | – | 1,573,527 | 2,360,291 | – | – | – | – | – | – | 2,360,291 |
| Share issue costs | 12 | – | – | (35,008) | – | – | – | – | – | – | (35,008) |
| Equity settled share-based compensation expense | 13 | – | – | – | – | – | – | 477,797 | – | – | 477,797 |
| Balance as at June 30, 2018 | | 2,581,757 | 24,170,374 | $ 78,921,793 | $ – | $ 351,851 | $ 357,747 | $ 3,783,949 | $ (480,205) | $ (58,042,578) | $ 24,892,557 |

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

*See accompanying notes to these unaudited condensed interim consolidated financial statements*

# Wow Unlimited Media Inc.

## Condensed Interim Consolidated Statements of Cash Flows

### For the six months ended June 30, 2018 and 2017 (Unaudited)

*Expressed in Canadian dollars*

| | Note | For the six months ended June 30, 2018 | June 30, 2017 |
|---|---|---|---|
| | | | (Restated - Note 6 and 16) |
| **OPERATING ACTIVITIES** | | | |
| Net loss | | $ (2,242,555) | $ (3,717,630) |
| Items not involving cash: | | | |
| Depreciation and amortization | | 332,826 | 183,693 |
| Amortization of investment in film and television programming | 5 | 1,883,396 | 1,500,627 |
| Amortization of other intangible assets | 6 | 1,208,556 | 2,282,321 |
| Share-based compensation expense | 13 | 477,797 | 633,028 |
| Finance costs | 14 | 653,008 | 188,065 |
| Deferred income tax recovery | | (838,306) | (513,848) |
| Impairment reversal | | – | (132,990) |
| Other non-cash (gains) losses | | (523,250) | 68,249 |
| | | 951,472 | 491,515 |
| Investment in film and television programming | 5 | (4,522,228) | (15,393,678) |
| Funding received for investment in film and television programming | | – | 1,235,327 |
| Changes in non-cash working capital and other | 16 | (383,259) | 2,358,244 |
| **Cash used in operating activities** | | **(3,954,015)** | **(11,308,592)** |
| **FINANCING ACTIVITIES** | | | |
| Proceeds from interim production financing | | 4,799,595 | 9,860,655 |
| Repayment of interim production financing | | (5,355,050) | (2,745,367) |
| Interest paid | | (567,839) | (135,510) |
| Repayment of finance lease obligations | | (322,160) | (205,871) |
| Proceeds from bank indebtedness | | 8,755,000 | 759,155 |
| Repayment of bank indebtedness | | (8,085,000) | – |
| Proceeds from private placement, net of share issuance costs | 12 | 2,325,283 | – |
| **Cash generated by financing activities** | | **1,549,829** | **7,533,062** |
| **INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | | (24,018) | (317,678) |
| Purchase of other intangible assets | 6 | (3,527) | (42,296) |
| **Cash used in investing activities** | | **(27,545)** | **(359,974)** |
| Decrease in cash and cash equivalents for the period | | (2,431,731) | (4,135,504) |
| Effect of foreign exchange on cash and cash equivalents | | 82,459 | (9,534) |
| Cash and cash equivalents, beginning of the period | | 6,354,432 | 11,156,260 |
| **Cash and cash equivalents, end of the period** | | **$ 4,005,160** | **$ 7,011,222** |

Supplemental information (Note 16)

*See accompanying notes to these unaudited condensed interim consolidated financial statements*

## 1. Nature of operations

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

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

## 2. Basis of presentation

### (a) Statement of compliance

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

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

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

Certain amounts at the prior year-end have been reclassified to conform to the presentation in the current period's statement of financial position.

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on August 28, 2018.

### (b) Basis of measurement

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

All subsidiaries are 100% owned by the Company except for the following entity: Frederator Books LLC (51% interest). There were no significant operations within this entity during the six months ended June 30, 2018 and 2017.

### (c) Going concern

These condensed interim consolidated financial statements have been prepared using the going concern assumption, which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and settle its liabilities in the normal course of business. For the six months ended June 30, 2018, the Company had negative cash flows from operating activities of $3,954,015 (six months ended June 30, 2017 – negative $11,308,592), and net current assets of $406,720 (December 31, 2017 – net current assets $4,119,329).

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.

Management continues to explore options to raise equity financing. To that end, the Company completed a non-brokered private placement of its common voting and variable voting shares on June 11, 2018. Refer to Note 12 for further details.

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

**3. Significant accounting policies**

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

**(a) IFRS 15 - Revenue from Contracts with Customers**

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

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

Although no adjustments were required in applying IFRS 15 to prior periods, the new standard is expected to impact the manner in which revenue is recognized in the future. Under IFRS 15, revenue is recognized when a customer obtains control of the goods or services. Accounting policies have been updated to reflect the terminology required by IFRS 15, however, the content and the application thereof has not changed. The Company's main sources of revenue continues to be from animation production services, the sale of licenses for the distribution of films and television programs, and advertising revenues.

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

| Type of service or products | Nature, timing of satisfaction of performance obligations, significant payment terms | Nature of change in accounting policy |
|---|---|---|
| *Animation production services* | The Company has determined that for animation production service work, the customer controls the output throughout the production process. Every production is made to the individual customer's specifications and if the contract is terminated by the customer, the Company is entitled to be reimbursed for any costs incurred to date, and any prepaid commitments made plus the agreed contractual mark up. As a result, revenue from such contracts and the associated costs are recognized over time – i.e. as the production is being completed, including prior to it being delivered to the customer.<br>The Company may choose to incur costs in order to secure a contract. Such costs will be capitalised and amortized over the period in which revenue is recognized. | The Company previously recognized revenue on a percentage of completion basis over time based on costs incurred to total expected costs, and will continue to do so.<br><br>In the event that contract costs are incurred, the policy will be updated to reflect the appropriate treatment of the contract asset. |
| *Film and television licensing* | The Company has determined that the Company controls the output until the earlier of the license start date or when the customer has control over the asset and can benefit from its use.<br><br>Transaction prices may contain both fixed non-refundable guaranteed amounts, as well as royalties, profit participations and other contractual payments with the potential to vary. Such variable consideration is recognized as revenue based on the most likely outcome.<br><br>As the Company licenses the use of its films and television shows to broadcasters, if the period over which payment is received is longer than 12 months from the date the customer controls the output, a portion of the sales price will be considered a financing charge and will be recognized as such over the length of the payment term. | There is no change with regards to the timing of revenue recognition. The application of the method of estimating the amount of variable consideration and the timing of when this is recognized does not differ from the Company's previous policy.<br><br>The change in transaction price as a result of implicit financing charges will split the contract value between revenue immediately recognized and a financing income component to be recognized over time. |

**(b) IFRS 9 - Financial instruments**

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

The adoption of IFRS 9 did not have a material impact on the Company's condensed interim consolidated financial statements and related disclosures. With respect to the classification and measurement, the Company previously classified its financial assets as 'loans and receivables" and its financial liabilities as "other financial liabilities". Both of these categories were previously measured at amortized cost. The measurement basis has remained the same under IFRS 9, however the categories for classification are referred to as amortized cost. Please refer to Note 15 for the carrying amounts and fair values of financial instruments.

**(c) Distribution rights**

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

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

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

**(d) Future changes in accounting policies**

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

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

*Expressed in Canadian dollars*

## 4. Trade and other accounts receivable

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Trade receivables | $ 7,836,828 | $ 5,628,053 |
| Tax credits receivable | 19,802,141 | 20,639,858 |
| Tax credits allowance | (304,252) | (349,284) |
| Other receivables | 144,962 | 37,399 |
| | $ 27,479,679 | $ 25,956,026 |
| Less long-term accounts receivable | (2,935,070) | (257,025) |
| Current portion of accounts receivable | $ 24,544,609 | $ 25,699,001 |

## 5. Investment in film and television programming

| | Distribution rights | Productions in development | Productions in progress | Completed productions | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| As at January 1, 2018 | $ – | $ 2,150,270 | $ 3,966,793 | $ 11,356,733 | $ 17,473,796 |
| Additions, net of government assistance and third party contributions | 1,822,037 | 59,388 | 2,716,577 | – | 4,598,002 |
| Transfer to completed productions | – | – | (490,788) | 490,788 | – |
| Exchange difference | 62,012 | 16,738 | 261,773 | 195,891 | 536,414 |
| Balance at June 30, 2018 | $ 1,884,049 | $ 2,226,396 | $ 6,454,355 | $ 12,043,412 | $ 22,608,212 |
| **Accumulated amortization and impairment** | | | | | |
| As at January 1, 2018 | $ – | $ 1,715,451 | $ – | $ 7,994,204 | $ 9,709,655 |
| Additions | 1,429,982 | – | – | 453,414 | 1,883,396 |
| Exchange difference | 48,768 | – | – | 134,680 | 183,448 |
| Balance at June 30, 2018 | $ 1,478,750 | $ 1,715,451 | $ – | $ 8,582,298 | $ 11,776,499 |
| **Carrying amount** | | | | | |
| December 31, 2017 | $ – | $ 434,819 | $ 3,966,793 | $ 3,362,529 | $ 7,764,141 |
| June 30, 2018 | $ 405,299 | $ 510,945 | $ 6,454,355 | $ 3,461,114 | $ 10,831,713 |

Additions to productions in progress includes interest capitalized of $44,447 and $75,774 for the three and six months ended June 30, 2018, respectively (three and six months ended June 30, 2017 – $96,019 and $146,784).

There were no impairments recorded against productions for the period ended June 30, 2018 (June 30, 2017 - $nil), nor was there an indication that impairments previously recorded should be reversed (June 30, 2017 – impairment reversal of $132,990).

*Expressed in Canadian dollars*

**6. Other intangible assets**

| | Production agreements | Animation network | Brands | Software | Licenses | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Balance at January 1, 2018 | $ 1,003,600 | $ 7,953,530 | $ 551,980 | $ 3,956,678 | $ 738,363 | $ 14,204,151 |
| Additions | – | – | – | 288,440 | 3,527 | 291,967 |
| Exchange difference | 52,400 | 415,270 | 28,820 | – | – | 496,490 |
| Balance at June 30, 2018 | $ 1,056,000 | $ 8,368,800 | $ 580,800 | $ 4,245,118 | $ 741,890 | $ 14,992,608 |
| **Accumulated amortization** | | | | | | |
| Balance at January 1, 2018 | $ 261,354 | $ 4,058,478 | $ 57,497 | $ 3,875,170 | $ – | $ 8,252,499 |
| Additions | 127,745 | 991,577 | 28,104 | 61,130 | – | 1,208,556 |
| Exchange difference | 17,901 | 244,929 | 3,939 | – | – | 266,769 |
| Balance at June 30, 2018 | $ 407,000 | $ 5,294,984 | $ 89,540 | $ 3,936,300 | $ – | $ 9,727,824 |
| **Carrying amount** | | | | | | |
| December 31, 2017 | $ 742,246 | $ 3,895,052 | $ 494,483 | $ 81,508 | $ 738,363 | $ 5,951,652 |
| June 30, 2018 | $ 649,000 | $ 3,073,816 | $ 491,260 | $ 308,818 | $ 741,890 | $ 5,264,784 |

As a result of finalizing the Frederator purchase price allocation in the fourth quarter of 2017, Production agreements, Animation network and Brands intangible assets were recognized. The unaudited condensed interim consolidated statement of comprehensive loss for the three months ended June 30, 2017 has been restated to reflect the increased amortization expense of $1,125,805 associated with these intangible assets along with the impact of the restatement on deferred income taxes of an expense of $311,569, and a foreign currency translation adjustment loss of $452,844. For the six months ended June 30, 2017, the unaudited condensed interim consolidated statement of comprehensive loss has been restated to reflect the increased amortization expense of $2,233,358 associated with these intangible assets along with the impact of the restatement on deferred income taxes of a recovery of $513,848, and a foreign currency translation adjustment loss of $621,688.

*Expressed in Canadian dollars*

### 7. Bank indebtedness and Interim production financing

| | | | June 30, 2018 | | December 31, 2017 | |
|---|---|---|---|---|---|---|
| | Currency | Year of maturity | Face value[1] (CAD) | Carrying amount (CAD)[2] | Face value[1] (CAD) | Carrying amount (CAD)[2] |
| Interim production financing | CAD | On demand | $ 18,590,050 | $ 15,945,380 | $ 22,533,525 | $ 17,164,389 |
| Interim production financing | USD | March 31, 2020 | 4,620,000 | 3,367,443 | 4,390,750 | 2,720,521 |
| Interim production financing | USD | On demand | 1,980,000 | 250,107 | - | - |
| Bank indebtedness | USD | On demand | 1,745,000 | 670,000 | 1,195,000 | - |
| | | | $ 26,935,050 | $ 20,232,930 | $ 28,119,275 | $ 19,884,910 |
| Current portion | | | | 19,387,380 | | 19,359,764 |
| Non-current portion | | | | $ 845,550 | | $ 525,146 |

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

[2] Carrying amount represents the amount draw n as at June 30, 2018, including interest reserve

#### (a) Interim production financing

The Company has interim production financing facilities with Canadian and US banks that bear interest at rates ranging from bank prime plus 1.00% - 1.5% per annum. The interim production financing facilities are generally repayable on demand and are generally secured by a combination of federal and provincial tax credits, other government incentives, production service agreements, and license agreements.

#### (b) Bank indebtedness

In January 2017, the Company entered into a $1,195,000 CAD revolving demand facility with a Canadian bank bearing interest at US Base Rate plus 0.5% per annum. In 2018, the facility increased to $1,745,000 CAD. The loan may be drawn down in USD or CAD.

### 8. Convertible debentures

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

A continuity of the amounts recorded for convertible debentures and the equity component during the six months ended June 30, 2018, is as follows:

*Expressed in Canadian dollars*

| | Convertible Debentures | Equity component of convertible debentures | Total |
|---|---|---|---|
| Balance at December 31, 2017 | $ 3,815,364 | $ 351,851 | $ 4,167,215 |
| Interest accretion expense | 257,197 | – | 257,197 |
| Interest paid | (85,335) | – | (85,335) |
| Interest payable recorded in accounts payable and accrued liabilities | (86,283) | – | (86,283) |
| Balance at June 30, 2018 | $ 3,900,943 | $ 351,851 | $ 4,252,794 |

## 9. Segmented information

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

The Company measures segment performance based on revenues reported in accordance with IFRS and segment profit and loss.

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

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

| | For the three months ended | | | For the six months ended | | |
|---|---|---|---|---|---|---|
| *June 30, 2018* | Animation Production | Networks and Platforms | Total | Animation Production | Networks and Platforms | Total |
| **Segment and external revenues** | $ 7,400,577 | $ 8,869,908 | $ 16,270,485 | $ 17,593,887 | $ 14,339,261 | $ 31,933,148 |
| Operating expenses | 5,519,804 | 9,988,857 | 15,508,661 | 12,580,214 | 16,091,465 | 28,671,679 |
| Amortization of investment in film and television programming | 936,053 | - | 936,053 | 1,883,396 | - | 1,883,396 |
| Depreciation and amortization | 192,590 | 8,484 | 201,074 | 377,256 | 16,700 | 393,956 |
| Finance costs | 299,771 | - | 299,771 | 653,008 | - | 653,008 |
| **Segment profit (loss)** | $ 452,359 | $ (1,127,433) | (675,074) | $ 2,100,013 | $ (1,768,904) | 331,109 |
| Amortization of acquisition related intangibles | | | 579,753 | | | 1,147,426 |
| General and administration | | | 1,056,124 | | | 1,786,747 |
| Share based compensation expense | | | 216,838 | | | 477,797 |
| **Loss before taxes** | | | $ (2,527,789) | | | $ (3,080,861) |
| **Capital expenditures** | | | | | | |
| Investment in film and television programming | $ 2,797,490 | $ 25,146 | $ 2,822,636 | $ 4,530,297 | $ 67,705 | $ 4,598,002 |
| Other intangible assets | $ 2,287 | $ - | $ 2,287 | $ 3,527 | $ - | $ 3,527 |
| Property, plant & equipment | $ 1,750 | $ 3,394 | $ 5,144 | $ 9,032 | $ 14,986 | $ 24,018 |

*Expressed in Canadian dollars*

| | For the three months ended | | | For the six months ended | | |
|---|---|---|---|---|---|---|
| *June 30, 2017* | Animation Production | Networks and Platforms | Total | Animation Production | Networks and Platforms | Total |
| **Segment and external revenues** | $ 7,918,938 | $ 2,479,672 | $ 10,398,610 | $ 12,227,062 | $ 4,038,262 | $ 16,265,324 |
| Operating expenses | 5,520,310 | 2,847,591 | 8,367,901 | 9,853,437 | 4,755,036 | 14,608,473 |
| Amortization of investment in film and television programming | 1,500,627 | - | 1,500,627 | 1,500,627 | - | 1,500,627 |
| Depreciation and amortization | 111,344 | - | 111,344 | 232,656 | - | 232,656 |
| Finance costs | 99,601 | - | 99,601 | 188,065 | - | 188,065 |
| **Segment profit (loss)** | $ 687,056 | $ (367,919) | 319,137 | $ 452,277 | $ (716,774) | (264,497) |
| Amortization of acquisition related intangibles | | | 1,125,805 | | | 2,233,358 |
| General and administration | | | 680,789 | | | 1,100,595 |
| Share based compensation expense | | | 452,846 | | | 633,028 |
| **Loss before taxes** | | | $ (1,940,303) | | | $ (4,231,478) |
| **Capital expenditures** | | | | | | |
| Investment in film and television programming | $ 3,587,403 | $ - | $ 3,587,403 | $ 9,818,985 | $ - | $ 9,818,985 |
| Other intangible assets | $ - | $ 39,408 | $ 39,408 | $ 2,888 | $ 39,408 | $ 42,296 |
| Property, plant & equipment | $ 57,377 | $ 34,930 | $ 92,307 | $ 267,910 | $ 49,768 | $ 317,678 |

## 10. Revenue

### a) Revenue

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

| | For the three months ended | | | For the six months ended | | |
|---|---|---|---|---|---|---|
| *June 30, 2018* | Point in time | Over time | Total | Point in time | Over time | Total |
| Animation production services | $ 781,987 | $ 6,546,138 | **$ 7,328,125** | $ 1,675,295 | $ 13,280,440 | **$ 14,955,735** |
| Advertising revenues | 8,878,337 | – | **8,878,337** | 14,353,115 | – | **14,353,115** |
| Film and television licensing | 64,023 | – | **64,023** | 2,624,298 | – | **2,624,298** |
| | $ 9,724,347 | $ 6,546,138 | **$ 16,270,485** | $ 18,652,708 | $ 13,280,440 | **$ 31,933,148** |

| | For the three months ended | | | For the six months ended | | |
|---|---|---|---|---|---|---|
| *June 30, 2017* | Point in time | Over time | Total | Point in time | Over time | Total |
| Animation production services | $ 2,085,835 | $ 5,833,103 | **$ 7,918,938** | $ 2,240,492 | $ 9,986,570 | **$ 12,227,062** |
| Advertising revenues | 2,479,672 | – | **2,479,672** | 4,038,262 | – | **4,038,262** |
| | $ 4,565,507 | $ 5,833,103 | **$ 10,398,610** | $ 6,278,754 | $ 9,986,570 | **$ 16,265,324** |

*Expressed in Canadian dollars*

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

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | **June 30, 2018** | **June 30, 2017** | **June 30, 2018** | **June 30, 2017** |
| United States | $ 15,289,429 | $ 9,267,787 | $ 27,480,050 | $ 14,394,664 |
| Canada | 127,473 | 1,044,692 | 2,684,535 | 1,784,529 |
| United Kingdom | 853,583 | 86,131 | 1,768,563 | 86,131 |
| | $ 16,270,485 | $ 10,398,610 | $ 31,933,148 | $ 16,265,324 |

**b) Contract balances**

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

The Company's only contract related liabilities are deferred revenue, which reflects the timing difference between the receipt of cash and the recognition of revenue. The following table reflects the movement in deferred revenue as a result of cash received and revenue recognized in the six months ended June 30, 2018 and 2017, respectively:

**Deferred revenue**

| | |
|---|---|
| Balance as at January 1, 2018 | $ 4,045,185 |
| Revenue recognized that was included in the deferred revenue balance at the beginning of the period | (3,310,674) |
| Increases due to cash received, excluding amounts recognized as revenue during the period | 2,182,168 |
| Exchange difference | 82,274 |
| Balance as at June 30, 2018 | $ 2,998,953 |

| | |
|---|---|
| Balance as at January 1, 2017 | $ 4,783,544 |
| Revenue recognized that was included in the deferred revenue balance at the beginning of the period | (821,320) |
| Increases due to cash received, excluding amounts recognized as revenue during the period | 5,257,627 |
| Exchange difference | (48,231) |
| Balance as at June 30, 2017 | $ 9,171,620 |

**11. Nature of expenses**

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

*Expressed in Canadian dollars*

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| **Operating expenses** | **June 30, 2018** | **June 30, 2017** | **June 30, 2018** | **June 30, 2017** |
| Employee costs | $ 6,236,682 | $ 5,657,815 | $ 12,104,340 | $ 10,534,352 |
| Refundable tax credits | (2,558,108) | (1,106,157) | (4,921,870) | (2,127,133) |
| Contractors and subcontracted services | 10,253,211 | 2,219,037 | 17,705,725 | 3,723,223 |
| Rent and occupancy | 690,953 | 437,288 | 1,406,950 | 852,175 |
| IT support and maintenance | 435,932 | 397,497 | 895,695 | 685,158 |
| Royalties and participations | – | – | 1,091,530 | – |
| Other | 449,990 | 762,421 | 389,309 | 1,073,688 |
| Reversals of impairments of properties in development | – | – | – | (132,990) |
| | $ 15,508,660 | $ 8,367,901 | $ 28,671,679 | $ 14,608,473 |

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| **General and administration expenses** | **June 30, 2018** | **June 30, 2017** | **June 30, 2018** | **June 30, 2017** |
| Employee costs | $ 398,085 | $ 302,706 | $ 686,039 | $ 431,435 |
| Legal and accounting | 327,947 | 218,455 | 510,641 | 346,469 |
| Contractors | 164,394 | 13,459 | 261,288 | 16,423 |
| Rent and occupancy | 47,341 | 50,015 | 98,864 | 100,029 |
| Other | 118,357 | 96,154 | 229,915 | 206,239 |
| | $ 1,056,124 | $ 680,789 | $ 1,786,747 | $ 1,100,595 |

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| **Employee benefits** | **June 30, 2018** | **June 30, 2017** | **June 30, 2018** | **June 30, 2017** |
| Employee costs | $ 6,634,767 | $ 5,960,521 | $ 12,790,379 | $ 10,965,787 |
| Share based compensation expense | 216,838 | 452,846 | 477,797 | 633,028 |
| | $ 6,851,605 | $ 6,413,367 | $ 13,268,176 | $ 11,598,815 |

**12. Share Capital**

On June 11, 2018, the Company completed a non-brokered private placement of its common voting shares and variable voting shares. The Company issued 1,573,527 common voting and variable voting shares for gross proceeds of $2,360,291 at an issuance price of $1.50 per share. The Company intends to use the net proceeds of the offering for platform growth initiatives in the United States and for general corporate purposes. In connection with the offering, the Company incurred share issuance costs of $35,008.

*Expressed in Canadian dollars*

## 13. Share based compensation expense

Total share-based compensation expense from all forms of share-based payment awards for the three and six months ended June 30, 2018 and 2017 is summarized below:

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| **Share based compensation expense** | **June 30, 2018** | **June 30, 2017** | **June 30, 2018** | **June 30, 2017** |
| Options | $ 175,762 | $ 206,354 | $ 395,402 | $ 386,536 |
| Share appreciation rights | 41,076 | 246,492 | 82,395 | 246,492 |
| | $ 216,838 | $ 452,846 | $ 477,797 | $ 633,028 |

## 14. Finance costs

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | **June 30, 2018** | **June 30, 2017** | **June 30, 2018** | **June 30, 2017** |
| Interest expense on interim production financing | $ 195,433 | $ 189,384 | $ 433,550 | $ 321,096 |
| Interest and accretion on convertible debentures (Note 8) | 129,309 | – | 257,197 | – |
| Interest on obligations under finance lease | 19,476 | 6,236 | 38,035 | 13,753 |
| Interest capitalized to investments in film and television (Note 5) | (44,447) | (96,019) | (75,774) | (146,784) |
| | $ 299,771 | $ 99,601 | $ 653,008 | $ 188,065 |

## 15. Financial instruments

### (a) Fair value measurement of financial instruments

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

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

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

During the three and six months ended June 30, 2018, the Company entered into USD forward contracts to the notional value of $383,000 USD which was fully exercised during the period at an exchange rate of 1.2339, realizing a net loss of $13,903 (three and six months ended June 30, 2017 - $nil). As at June 30, 2018, there are no further remaining outstanding USD forward contracts.

*Expressed in Canadian dollars*

At June 30, 2018 and December 31, 2017, there are no financial instruments measured at fair value through profit or loss.

The Company has designated its financial instruments as follows:

| | | June 30, 2018 | | December 31, 2017 | |
|---|---|---|---|---|---|
| | Fair Value Hierarchy | Carrying Value | Estimated Fair Value | Carrying Value | Estimated Fair Value |
| **Loans and receivables:** | | | | | |
| Cash and cash equivalents | Level 1 | $ 4,005,160 | $ 4,005,160 | $ 6,354,432 | $ 6,354,432 |
| Trade and other accounts receivable | Level 2 | 24,544,609 | 24,544,609 | 25,699,001 | 25,699,001 |
| Deposits and other assets | Level 2 | 287,580 | 287,580 | 278,226 | 278,226 |
| Long-term accounts receivable | Level 2 | 2,935,070 | 2,935,070 | 257,025 | 257,025 |
| **Other financial liabilities:** | | | | | |
| Bank indebtedness | Level 2 | 670,000 | 670,000 | – | – |
| Accounts payable and accrued liabilities | Level 2 | 6,057,454 | 6,057,454 | 4,903,734 | 4,903,734 |
| Finance lease obligations | Level 2 | 1,280,667 | 1,280,667 | 1,001,189 | 1,001,189 |
| Interim production financing | Level 2 | 19,562,930 | 19,562,930 | 19,884,910 | 19,884,910 |
| Convertible debentures | Level 2 | 3,900,943 | 4,326,000 | 3,815,364 | 4,326,000 |
| Other non-current liabilities | Level 2 | 1,485,487 | 1,485,487 | 275,154 | 275,154 |

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

**(b) Risks arising from financial instruments**

*Liquidity risk*

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

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

*Expressed in Canadian dollars*

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

| As at June 30, 2018 | < 1 year | 1 to 5 years | Total | Carrying Amount |
|---|---|---|---|---|
| Accounts payable and accrued liabilities | $ 6,057,454 | $ – | $ 6,057,454 | $ 6,057,454 |
| Bank indebtedness | 670,000 | – | 670,000 | 670,000 |
| Finance lease obligations [1] | 818,106 | 527,110 | 1,345,216 | 1,280,667 |
| Interim production financing | 18,717,380 | 845,550 | 19,562,930 | 19,562,930 |
| Convertible debentures [1] | 346,080 | 4,832,320 | 5,178,400 | 3,900,943 |
| | $26,609,020 | $ 6,204,980 | $32,814,000 | $ 31,471,994 |

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

## 16. Consolidated statement of cash flows - supplemental information

*Changes in non-cash working capital*

In 2017, the Company changed its accounting policy with respect to the manner in which certain funds received from the Canada Media Fund was recorded. As a result, certain balances previously recorded as a reduction to investment in film and television were recorded to deferred revenue in the amount of $2,963,480. The six months ended June 30, 2017 in the table below has been restated to reflect the impact of the change in accounting policy.

The net change in non-cash working capital related to operations for the six months ended June 30, 2018 and 2017 are as follows:

| | For the six months ended June 30, 2018 | For the six months ended June 30, 2017 |
|---|---|---|
| Trade and other accounts receivable | $ (1,580,259) | $ (2,513,317) |
| Prepaid expenses, deposits and other | (111,467) | (231,721) |
| Deposits and other assets | (9,354) | (211,029) |
| Accounts payable and accrued liabilities | 1,153,720 | (1,048,891) |
| Deferred revenue | (1,046,232) | 6,380,924 |
| Other financial liabilities | – | (15,450) |
| Other non-current liabilities | 1,210,333 | (2,272) |
| Net change in non-cash working capital | $ (383,259) | $ 2,358,244 |

## 17. Related parties

*Officer/Director Financing Advances to a Third-Party Service Provider*

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

**18. Subsequent Events**

*Bell Media Transaction.*

On July 11, 2018, the Canadian Radio-television and Telecommunications Commission (the “CRTC”) approved an application by the Company to acquire ownership of the national, English-language discretionary channel, Comedy Gold, from Bell Media Inc. and approved a new broadcasting license for the Company to recharacterize the service as a kids and youth channel that combines next generation innovation with an immersive multi-platform experience.

Closing of the transaction remains subject to review and approval by the TSX-V.