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## Share Information

At August 28, 2019, the Company had 32,024,314 common shares outstanding and stock options exercisable for 2,026,492 additional common shares and warrants exercisable into 400,000 common shares.

## Investor Information

All financial reports, news releases and corporate information can be accessed on our website at [www.wowunlimited.co](http://www.wowunlimited.co)



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") is dated August 28, 2019 and is intended to assist in understanding the results of operations and financial condition of Wow Unlimited Media Inc. as at and for the three and six months ended June 30, 2019 and should be read in conjunction with the unaudited condensed interim consolidated financial statements and accompanying notes for the three and six months ended June 30, 2019 and other public disclosure documents of Wow Unlimited Media Inc., including its previously filed December 31, 2018, annual consolidated financial statements.

Past performance may not be indicative of future performance. Unless otherwise noted, all amounts are reported in Canadian dollars, the Company's functional currency, and have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Throughout the MD&A reference to "Wow Unlimited" or the "Company" refers to Wow Unlimited Media Inc. and its subsidiary entities.

Additional information, including the Company's Annual Information Form (the "AIF") and other publicly filed documents relating to the Company are available through the internet on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR"), which can be accessed at [www.sedar.com](http://www.sedar.com).

## FORWARD LOOKING STATEMENTS

Certain statements contained in this MD&A, and in certain documents incorporated by reference in this MD&A, constitute "forward looking information" and "forward looking statements" (together, "forward looking statements") within the meaning of applicable Canadian securities laws. The words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect", and similar expressions are often used to identify forward looking statements. These statements relate to future events or future performance and reflect management's expectations or beliefs regarding future events, and include, but are not limited to statements relating to the Company's objectives, priorities, strategies, actions, targets, expectations, outlook and the Bell Media Transaction (as defined herein). By their very nature, forward looking statements involve inherent risks and uncertainties, both general and specific, and a number of factors could cause actual events or results to differ materially from the results discussed in the forward looking statements. In evaluating these statements, a reader should specifically consider various factors; including the risks outlined in this MD&A under the heading "*Risks and Uncertainties*" which may cause actual results to differ materially from any forward looking statement.

The forward looking statements contained herein reflect management's current expectations and beliefs and are based upon certain assumptions that management believes to be reasonable based on the information currently available. Such assumptions include, but are not limited to: (i) general economic conditions, (ii) the expected actions of third parties, (iii) the ability of the Company to identify content development and production opportunities, (iv) the ability of Frederator Network to identify and obtain new channels, (v) the ability of the Company to raise capital, and (vi) the Company's future growth prospects and business opportunities. Should one or more of the risks or uncertainties identified herein materialize, or should

the assumptions underlying the forward looking statements prove to be incorrect, then actual results may vary materially from those described herein.

Readers are cautioned not to place undue reliance on forward looking statements. Except as required by applicable securities laws, we do not intend, and do not assume any obligation, to update the forward looking statements contained herein.

## NON-IFRS FINANCIAL MEASURES

In addition to results reported in accordance with IFRS, the Company reports using certain non-IFRS financial measures as supplemental indicators of the Company's financial and operating performance. These non-IFRS financial measures include *operating profit or loss*, *operating profit or loss per share* and *operating EBITDA*. The Company believes these supplemental financial measures reflect the Company's on-going business in a manner that allows for meaningful period-to-period comparisons and analysis of trends in its business.

The Company defines *operating profit or loss* as net profit or loss excluding the impact of specified items affecting comparability, including, where applicable, share of gain or loss of equity accounted investees, other non-operational income and expenses, deferred taxes and other gains or losses. 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 business for use in the Company's internal management reports. *Operating profit or loss per share* is calculated using diluted weighted average shares outstanding and does not represent actual profit or loss per share attributable to shareholders. The Company believes that the disclosure of operating profit or loss and operating profit or loss per share allows investors to evaluate the operational and financial performance of the Company's ongoing business using the same evaluation measures that management uses, and is therefore a useful indicator of the Company's performance or expected performance of recurring operations.

The Company defines *operating EBITDA* as profit or loss net of amortization of investment in film and television programming, but before interest, taxes, depreciation and amortization, adjusted for certain items affecting comparability as specified in the calculation of operating profit or loss. Operating EBITDA is presented on a basis consistent with the Company's internal management reports. The Company discloses operating EBITDA to capture the profitability of its business before the impact of items not considered in management's evaluation of operating performance. Unless otherwise stated, the Company includes the amortization of investment in film and television programming in the calculation of operating EBITDA.

The Company defines *backlog* as the undiscounted value of signed agreements for production services and intellectual property ("IP") in relation to licensing and distribution agreements for work that has not yet been performed, but for which the Company expects to recognize revenue in future periods. Backlog excludes estimates of variable consideration for transactions involving sales or usage-based royalties in exchange for licences of intellectual property. The extent of eventual revenue recognized in future periods may be materially higher or lower than this amount, depending upon factors which include, but are not limited to the following: (i) contract modifications, (ii) fluctuations in foreign exchange rates for contracts not denominated in Canadian dollars, (iii) changes to production and delivery schedules, or (iv) valuation issues in connection with the collectability of fees.

Operating profit or loss, operating profit or loss per share, operating EBITDA, and backlog do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies. The Company cautions readers to consider these non-IFRS financial measures in addition to, and not as an alternative for, measures calculated in accordance with IFRS.

## COMPANY PROFILE

Wow Unlimited Media Inc. is creating a leading animation-focused entertainment company by producing top-end content, and building brands and audiences on the most engaging media platforms. The Company produces animation in its two established studios: Frederator Studios in Los Angeles, which has a 20-year track record; and one of Canada's largest, multi-faceted animation production studios, Mainframe Studios in Vancouver, which has a 25-year track record. The Company's media assets include Channel Frederator Network which comprises 3,000+ channels on YouTube, as well as WOW! branded programming on Crave, Canada's leading streaming entertainment platform, owned by Bell Media. The Company operates out of offices in Toronto, New York, Vancouver and Los Angeles. The common voting shares of the Company (the "Common Voting Shares") and variable voting shares of the Company (the "Variable Voting Shares") are listed on the TSX Venture Exchange (the "TSX-V") (TSX-V: WOW) and the OTCQX Best Market (OTCQX: WOWMF).

The Company's business is managed in two operating segments:

### ***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, toy brand owners, broadcasters and other streaming service providers.

### ***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 partnered with Bell Media to be the principal curator of kids programming for Crave TV, Canada's leading streaming service.

In conjunction with the strategic partnership with Bell Media, the Company will also acquire a Category B Canadian specialty service license on August 30, 2019. Given the existing dynamics of the cable and satellite industry in Canada and the United States, the Company intends to secure financial partnerships prior to launching a WOW! branded linear channel and, to that end, the Company continues to seek investment and strategic candidates across multiple regions. See *Financial and Operational Highlights* for further details.

## OVERVIEW OF RESULTS

On January 1, 2019, the Company adopted IFRS 16 – *Leases* (“IFRS 16”) which supersedes IAS 17 - *Leases* (“IAS 17”) and IFRIC 4 – *Determining Whether an Agreement Contains a Lease* (“IFRIC 4”). Under IFRS 16, most leases are recognized on the statement of financial position as right-of-use assets within property, plant and equipment and other intangible assets, with a corresponding lease liability. Under IFRS 16, expenses related to these leases have been recorded in the statement of comprehensive loss as depreciation expense and finance costs whereas under IAS 17, operating lease expenses were recorded in operating costs.

The Company adopted IFRS 16 using a modified retrospective approach whereby the standard has been applied from January 1, 2019 and comparative historical information from prior periods has not been restated and continues to be reported under IAS 17. The cumulative effect of the initial adoption of IFRS 16 did not have an impact on accumulated deficit. Refer to the table in the *Adoption of New Accounting Policies* section for a summary of the transitional impacts as at January 1, 2019.

### Results of operations

\$000's, except per share amounts	For the three months ended		For the six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
<b>Revenue</b>	\$ 26,614	\$ 16,270	\$ 46,111	\$ 31,933
Operating EBITDA <sup>1</sup>	(625)	(1,230)	(2,438)	(409)
Operating loss <sup>1</sup>	(2,214)	(2,311)	(5,481)	(2,603)
Operating loss per share				
- basic and diluted	\$ (0.07)	\$ (0.09)	\$ (0.18)	\$ (0.10)
<b>Net loss</b>	\$ (2,361)	\$ (2,080)	\$ (5,754)	\$ (2,243)
Net loss per share				
- basic and diluted	\$ (0.07)	\$ (0.08)	\$ (0.19)	\$ (0.09)
Weighted average number of shares outstanding:				
- basic and diluted	31,963,696	25,524,434	31,079,549	25,352,474

<sup>1</sup>Operating EBITDA and operating loss include amortization of investment in film and television programming. Refer to discussion under Consolidated Results for a reconciliation of Operating EBITDA and Operating loss to Net loss.

### Financial position

\$000's	June 30, 2019	December 31, 2018
<b>Financial position</b>		
Total assets	\$ 87,890	\$ 70,187
Total current assets	36,514	30,570
Total non-current assets	51,376	39,616
Convertible debentures	4,074	3,988
Total liabilities	66,587	44,917
Shareholders' equity	21,303	25,270

## FINANCIAL AND OPERATIONAL HIGHLIGHTS

### ***Strategic partnership with Bell Media***

On August 31, 2018, the Company executed an amended and restated asset purchase agreement (the "Bell Agreement") in connection with the acquisition of a Category B specialty service and the Canadian Radio-television and Telecommunications ("CRTC") broadcasting license (the "Broadcasting License") from Bell Media by Wow Unlimited Networks Inc. ("Wow Networks"), a wholly-owned subsidiary of the Company. Pursuant to the terms of the Bell Agreement, in exchange for the issuance of an aggregate of 3,433,446 common voting shares in the capital of the Company, the Company acquired the exclusive option to receive the Broadcasting License, which will be automatically conveyed to Wow Networks as of August 30, 2019. On May 31, 2019, the Company exercised its exclusive option to acquire the Broadcasting License and the License shall convey to the Company on August 30, 2019, in accordance with the agreement.

Pursuant to the CRTC's approval of the license conveyance, and as an additional cost to acquire the Broadcasting License, the Company is required to invest \$687,000 over a seven-year period in equal annual payments on initiatives that will provide tangible benefits to the Canadian broadcasting system. The present value of the tangible benefits obligation, \$558,745, has been capitalized as part of the Broadcasting License intangible asset, as a directly attributable cost of bringing the asset to its working condition.

In the opinion of Management, the ownership of this license, together with the terms of the services agreements with its strategic investor, Bell Media, represents a valuable asset of the Company. However, as described earlier, given the existing dynamics of the cable and satellite industry in Canada and the United States, management feels that it will be prudent to defer the launch of a linear channel until significant financial partnerships are in place.

Pursuant to the Bell Agreement, the Company and Bell Media have agreed to enter into a lock-up agreement pursuant to which, among other things, Bell Media will agree not to transfer or assign the shares received as consideration for a period of up to twenty-four months following the closing of the transaction.

Bell Media has further agreed to provide certain services to effect the transition of the broadcasting license and as partial consideration for such services, the Company issued 900,000 non-transferable Common Share purchase warrants (the "Bell Warrants"), which entitle Bell Media to acquire one Common Share per warrant for a period of three years from the date of issuance at an exercise price of \$2.00. The Bell Warrants are subject to vesting, such that a pro rata portion of the warrants shall vest and become exercisable on the last day of each calendar quarter beginning on September 30, 2018.

Also, as a benefit of the strategic partnership, the Company has entered into an agreement with Bell Media to provide Video-On-Demand (VOD) programming for Bell Media's Crave platform, Canada's leading Over-The-Top (OTT) streaming service. The Company currently provides over 200 hours of kids programming to Crave, Canada's leading streaming service, in three collections: WOW! Preschool Playdate (targeted at kids aged 0-5), WOW! World Kids (ages 6-11) and WOW! High School Hall Pass (ages 11 - 13).

### ***April 2019 private placement***

The Company completed a non-brokered private placement of its common voting shares and variable voting shares on April 4, 2019. The Company issued 1,838,737 common voting and variable voting shares for gross proceeds of \$2,022,611 at an issuance price of \$1.10 per share. In connection with the share offering, the Company incurred share issuance costs of \$59,781.

## OPERATIONAL HIGHLIGHTS

- During the first quarter of 2019, the Company also began production of a major animated series in partnership with a leading US based studio. The series is set to commence deliveries in the first half of 2022.
- Production of season 3 of the series *Castlevania* continued in Q2 2019, with delivery set for late 2019.
- Animated series *Costume Quest* completed production and was delivered in Q1 2019. A *Costume Quest* Christmas Special is currently in production, with delivery set for late 2019.
- Season 2 of the series *Bee & Puppy Cat* is currently in production, with delivery set for late 2019.
- On June 8, 2019, the Company announced that a key channel affiliate, ADME (CY), Ltd. (“ADME”), would repatriate certain of its YouTube channels from Frederator; Frederator would continue to distribute and manage certain other ADME channels and it will have the opportunity to distribute and manage certain new ADME YouTube channels as they are developed. Under the terms of the new distribution agreement, the ADME channels being retained by Frederator will be subject to cancellation by ADME on 30-days advance notice for each such channel. The ADME group of channels constituted the largest distribution agreement for Frederator. As of June 30, 2019, ADME channels represented approximately 85% of overall viewership on the Channel Frederator Network. Pursuant to the agreement, on July 31, 2019, Frederator transferred to ADME channels representing approximately 40% of the viewership of the ADME owned channels. While the ADME-owned channels contribute a significant portion of the Networks and Platforms revenues, they do not represent a significant portion of the Company’s overall profitability. Further, given the nature of their content i.e. crafts and hobbies, the loss of ADME channels do not affect the Company's core objectives on YouTube - those of finding great animation talent and IP, and using the platform to build audiences for its animated shorts and series.
- Statistics from YouTube’s Content Management System show that Channel Frederator Network had 3,129 channels as at June 30, 2019.
- Further to the long-standing relationship between Mattel and Mainframe Studios, the studio is continuing production on season 2 of *Barbie Dreamhouse Adventures*. The second season will consist of an additional 26-episodes and the final episode is expected to be delivered in early 2020. During the second quarter of 2019, the Company also began production of an animated *Barbie* film. The film will be 70 minutes in length and is expected to be delivered in the summer of 2020.
- Season 5 of the series *Octonauts*, comprising 28 episodes of 11 minutes each, for Silvergate Media, continues in production. In addition, during the third quarter of 2018 the Company began production on a 3-episode special (70 minutes, 70 minutes, and 44 minutes) for *Octonauts* which has an expected delivery date of the final episode during the first quarter of 2020.
- During the third quarter of 2018, the Company began production of the animated series *Made by Maddie*, comprising 80 episodes of 11 minutes each, for Silvergate Media. *Made by Maddie* is set in the heart of New York and follows a little girl, Maddie, with big ideas and a passion for fashion. The final episode of the series is expected to be delivered during the first half of 2021.

## CONSOLIDATED RESULTS

\$000's	For the three months ended		For the six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
<b>Revenue</b>	\$ 26,614	\$ 16,270	\$ 46,111	\$ 31,933
<b>Amortization of investment in film and television programming</b>	\$ 293	\$ 936	\$ 657	\$ 1,883
<b>Operating EBITDA</b>	\$ (625)	\$ (1,230)	\$ (2,438)	\$ (409)
Finance costs	530	300	979	653
Depreciation and amortization <sup>1</sup>	1,059	781	2,064	1,541
Operating loss	(2,214)	(2,311)	(5,481)	(2,603)
<i>Items affecting comparability:</i>				
Share-based compensation expense	147	217	273	478
Deferred income tax recovery	–	(448)	–	(838)
	147	(231)	273	(360)
<b>Net loss</b>	\$ (2,361)	\$ (2,080)	\$ (5,754)	\$ (2,243)

<sup>1</sup> Excludes amortization of investment in film and television programming

### Revenue and Operating EBITDA

Revenue for the three and six months ended June 30, 2019, increased by \$10.3 million and \$14.2 million, respectively, compared to the same periods in 2018. For the three and six months ended June 30, 2019, revenues for the Networks and Platforms segment increased by \$10.8 million and \$19.4 million, respectively, and revenues for the Animation Production segment decreased by \$0.5 million and \$5.2 million, respectively, in comparison to the same periods in 2018. The growth in revenues for the Networks and Platforms segment for the three and six months ended June 30, 2019, was driven by increased views and revenues generated by Channel Frederator Network. The decrease in revenue for the Animation Production segment for the three months ended June 30, 2019, was primarily due to a higher mix of IP production work at Frederator Studios for the three months ended June 30, 2019, as Frederator continued production of *Bee & Puppy Cat*, season 2 as well as *Castlevania*, season 3 which are both expected to be delivered late in 2019 when revenue recognition will occur. The higher mix of IP production work in progress at Frederator also contributed to the decrease in revenue for the Animation Production segment for the six months ended June 30, 2019. In addition, the Company recognized revenue from the licensing of international SVOD rights for *Reboot: The Guardian Code* during the six months ended June 30, 2018 which resulted in higher revenues for the six months period ending June 30, 2018, compared to 2019.

Operating EBITDA for the three and six months ended June 30, 2019, increased by \$0.6 million and decreased by \$2.0 million, respectively, compared to the same periods in 2018. The higher operating EBITDA for the six months ended June 30, 2018 compared to 2019 was driven by gross margin on the revenue from *Reboot: The Guardian Code*, as noted above. The higher operating EBITDA for the three months ended June 30, 2019 compared to the same period in 2018 was primarily as a result of decreased professional fees and corporate employee costs.

### Amortization of investment in film and television programming

Amortization of investment in film and television programming during the three and six months ended June 30, 2019, was \$0.3 million and \$0.7 million, respectively, compared to \$1.0 million and \$1.9 million for the three and six months ended June 30, 2018. The increased amortization of investment in film and television for the three and six months ended June 30, 2018, were

higher primarily as a result of the amortization of the US distribution rights of *Bravest Warriors*, season 4, which began airing in the United States on Frederator's Cartoon Hangover Channel via Ellation's VRV platform in the first quarter of 2018.

### Finance costs

\$000's	For the three months ended		For the six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Finance expense:				
Interest expense on interim production financing	\$ 314	\$ 196	\$ 579	\$ 434
Interest expense on bank indebtedness	9	–	18	–
Interest and accretion on convertible debentures	129	129	257	257
Interest accretion on lease obligations	226	19	398	38
Interest accretion on tangible benefits obligation	8	–	15	–
Interest capitalized to investments in film and television programming	(156)	(44)	(288)	(76)
	<b>\$ 530</b>	<b>\$ 300</b>	<b>\$ 979</b>	<b>\$ 653</b>

The increase in overall finance costs of \$0.2 million and \$0.3 million for the three and six months ended June 30, 2019, compared to the same periods in 2018 is largely due to the interest accretion on lease obligations which increased as a result of the adoption of IFRS 16. In addition, there was an increase in interest expense on interim production financing driven by additional production loans entered into during the beginning of 2019 as a result of work on additional new projects.

### Depreciation and amortization

\$000's	For the three months ended		For the six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Property, plant and equipment	\$ 654	\$ 167	\$ 1,282	\$ 332
Other intangible assets	405	614	782	1,209
	<b>\$ 1,059</b>	<b>\$ 781</b>	<b>\$ 2,064</b>	<b>\$ 1,541</b>

Depreciation on property plant and equipment increased for the three and six months ended June 30, 2019, compared to the three and six months ended June 30, 2018, primarily due to the adoption of IFRS 16 which resulted in an additional \$0.2 million and \$0.5 million in depreciation expense for the three and six months ended June 30, 2019. The decline in amortization of other intangible assets is attributable to a decrease in the amortization of the animation network, which is amortized on a 50% declining basis each year.

### Net loss and items affecting comparability

The comparison of financial results under IFRS between periods is hindered by the inclusion and variability of specified items that may not be indicative of the ongoing operational performance of the Company's ongoing business. For the three and six months ended June 30, 2019, the net loss after adjusting for such items was \$2.4 million and \$5.8 million, respectively. The most significant of these specified items are discussed below.

### Share-based compensation expense

Share-based compensation expense for the three and six months ended June 30, 2019, was \$0.1 million and \$0.3 million, respectively, compared to \$0.2 million and \$0.5 million for the same periods in 2018. The decrease in 2019 compared to the

same period in 2018 is in line with expectations as the current period expense is mainly a result of the vesting of options issued in previous years, along with the vesting of new options issued in May 2019.

### ***Deferred income tax (recovery) expense***

For the three and six months ended June 30, 2019, deferred income taxes were \$nil and \$nil, respectively, compared to a recovery of \$0.4 million and \$0.8 million for the three and six months ended June 30, 2018. As at June 30, 2019, and December 31, 2018, the Company was in a deferred income tax asset position with a full valuation allowance taken against the asset. As a result, there was no deferred income tax expense (recovery) for the quarter.

## **OUR BUSINESS MODEL**

### ***Animation Production***

The Company's primary sources of revenue are: (a) Animation production service contracts where revenues are earned over the term of the contract as the Company provides services; and (b) licensing of series and feature film based intellectual property ("IP") and content produced and owned by the Company.

The Company's production service business continues to provide a significant source of revenue and cash flow to the Company over the term of each contract.

The licensing model does not provide an immediate source of revenue, unlike the Company's production service business, as revenue is recognized upon the completion and delivery of the content. Further, this model requires sources of capital to be identified initially in order to fund projects, as cash from exploitation is generally not received until delivery or during the subsequent exploitation of the content. Management has implemented a policy to secure 100% of the financing necessary to fund the direct costs of production prior to commencing production.

The Company's objective is to expand its licensing business such that it selectively invests and builds ownership interests in certain films and television shows produced by the Company. Examples of this include projects such as *ReBoot: The Guardian Code*, which is wholly owned by the Company and financed by a production loan secured by various licensing and distribution contracts and government incentives, and *Castlevania*, which is wholly owned and financed largely through licensing to Netflix. These investments in intellectual property reflect management's view that one of the largest opportunities for growth of the Company lies in the ownership and exploitation of intellectual property across multiple viewing platforms.

Development and production costs that meet the criteria for capitalization as an intangible asset in accordance with IAS 38, *Intangible Assets* are recorded on the statement of financial position until the film or television series is distributed and marketed and are periodically tested for potential impairment. Investment and ownership in films and television programming that the Company produces provides the Company with the ability to share in the success of the property but also exposes us to the risk of losses.

In order to further diversify revenue and financing sources, the Company is also developing channels for content distribution. To this end, Channel Frederator Network received certification from the Canadian Audio-Visual Certification Office ("CAVCO") to have one of its YouTube channels approved as an online content destination for Canadian programming. The channel is one of only six online destinations to be sanctioned by CAVCO and it provides the creators of Canadian content with access to a broader Canadian and global audience, in addition to Canadian tax credits to support those programs.

## **Networks and Platforms**

The primary source of revenue within Networks and Platforms is the Channel Frederator Network, which derives its revenues from advertising revenue collected mainly from YouTube.

Frederator consistently discovers top content creators and concepts both from its unique short films (“Shorts”) development program as well as the Channel Frederator Network. It then works closely with those creators to develop, produce and distribute top-end content across multiple platforms worldwide – this represents one example of potential synergies across the Company’s two operating divisions.

## **OUTLOOK**

The Company continues to pursue and secure new opportunities in several key segments of the animation production and distribution industry. These include production service contracts in both the feature film and television markets. In addition, the Company remains focused on acquiring and investing in various intellectual properties that allow the Company to retain an ownership interest and share in future revenues, in a capital and risk efficient manner. In particular, the Company continues to pursue investment opportunities for theatrical films and TV programs that have strategic characteristics, such as committed distribution, key talent attachments, and successful brand awareness. The Company has been successful in retaining and attracting key management personnel. The continuity within our experienced leadership team remains a critical success factor in the outlook of the Company.

As at June 30, 2019, the Company's backlog was \$71.9 million. Backlog represents the undiscounted value of signed agreements for production services contracts and intellectual property in relation to licensing and distribution agreements for work that has not yet been performed, but for which the Company expects to recognize revenue in future periods. Backlog excludes estimates of variable consideration for transactions involving sales or usage-based royalties in exchange for licences of intellectual property. The Company expects to recognize the majority of backlog as revenue over the next 30 months.

Channel Frederator Network is viewed by kids and youth audiences, primarily across mobile and gaming devices, providing the Company with a global marketing platform for its animation content, as well as a strong understanding of these ‘digital-first’ consumers. The Company leverages this understanding of digital consumers as well as the viewership analytics obtained from YouTube to create more compelling content.

The unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2019 and 2018 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 three and six months ended June 30, 2019, the Company had negative cash flows from operating activities of \$1.7 million and \$6.9 million, respectively (three and six months ended June 30, 2018 – positive \$0.2 million and negative \$4 million, respectively).

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 April 4, 2019, the Company completed a non-brokered private placement of its common voting and variable voting shares for gross proceeds of \$2,022,611.

The Company will need to raise funds in the future 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 realize its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the carrying amounts on the unaudited condensed interim consolidated statement of financial position. Management continues to explore options to raise equity and debt financing.

### ***Animation Production - Production services business***

The Company continues to pursue and secure production service contracts as a significant component of its revenues and workflow. This includes contracts for theatrical films, DVD productions, as well as television series.

During the first quarter of 2019, the Company also began production of a major animated series in partnership with a leading US based studio. The series is set to commence deliveries in the first half of 2022.

During the third quarter of 2018, Mainframe Studios began production on the second season of *Barbie Dreamhouse Adventures*, which will consist of an additional 26 episodes. The final episode of the series is expected to be delivered in early 2020.

In a deal with Amazon Studios, the Company began production of *Costume Quest* in February 2017, based on the video game series by Double Fine productions and the world originally created by Tasha Sounart. Aimed at the kids market (6-11 year olds), *Costume Quest* is set in the fictional town of Auburn Pines where dark forces lurk in the shadows. The production is 26 x 11-minute episodes and was fully delivered in the first quarter of 2019. The *Costume Quest Christmas Special* is also currently in production, with delivery set for late 2019.

The Company began working with Silvergate Media in May 2017 on the production of season 5 of the series *Octonauts*, which will consist of 28 episodes, each 11 minutes in duration. In addition, during the third quarter of 2018, the Company also began production of a 3-episode special of *Octonauts* (70 minutes, 70 minutes, and 44 minutes) and an 80 x 11-minute episodic series called *Made by Maddie*.

### ***Animation Production - Intellectual properties***

#### *ReBoot: The Guardian Code*

*ReBoot: The Guardian Code*, is comprised of 20 commercial half hours of hybrid live action and CG animation. Final delivery of this Canadian content series to the Canadian broadcaster was completed in December 2017, triggering revenue recognition and amortization of the asset. The Canadian broadcast premiere was in June 2018 and the international Netflix premiere was shortly thereafter.

#### *Castlevania*

*Castlevania* is based on the hit Konami video game and written by best-selling author and comic book icon Warren Ellis. *Castlevania* was the first proprietary production of Frederator Studios after the corporate reorganization and the four episodes of Season 1 debuted on Netflix in July 2017 to wide critical acclaim. The eight episodes of Season 2 were delivered to Netflix in October 2018. Season 3 of the popular series was also announced by Netflix and is currently in production with delivery expected in the fourth quarter of 2019.

#### *Bravest Warriors – Season 4*

*Bravest Warriors* was created by Pendleton Ward, the creator of *Adventure Time*, one of the most successful shows on Cartoon Network. Fifty-two 11-minute episodes were produced in a partnership with a third-party producer. Although a third-party distributor will distribute the production globally, the Company controls the United States distribution rights, and Season

4 had its initial episode debut on Frederator's SVOD channel, Cartoon Hangover, via Ellation Inc.'s VRV platform, in late 2017. The distribution rights have been capitalized as investment in film and television programming and amortized by the Company in accordance with its accounting policies.

The existing seasons of *Bravest Warriors* have almost 200 million views on Cartoon Hangover across the 24 episodes. *Bravest Warriors* won a Shorty Award and is a Webby Award Honoree.

#### *Bee & Puppy Cat – Season 2*

*Bee & Puppy Cat* is a 2D animated television show which originally debuted on YouTube and created significant audience appeal. The first 13-episode season of the series was produced by Frederator Studios with funding from a kick-starter campaign. The second season will consist of 13 x 22-minute episodes and will be produced in Los Angeles and Japan. Ellation, Inc. has acquired the rights to exclusively distribute the second season on their VRV platform through Frederator's SVOD channel, Cartoon Hangover, and is expected to debut late in 2019. The Company has retained the rights to distribute the series in Canada.

#### **Networks and Platforms**

Frederator Network continues to build its unique appeal to affiliate members with video tools, music rights and member programs targeting the animation and gaming communities.

As described earlier, on June 7, 2019, the Company announced that a key channel affiliate, ADME, would repatriate certain of its YouTube channels from Frederator; Frederator would continue to distribute and manage certain other ADME channels and it will have the opportunity to distribute and manage certain new ADME YouTube channels as they are developed. Under the terms of the new distribution agreement, the ADME channels being retained by Frederator will be subject to cancellation by ADME on 30-days advance notice for each such channel. The ADME group of channels constituted the largest distribution agreement for Frederator. As of June 30, 2019, ADME channels represented approximately 85% of overall viewership on the Channel Frederator Network. Pursuant to the agreement, on July 31, 2019, Frederator transferred to ADME channels representing approximately 40% of the viewership of the ADME owned channels. While the ADME-owned channels contribute a significant portion of the Networks and Platforms revenues, they do not represent a significant portion of the Company's overall profitability. Further, given the nature of their content i.e. crafts and hobbies, the loss of ADME channels do not affect the Company's core objectives on YouTube - those of finding great animation talent and IP, and using the platform to build audiences for its animated shorts and series.

Under an agreement with Bell Media, the license for a Category B specialty service will be conveyed to Wow Networks no later than August 30, 2019. As described earlier, given the existing dynamics of the cable and satellite industry in Canada and the United States, management feels that it will be prudent to defer the launch of a linear channel until significant financial partnerships are in place.

## RESULTS BY SEGMENT

\$000's	For the three months ended		For the six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
<b>Revenue</b>				
Animation Production	\$ 6,859	\$ 7,401	\$ 12,346	\$ 17,594
Networks and Platforms	19,755	8,869	33,765	14,339
<b>Total revenue</b>	<b>\$ 26,614</b>	<b>\$ 16,270</b>	<b>\$ 46,111</b>	<b>\$ 31,933</b>
<b>Amortization of investment in film and television programming</b>				
Animation Production	\$ 251	\$ 936	\$ 552	\$ 1,883
Networks and Platforms	42	–	105	–
<b>Total amortization of investment in film and television programming</b>	<b>\$ 293</b>	<b>\$ 936</b>	<b>\$ 657</b>	<b>\$ 1,883</b>
<b>Segment profit (loss)</b>				
Animation Production	\$ (795)	\$ 452	\$ (2,310)	\$ 2,100
Networks and Platforms	(195)	(1,127)	(620)	(1,769)
<b>Total segment profit (loss)</b>	<b>\$ (990)</b>	<b>\$ (675)</b>	<b>\$ (2,930)</b>	<b>\$ 331</b>

### Animation Production

Revenue for the Animation Production segment was \$6.9 million and \$12.3 million for the three and six months ended June 30, 2019, respectively, compared to \$7.4 million and \$17.6 million for the same periods in 2018. The decrease in revenue for the three months ended June 30, 2019, was primarily due to a higher mix of IP production work at Frederator Studios for the three months ended June 30, 2019. The higher mix of IP production work at Frederator also contributed to the decrease in revenue for the Animation Production segment for the six months ended June 30, 2019. In addition, the Company recognized revenue from the licensing of international SVOD rights for *Reboot: The Guardian Code* during the six months ended June 30, 2018, which resulted in higher revenues for the six months period ending June 30, 2018 compared to 2019.

The amortization of investment in film and television programming for the three and six months ended June 30, 2019, was \$0.3 million and \$0.6 million, respectively, compared to \$0.9 million and \$1.9 million for the three and six months ended June 30, 2018. The increase in amortization of investment in film and television for the three and six months ended June 30, 2018, were higher primarily as a result of the amortization of the US distribution rights of *Bravest Warriors*, Season 4, which began airing in the United States on Frederator's Cartoon Hangover Channel via Elation's VRV platform in the first quarter of 2018.

Segment profit (loss) was a loss of \$0.8 million and \$2.3 million for the three and six months ended June 30, 2019, compared to a segment profit of \$0.5 million and \$2.1 million for the same periods in 2018. The higher segment profit for the three and six months ended June 30, 2018, was driven by revenue from *Reboot: The Guardian Code*, as noted above, net of accrued costs and amortization and slightly offset by lower operating costs for the three and six months ended June 30, 2019, as a result of the adoption of IFRS 16 during the first quarter in 2019.

### Networks and Platforms

Revenue earned in the Networks and Platforms segment was \$19.8 million and \$33.8 million for the three and six months ended June 30, 2019, compared to \$8.9 million and \$14.3 million for the three and six months ended June 30, 2018. The increase in revenue for the three and six months ended June 30, 2019, compared to the same periods in 2018 was due to increased advertising revenue driven by a higher number of views on the channels within Channel Frederator. Segment profit (loss) for the Networks and Platforms segment was a loss of \$0.2 million and \$0.6 million for the three and six months ended June 30, 2019, compared to loss of \$1.1 million and \$1.8 million for the same periods in 2018. The higher segment profit for the three and six months ended June 30, 2019 was primarily the result of increased revenues and lower operating costs for the segment.

## QUARTERLY FINANCIAL DATA (UNAUDITED)

Cumulative prior period information in the following tables have been restated for purchase price allocation adjustments relating to the acquisition of Frederator.

\$000's	For the three months ended			
	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018
<b>Revenue</b>	\$ 26,614	\$ 19,496	\$ 28,984	\$ 17,711
Operating EBITDA <sup>(1)</sup>	(625)	(1,814)	(920)	(1,502)
Operating loss	(2,214)	(3,267)	(1,875)	(2,659)
<b>Net loss</b>	\$ (2,361)	\$ (3,392)	\$ (1,429)	\$ (3,051)
Basic net loss per share	\$ (0.07)	\$ (0.11)	\$ (0.05)	\$ (0.11)
Diluted net loss per share	\$ (0.07)	\$ (0.11)	\$ (0.05)	\$ (0.11)

  

	For the three months ended			
	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017
<b>Revenue</b>	\$ 16,270	\$ 15,663	\$ 16,675	\$ 11,720
Operating EBITDA <sup>(1)</sup>	(1,230)	822	(864)	(664)
Operating loss	(2,311)	(292)	(2,226)	(1,970)
<b>Net (loss) profit</b>	\$ (2,080)	\$ (162)	\$ 251	\$ (1,620)
Basic net (loss) profit per share	\$ (0.08)	\$ (0.01)	\$ 0.01	\$ (0.06)
Diluted net (loss) profit per share	\$ (0.08)	\$ (0.01)	\$ 0.01	\$ (0.06)

<sup>(1)</sup> Refer to *Reconciliations* for a reconciliation of operating EBITDA and operating (loss) profit to net (loss) profit.

The growth in revenues during the final quarter of 2017 was a result of the growth in revenues in the Networks and Platforms segment as a result of increased views generated by Channel Frederator as well as the delivery of all 20 episodes of *ReBoot: The Guardian Code*.

The decrease in operating EBITDA in the fourth quarter of 2017 was a result of increased operating expenses, primarily as a result of recording reserves against the collection of future tax credit receivables in addition to higher corporate costs.

The improvement of operating EBITDA in the first quarter of 2018 was due to the recognition of revenue and related gross margin from the distributor's licensing of the worldwide SVOD rights to *Reboot: The Guardian Code* during the quarter.

The second and third quarters of 2018 saw a decrease in operating EBITDA as a result of higher corporate costs and professional fees in addition to higher affiliate costs and lower margins in the Networks and Platforms segment as a result of the Company's strategy to grow this segment, including investing in new content for YouTube, the VRV platform and Crave.

The increase in operating EBITDA in the fourth quarter of 2018 was a result of increased EBITDA in the Animation Production segment as a result of the delivery of *Castlevania*, Season 2 during the quarter.

The decrease in operating EBITDA during the first quarter of 2019 was a result of higher legal and accounting fees incurred during the quarter compared to previous quarters slightly offset by a decrease in operating costs as a result of adopting IFRS 16.

The increase in operating EBITDA during the second quarter of 2019 was primarily a result of increased animation production service work during the quarter as a result of beginning work on new projects signed during the year.

## RECONCILIATIONS

The following tables reconcile operating EBITDA and operating loss to net (loss) profit for the last eight quarters. Cumulative prior period information in the following tables has been restated for changes in accounting policies and for purchase price allocation adjustments relating to the acquisition of Frederator.

\$000's	For the three months ended			
	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018
<b>Operating EBITDA</b>	\$ (625)	\$ (1,814)	\$ (920)	\$ (1,502)
Finance costs	530	449	165	359
Depreciation and amortization <sup>1</sup>	1,059	1,004	790	798
Operating loss	(2,214)	(3,267)	(1,875)	(2,659)
<i>Items affecting comparability:</i>				
Share-based compensation expense	147	125	138	183
Deferred income tax (recovery) expense	—	—	(584)	209
	147	125	(446)	392
<b>Net loss</b>	\$ (2,361)	\$ (3,392)	\$ (1,429)	\$ (3,051)

<sup>1</sup> Excludes amortization of investment in film and television programming which has been included in operating EBITDA above.

\$000's	For the three months ended			
	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017
<b>Operating EBITDA</b>	\$ (1,230)	\$ 822	\$ (864)	\$ (664)
Finance costs	300	353	141	114
Depreciation and amortization <sup>1</sup>	781	761	1,221	1,192
Operating loss	(2,311)	(292)	(2,226)	(1,970)
<i>Items affecting comparability:</i>				
Share-based compensation expense	217	261	325	385
Deferred income tax (recovery) expense	(448)	(391)	(2,802)	(735)
	(231)	(130)	(2,477)	(350)
<b>Net (loss) profit</b>	\$ (2,080)	\$ (162)	\$ 251	\$ (1,620)

<sup>1</sup> Excludes amortization of investment in film and television programming which has been included in operating EBITDA above.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity requirements can be met through a variety of sources. Borrowings against tax credits earned and contracts from both service productions and the production of our own content are a key source of operational financing. Other sources include generating cash from operations, entering into leases, issuance of convertible debentures, or the issuance of common shares or common share purchase warrants. Sources of funding for IP include production financing facilities secured by licensing agreements. The Company's policy is to identify sources of funding for 100% of the direct costs of proprietary productions prior to the commencement of production. The exploitation of the Category B specialty service broadcast license as discussed above would require an investment in programming and operating costs and accordingly, the Company is deferring the launch of a linear channel until significant financial partnerships are in place. The Company manages liquidity risk by continuously monitoring actual and forecast cash flows, drawing upon available facilities and using lease financing.

The unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2019 and 2018 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.

See *Outlook* section for factors which cast significant doubt on the Company's ability to continue as a going concern. For the three and six months ended June 30, 2019, the Company had negative cash flows from operating activities of \$1.7 million and \$6.9 million, respectively (three and six months ended June 30, 2018 – positive \$0.2 million and negative \$4.0 million, respectively). As at June 30, 2019, the Company had a cash balance of \$3.5 million and \$7.9 million in additional unutilized credit facilities available by way of interim production loans secured against refundable tax credits and sales contracts. In June 2019, the Company entered into a credit facility (the "Facility") with a Canadian bank. The Facility is comprised of: (i) a \$1.5 million CAD revolving demand facility, (ii) a \$6.0 million CAD equipment lease line, and (iii) a treasury risk management facility of up to \$0.5 million CAD for foreign exchange forward contracts. As at June 30, 2019, the Company had drawn \$1.4 million out of the \$1.5 million revolving demand facility and utilized \$2.5 million out of the \$6.0 million equipment lease line.

A summary of the Company's cash flows for the three and six months ended June 30, 2019 and 2018 is as follows:

\$000's	For the three months ended		For the six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Cash (used in) generated by operating activities	\$ (1,728)	\$ 216	\$ (6,866)	\$ (3,954)
Cash (used in) generated by financing activities	2,179	(270)	6,549	1,550
Cash used in investing activities	(4)	(8)	(49)	(27)
Net change in cash and cash equivalents	447	(62)	(366)	(2,431)
Effect of foreign exchange on cash and cash equivalents	(12)	42	(34)	82
Cash and cash equivalents, beginning balance	3,028	4,025	3,863	6,354
Cash and cash equivalents, ending balance	\$ 3,463	\$ 4,005	\$ 3,463	\$ 4,005

### Cash flows from operating activities

\$000's	For the three months ended		For the six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Cash provided by (used in) operating activities before changes in non-cash working capital	\$ (225)	\$ (458)	\$ (1,623)	\$ 951
Investment in film and television programming	(2,501)	(2,778)	(4,910)	(4,522)
Funding received for investment in film and television programming	–	–	67	–
Changes in non-cash working capital:				
Trade and other accounts receivable	(2,640)	2,734	(4,262)	(1,580)
Other assets <sup>1</sup>	(324)	90	(836)	(121)
Accounts payable and accrued liabilities	2,181	(967)	896	1,154
Deferred revenue	1,781	391	3,802	(1,046)
Other liabilities <sup>2</sup>	–	1,204	–	1,210
Cash (used in) generated by operating activities	\$ (1,728)	\$ 216	\$ (6,866)	\$ (3,954)

<sup>1</sup> Other assets include prepaid expenses, other financial assets, and deposits and other assets.

<sup>2</sup> Other liabilities include other current liabilities, other financial liabilities, and other non-current liabilities.

Cash flows from operating activities for the three and six months ended June 30, 2019, used \$1.7 million and \$6.9 million, respectively, in cash compared to generating cash of \$0.2 million and using cash of \$4.0 million for the same periods in 2018.

Investment in film and television programming decreased cash by \$2.5 million and \$4.9 million for the three and six months ended June 30, 2019, respectively, compared to \$2.8 million and \$4.5 million for the three and six months ended June 30, 2018. Expenditures for the three and six months ended June 30, 2019, primarily relate to the costs incurred on *Castlevania*,

season 3 and *Bee & Puppy Cat*, season 2 while the expenditures for the three and six months ended June 30, 2018, primarily relate to costs incurred on *Castlevania*, season 2.

Significant changes in the components of non-cash working capital are discussed below:

The Company recognizes the benefit of refundable tax credits earned from eligible labour expenditures on its productions in Canada as the labour expenditures are incurred as an increase to tax credits receivable and a decrease to operating expenses. This results in a decrease in cash flows from operating activities during the production of a film and before the tax return is filed and the refundable tax credits claimed. The filing of a tax return and subsequent receipt of the refundable tax credits result in an increase in cash flows from operating activities. Refundable tax credits earned are significant and therefore can have a large impact on our working capital balances. As the refundable tax credits are a significant component of our non-cash working capital balances, we finance them through production tax credit loans as discussed below under *Cash generated by financing activities*.

During the three and six months ended June 30, 2019, \$nil and \$nil in tax credit refunds were received compared to \$5.4 million and \$5.7 million for the three and six months ended June 30, 2018. Tax credits earned for the three and six months ended June 30, 2019, were \$3.1 million and \$5.8 million compared to \$2.6 million and \$5.0 million for the same periods in 2018. In addition, during the three and six months ended June 30, 2019, changes in trade and other receivables increased cash by \$0.5 million and \$1.5 million compared to decreasing cash by \$0.1 million and \$0.9 million for the same periods in 2018.

The changes in accounts payable and accrued liabilities and other liabilities primarily relate to the timing of invoices received and paid.

Deferred revenue represents cash received from customers in excess of revenues earned to date on a production. The balance of deferred revenue generally increases during periods where there are more active productions and decreases when there are fewer productions. The change in deferred revenue for the three and six months ended June 30, 2019, generated operating cash flows of \$1.8 million and \$3.8 million, respectively, compared to increasing cash by \$0.4 million and decreasing cash by \$1.0 million for the same periods in 2018, as a result of the timing of cash receipts. This reflects the stage of productions at June 30, 2019. Generally, the earlier in a production, the higher the deferred revenue, as invoices are issued in advance of work performed to ensure that cash is received before it is required to be paid.

### **Cash flows from financing activities**

<i>\$000's</i>	For the three months ended		For the six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Proceeds from interim production financing, net of repayment	\$ 1,491	\$ (2,693)	\$ 6,329	\$ (555)
Interest paid	(393)	(399)	(662)	(568)
Repayment of lease obligations	(786)	(173)	(1,152)	(322)
Proceeds from bank indebtedness	7,210	8,755	13,285	8,755
Repayment of bank indebtedness	(7,306)	(8,085)	(13,214)	(8,085)
Proceeds from private placement, net of share issuance costs	1,963	2,325	1,963	2,325
Cash (used in) generated by financing activities	\$ 2,179	\$ (270)	\$ 6,549	\$ 1,550

The Company's interim production financing is generally secured by the tax credit receivables. Proceeds from interim production financing, less repayments, for the three and six months ended June 30, 2019, resulted in net proceeds of \$1.5

million and \$6.3 million, respectively, compared to net repayment of \$2.7 million and \$0.6 million for the same periods in 2018. The higher cash proceeds during the three and six months ended June 30, 2019, compared to 2018, was a result of borrowing for new production service work which commenced during the year.

Interest paid on interim production loans, leases and convertible debentures during the three and six months ended June 30, 2019, were \$0.4 million and \$0.7 million, respectively, compared to \$0.4 million and \$0.6 million for the same periods in 2018.

Principal repayments on leases for the three and six months ended June 30, 2019, were \$0.8 million and \$1.2 million, respectively, compared to \$0.2 million and \$0.3 million for the three and six months ended June 30, 2018. The increase was primarily a result of the adoption of IFRS 16 as previously discussed.

Proceeds and repayment of bank indebtedness represent borrowings and repayments on the Company's line of credit. The line of credit is used to fund operations, and fluctuations in the movement of the balance are dependent on the timing of cash inflows and outflows throughout the period.

## CONTRACTUAL OBLIGATIONS

The following is a summary of the Company's contractual obligations as at June 30, 2019:

\$000's	Less than 1 year	1 to 5 years	Greater than 5 years	Total
Accounts payable and accrued liabilities	\$ 13,949	\$ –	\$ –	\$ 13,949
Bank indebtedness	1,409	–	–	1,409
Lease obligations <sup>1</sup>	3,318	7,149	11,095	21,562
Interim production financing	20,824	–	–	20,824
Convertible debentures <sup>1</sup>	347	4,485	–	4,832
Other liabilities <sup>1</sup>	371	1,332	196	1,899
	\$ 40,218	\$ 12,966	\$ 11,291	\$ 64,475

<sup>1</sup> Includes the estimated interest that will be paid to the end of their respective terms.

## CAPITAL EXPENDITURES

During the three and six months ended June 30, 2019, the Company incurred capital expenditures of \$0.01 and \$0.05 million compared to \$0.01 and \$0.03 million, respectively, for the three and six months ended June 30, 2018. The additions during 2019 primarily consisted of purchases of computer equipment. The Company endeavours to fund IT purchases through leases where possible.

## FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, unbilled accounts receivable, deposits, trade and other payables, bank indebtedness, lease obligations, interim production financing, tangible benefits obligation, and convertible debentures.

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 statement of financial position, and measured at fair value through profit and loss.

## SEASONALITY

Results of operations generated by the Animation Production segment for any period are dependent on the number and timing of film and television programs delivered, which cannot be predicted with certainty. Consequently, the Company's results from operations may fluctuate materially from period-to-period and the results of any one period are not necessarily indicative of results for future periods. Cash flows may also fluctuate and are not necessarily closely correlated with the timing and amount of revenue recognized. The Company's Networks and Platforms revenues are driven by advertising preferences, which experience seasonal fluctuations that are somewhat aligned to the retail industry.

## RISKS AND UNCERTAINTIES

Risks and uncertainties are included in the Company's annual information form dated April 27, 2018, and the Management's Discussion and Analysis for the year ended December 31, 2018 and are available on SEDAR at [www.sedar.com](http://www.sedar.com).

Also see *Outlook* and *Liquidity and Capital Resources* sections above.

## JUDGEMENTS AND CRITICAL ACCOUNTING ESTIMATES

The unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS. The measurement of certain assets and liabilities is dependent upon future events whose outcome will not be fully known until future periods. Therefore, the preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results will vary from those estimated.

In preparing the unaudited condensed interim consolidated financial statements, the areas of estimation and judgment that management considers most significant are the same as those applied to and disclosed in the audited consolidated financial statements for the year ended December 31, 2018.

## ADOPTION OF NEW ACCOUNTING POLICIES

### ***IFRS 16 – Leases***

On January 1, 2019, the Company adopted IFRS 16 which supersedes IAS 17 and IFRIC 4. This standard introduces a single lessee balance sheet accounting model. Unless certain exception criteria are met, a lessee is required to recognize a right-of-use asset representing its right to use the underlying asset of a lease and a lease obligation representing its obligation to make lease payments. Other than requiring enhanced disclosures, this standard substantially carries forward the lessor accounting policies under IAS 17.

The Company's lease contracts are comprised of property leases for studio and office space and operating equipment rentals. Premises lease terms range from short-term periods of less than one year to up to 13 years and may include renewal options. Lease terms for operating equipment leases are generally from one to five years and may also contain renewal options.

The Company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings as at January 1, 2019, if applicable. As a result, comparative information has not been restated for 2018 and is presented under the previous IAS 17 and IFRIC 4 standards.

On transition to IFRS 16 as at January 1, 2019, the Company recognized additional right-of-use assets and additional lease obligations and adjusted certain balance sheet items that are no longer permitted to be recognized separately under IFRS 16. The impact on transition to the consolidated statement of financial position is summarized in the following table:

	December 31, 2018	IFRS 16 adoption	January 1, 2019
Property, plant and equipment and other intangible assets - finance lease assets	\$ 2,792	\$ (2,792)	\$ –
Property, plant and equipment and other intangible assets - right-of-use assets	–	12,893	12,893
Finance lease obligations	2,884	(2,884)	–
Lease obligations	–	13,537	13,537
Other current and non-current liabilities	2,334	(552)	1,782

### ***IFRIC 23 – Uncertainty Over Income Tax Treatments***

IFRIC 23 - *Uncertainty Over Income Tax Treatments* is required to be applied for years beginning on or after January 1, 2019. 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. There was no impact on the Company's interim condensed consolidated financial statements upon the application of this interpretation.

### **CONTROLS AND PROCEDURES**

For the three and six months ended June 30, 2019, no changes were made in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **CAPITAL STRUCTURE AND OUTSTANDING SHARE DATA**

#### ***Stock options and common share purchase warrants***

We maintain a rolling stock option plan that enables us to grant options to directors, officers, employees and consultants of the Company. The stock option plan permits the granting of options up to an aggregate maximum of 10% of issued and outstanding common shares from time to time on a non-diluted basis.

During the three months ended June 30, 2019, the Company issued 495,000 stock options.

As at June 30, 2019, the Company had 2,776,858 stock options outstanding and stock options exercisable for 1,879,936 additional common shares.

As at August 28, 2019, the Company had 2,776,858 stock options outstanding and stock options exercisable for 2,026,492 additional common shares.

As at June 30, 2019 and August 28, 2019, the Company had 900,000 warrants outstanding and warrants exercisable for 400,000 additional common shares.

#### ***Outstanding Shares***

As at June 30, 2019, the Company had 32,024,314 common shares issued and outstanding. The total shares outstanding were comprised of the following balances:

- Common Voting Shares 21,544,587
- Variable Voting Shares 7,897,970
- Common Non-Voting Shares 2,581,757

As at August 28, 2019, the Company had 32,024,314 common shares issued and outstanding. The total shares outstanding were comprised of the following balances:

- Common Voting Shares 21,544,587
- Variable Voting Shares 7,897,970
- Common Non-Voting Shares 2,581,757

## OFF-BALANCE SHEET ARRANGEMENTS

There are no off-balance sheet obligations that are not disclosed in the unaudited condensed interim consolidated financial statements.

## RELATED PARTIES

### *Remuneration of key management personnel*

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

	For the three months ended		For the six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Short-term benefits	\$ 366	\$ 406	\$ 722	\$ 809
Share-based compensation expense	68	154	146	347
	<b>\$ 434</b>	<b>\$ 560</b>	<b>\$ 868</b>	<b>\$ 1,156</b>

### *Agreement with a service provider in which an officer of the Company holds a minority interest*

An officer of the Company is a minority shareholder of a service provider that entered into a production services agreement with the Company in July 2019. The agreement is for USD \$5,000 and is in connection with the development and production of short-form content for the Networks and Platforms segment of the business.

### *Option and purchase agreement with a director*

In April 2019, the Company entered into an option and purchase agreement for a development property, with parties that include a director of the Company. The initial option payment was USD \$10,000 and any further payments will be dependent upon the exercise of additional option periods or the exercise of the purchase option to purchase the property and proceed with series production.

### *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 USD \$200,000 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. During the three months ended September 30, 2018, these production advances were repaid in full.