MANAGEMENT'S DISCUSSION & ANALYSIS

Wow Unlimited Media Inc.

December 31, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") is dated April 25, 2019, and is intended to assist in understanding the results of operations and financial condition of Wow Unlimited Media Inc. (the "Company" or "Wow Unlimited") as at and for the three and twelve months ended December 31, 2018, and should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2018 and other public disclosure documents of Wow Unlimited.

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.

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" within the meaning of applicable Canadian securities laws. The words "anticipate", "achieve", "could", "believe", "plan", "intend", "continuous", "ongoing", "estimate", "outlook", "expect", "may", "will", "project", "should", 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 and outlook. In particular, this MD&A contains forward-looking statements relating to: (i) WOW Unlimited's business strategy; (ii) the market in which the Company operates and the demand for children's entertainment content; (iii) the ability of the Company to successfully integrate its component businesses and to realize on perceived synergies; (iv) the Company's potential future revenue and long-term vision; (v) the ability of the Company to identify suitable acquisition/partnership targets and to acquire/partner with such targets on reasonable terms and in a timely fashion; (vi) the ability of the Company to expand into potential markets and to capitalize on such expansion; (vii) future operational and financial performance, including production capacity; (viii) expectations regarding the ability of the Company to raise capital and to increase its business; (ix) the Company's proposed strategies for global rollout and platform growth; (x) the Company's proposed operations for 2019; and (xi) the continued access to and stability of distribution channels. The reader is cautioned that such forward-looking statements may prove to be incorrect. 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) the performance of the Company's business, including current business and economic trends; (ii) capital expenditure programs and other expenditures by the Company and its customers; (iii) the ability of the Company to retain and hire qualified personnel; (iv) the ability of the Company to market its content successfully to existing and new customers; (v) the ability of the Company to retain customers; (vi) the ability of the Company to obtain timely financing on acceptable terms; (vii) a stable competitive environment; (viii) the Company's ability to anticipate and adapt to changes in technology and product consumption patterns; and (ix) a stable industry regulatory environment. 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.

Unless otherwise indicated, all forward-looking statements are made as of the date hereof and, except as required by applicable securities laws, the Company does not intend, and does not assume any obligation, to update the forward-looking statements contained herein. Certain information contained herein is based on, or derived from, information provided by independent third-party sources. The Company believes that such information is accurate and that the sources from which it has been obtained are reliable. The Company cannot guarantee the accuracy of such information, however, and has not independently verified the assumptions on which such information is based. The Company does not assume any responsibility for the accuracy or completeness of such information. Readers are cautioned not to place undue reliance on forward-looking statements.

COMPANY PROFILE

Wow Unlimited is creating a leading next generation kids and youth entertainment business by focusing on creating top-end content, and by building and partnering with the most engaging platforms. The Company's key assets include: Frederator Networks Inc. ("Frederator"), which includes, Channel Frederator Network, the world's #1 digital animation network, Frederator Studios, an animation production company, as well as video-on-demand ("VOD") channels on digital platforms; and one of Canada's largest, multi-faceted animation production studios, Mainframe Studios, which produces computer-generated animated television series and long-form animated features. 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) and its CEO and board chairman is Michael Hirsh.

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 also entered into the business of subscription video-on-demand through a channel it operates in the United States. In addition, the Company has strategically partnered with Bell Media to be the exclusive curator of kids programming for Crave, Canada's leading streaming service. In conjunction with the strategic partnership with Bell Media, the Company also executed an amended agreement to purchase a broadcasting license from Bell Media and is currently formulating a business plan for the use of the license. See *Financial and Operational Highlights* for further details.

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. These non-IFRS measures have been consistently calculated in all periods presented.

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 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.

OVERVIEW

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

Results of operations

$000's, except per share amounts	2018	2017	2016
Revenue	**$ 78,628**	**$ 44,660**	**$ 17,660**
Operating EBITDA[1]	(2,831)	(2,474)	1,188
Operating loss[1]	(7,137)	(7,795)	(1,215)
Operating loss per share			
- basic and diluted	$ (0.26)	$ (0.31)	$ (0.43)
Net loss	**$ (6,723)**	**$ (5,086)**	**$ (15,128)**
Net loss per share			
- basic and diluted	$ (0.25)	$ (0.20)	$ (5.41)
Weighted average number of shares outstanding:			
- basic and diluted	27,215,079	25,241,171	2,798,249

[1]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	2018	2017	2016
Financial position			
Total assets	$ 70,187	$ 59,032	$ 53,565
Total current assets	30,570	32,889	26,204
Total non-current assets	39,616	26,144	27,361
Convertible debentures	3,988	3,815	–
Total liabilities	44,917	35,094	26,103
Shareholders' equity	25,270	23,938	27,462

FINANCIAL AND OPERATIONAL HIGHLIGHTS

June 2018 private placement

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.

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 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. The fair value of the common voting shares exchanged was $4,120,135 and was based on the closing price of the Company's shares on the TSX-V on August 31, 2018 of $1.20 per share. The Option can be exercised for nominal consideration at any time prior to December 31, 2018, and the license shall be conveyed to the Company within 90 days of exercise. If the Company does not exercise the option before such date, it will be deemed to have exercised the option as of December 31, 2018 and the broadcasting license will be automatically conveyed to Wow Networks on April 1, 2019. On March 12, 2019, the Company announced the extension of the last date upon which WOW will be entitled to exercise, and if not exercised by such date will be deemed to have exercised, the exclusive option to acquire the Broadcasting Licence to May 31, 2019, and the last date upon which the transfer of the Broadcasting License will occur has been extended to August 30, 2019; provided that, at any time before June 30, 2019, Bell Media may set the date of transfer upon 60 days' written notice.

The transaction was reviewed and approved by the: (i) CRTC on July 11, 2018; and (ii) TSX Venture Exchange on September 5, 2018. Pursuant to the CRTC's decision, and as an additional cost to acquire the broadcast 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 broadcast license intangible asset, as a directly attributable cost of bringing the asset to its working condition.

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.

The Company also announced that as part of the strategic partnership with Bell Media, the Company would be bringing kids programming for the first time to Crave, Canada's leading streaming service. Over 200 hours of kids programming is now available to stream on Crave in three new 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).

The Company is working with its advisors to formulate a business plan that will maximize the value of the broadcasting license.

April 2019 private placement

Subsequent to the year ended December 31, 2018, 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 $2,022,610 at an issuance price of $1.10 per share.

OPERATIONAL HIGHLIGHTS

- Frederator Studios delivered an additional 8 episodes of the hit series *Castlevania,* season 2, to Netflix on October 26, 2018. As published by Parrot Analytics, the original, 4-episode season of *Castlevania* achieved the status of both the 'most in-demand' digital original and the 'most popular' digital original series in the United States in the first two weeks of its launch. In addition, the Company announced the renewal of the *Castlevania* series for a third season on Netflix and production commenced in Q4 2018.
- Animated series *Bravest Warriors*, season 4, completed production and the final episode was delivered in Q4 2018.
- Animated series *Costume Quest* completed production and was delivered in Q1 2019.
- Season 2 of the series *Bee & Puppy Cat* is currently in production, with delivery set for late 2019.
- Channel Frederator Network continues to enjoy growth. Statistics from YouTube's Content Management System show that Channel Frederator Network had grown to 261 million subscribers and 3,126 channels as at December 31, 2018. Channel Frederator Network also attracted a total of 11.4 billion views for the three months ended December 31, 2018, representing a 14% increase over the prior quarter.
- Continuing the long-standing relationship between Mattel and Mainframe Studios, the studio also completed production on another Barbie title, *Barbie Dreamhouse Adventures*, a 26-episode animated series which commenced production during the first quarter of 2017 with the final episode being delivered in the fourth quarter of 2018.
- The Company delivered the final episode of the 26-episode series, *Spy Kids: Mission Critical*, in April, 2018.
- Season 5 of the series *Octonauts,* comprising 28 episodes of 11 minutes each, for Silvergate Media, continues in production.
- *Reboot: The Guardian Code,* produced by the Company, was delivered in 2017 to a Canadian broadcaster under a license for the first window Canadian English language broadcast rights. An affiliate of the Canadian broadcaster is acting as the 3rd party distributor (the "Distributor") for the remaining worldwide rights. During the first quarter of 2018, the Distributor entered into a long-term license for global SVOD rights to the series and accordingly, the Company recognized an estimate of its share of the net proceeds from this license as revenue.
- During 2018, the Company also began work on 3 new series under production service contracts which are scheduled to deliver over the next 2-3 years.

CONSOLIDATED RESULTS

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

$000's		2018		2017		2016
Revenue	$	**78,628**	$	**44,660**	$	**17,660**
Amortization of investment in film and television programming	$	**7,141**	$	**7,455**	$	**–**
Operating EBITDA	$	**(2,831)**	$	**(2,474)**	$	**1,188**
Finance costs		1,177		443		1,663
Depreciation and amortization[1]		3,129		4,878		740
Operating loss		(7,137)		(7,795)		(1,215)
Items affecting comparability:						
Share-based compensation expense		799		1,342		–
Acquisition costs		–		–		5,760
Impairment of Ratchet Productions, LLC		–		–		566
Share of results of Ratchet Productions, LLC		–		–		7,673
Deferred income tax recovery		(1,213)		(4,051)		(86)
		(414)		(2,709)		13,913
Net loss	$	**(6,723)**	$	**(5,086)**	$	**(15,128)**

[1] Excludes amortization of investment in film and television programming

Revenue and Operating EBITDA

Revenue for the year ended December 31, 2018, increased by $34.0 million, compared to 2017, as a result of an increase in revenues for the Networks and Platforms segment of $32.3 million which was driven by increased views and revenues generated by Channel Frederator. Revenues for the Animation Production segment in 2018 increased by $1.7 million compared to 2017, primarily resulting from the continued production of *Costume Quest*, *Castlevania*, season 2, *Barbie Dreamhouse Adventures, Octonauts,* season 5, and *Spy Kids: Mission Critical*, as well as revenue from the US licensing of *Bravest Warriors,* season 4, and proceeds from the licensing of international SVOD rights for *Reboot: The Guardian Code.*

Operating EBITDA decreased by $0.4 million for the year ended December 31, 2018 compared to 2017. The decrease in operating EBITDA for the year ended December 31, 2018, was primarily due to higher network affiliate payments, together with the Company's investment in content and audience on Frederator's owned and operated YouTube channels, as well as investing in content for the VRV platform and Crave.

Amortization of investment in film and television programming

Amortization of investment in film and television programming during 2018 relates to the amortization of productions previously completed during 2017 and 2018 including *Reboot: The Guardian Code*, *Castlevania,* season 1 and 2, and 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. Amortization of investment in film and television programming during 2017 primarily relates to the production of *Castlevania,* season 1 and *Reboot: The Guardian Code*, which were delivered and commenced being amortized in the second and fourth quarter of 2017, respectively.

Finance costs

$000's	2018	2017
Finance expense:		
Interest expense on interim production financing	$ 825	$ 737
Interest expense on bank indebtedness	26	–
Interest and accretion on convertible debentures	519	24
Interest accretion on obligations under finance lease	69	41
Interest accretion on tangible benefits obligation	10	–
Interest capitalized to investments in film and television	(272)	(359)
	$ 1,177	**$ 443**

The increase in overall finance costs from 2017 to 2018 of $0.7 million for the year ended December 31, 2018, is largely due to the interest and accretion on the convertible debentures issued on December 14, 2017. In addition, there was an increase in interest expense on interim production financing driven by additional production loans entered into during the beginning of 2018 as a result of work on new projects.

Depreciation and amortization

$000's	2018	2017
Property, plant and equipment	$ 707	$ 599
Other intangible assets	2,460	4,416
Amounts capitalized to investment in film and television	(38)	(137)
	$ 3,129	**$ 4,878**

Depreciation on property plant and equipment increased for the year ended December 31, 2018, compared to 2017, driven by additions during 2018 as part of the Company's program to renew computer equipment across the studio on an ongoing basis. 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 operational performance of the Company's ongoing business. For the year ended December 31, 2018, the net loss after adjusting for items affecting comparability was $6.7 million. For the year ended December 31, 2017, net loss after adjusting for items affecting comparability was $5.1 million. Certain of these specified items affecting comparability are discussed below.

Share-based compensation expense

Share-based compensation expense for the year ended December 31, 2018, was $0.8 million, compared to $1.3 million in 2017. The decrease in 2018 is in line with expectations as the current year expense is entirely a result of the vesting of options and share appreciation rights granted in 2017, both as a component of the Bell Media Transaction, and as part of management compensation packages.

Deferred income tax recovery

For the year ended December 31, 2018, deferred income tax recoveries were $1.2 million compared to $4.1 million for the year ended December 31, 2017. The deferred income taxes are primarily comprised of the periodic impact of differences between the accounting bases of intangible assets recognized on the finalization of the purchase price allocation compared to the tax basis. The larger recovery for the year ended December 31, 2017 is consistent with the higher amortization taken for accounting purposes on these assets during the year.

OUR BUSINESS MODEL

With the acquisition of Frederator on December 15, 2016, the Company diversified its sources of revenue. Prior to the acquisition, the primary source of revenue was production service contracts where revenues are earned over the term of the contract as the Company provides services. The Frederator business brings both additional production service revenues, and an additional operating segment that derives a significant portion of its revenues from advertising revenue collected primarily via the streaming and YouTube platform.

The Company's objective is to expand its business model such that it selectively invests and has 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.

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.

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.

Frederator consistently discovers top content creators and concepts both from its unique short films ("Shorts") development program as well as its animation network, Channel Frederator Network. It then works closely with those creators to develop, produce and distribute top-end content across multiple platforms worldwide. Frederator Studios, based in Burbank, California, has produced 16 hit series from approximately 250 short films through production service work. Its most successful television series include hits such as *Adventure Time* and *Fairly Odd Parents.* The studio continues to be in several discussions for content development and production services.

The investment and ownership 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, the investment 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.

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 we produce provides the Company with the ability to share in the success of the property but also exposes us to the risk of losses.

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 December 31, 2018, the Company's backlog was $54.4 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 strong understanding of these ‘digital-first’ consumers. In addition to growing the network in 2019, the Company plans to leverage this understanding of digital consumers as well as its network and digital content development capabilities to build key partnerships with Advertising Video-on-Demand (“AVOD”) and Subscription Video-on-Demand (“SVOD”) platforms worldwide.

The consolidated financial statements for the year ended December 31, 2018 and 2017 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 realise its assets and settle its liabilities in the normal course of business. As at December 31, 2018, the Company had generated cash flows from operating activities of $1.7 million (2017 – utilized $16.2 million).

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 June 11, 2018, the Company completed a non-brokered private placement of its common voting and variable voting shares for gross proceeds of $2.4 million. In addition, subsequent to December 31, 2018, the Company completed a non-brokered private placement of its common voting shares and variable voting shares on April 4, 2019 for gross proceeds of $2,022,610.

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 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.

Mainframe Studios completed its production of the series *Spy Kids: Mission Critical* and *Barbie Dreamhouse Adventures* during 2018 with deliveries of the final episodes of the series in the first and fourth quarter of 2018, respectively. The first episode of *Spy Kids: Mission Critical* premiered on Netflix in April 2018 while the first episode of *Barbie Dreamhouse Adventures* premiered on Netflix in May of 2018.

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 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, the Company also began work on 3 new production service contracts in 2018 which are set to deliver over the next 2-3 years.

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. An affiliate of the Canadian broadcaster acts as the distributor for the series and provided a minimum guarantee recoupable against the proceeds of exploitation of those rights. Additional funding was secured from the Canada Media Fund ("CMF") and the Shaw Rocket Fund.

As described above, in the first quarter of 2018, the distributor entered into a worldwide SVOD licensing agreement for *ReBoot: The Guardian Code,* which commenced during the first quarter of 2018. The Canadian broadcast premiere was in June, 2018 and the international Netflix premiere was shortly thereafter.

Castlevania

Production on *Castlevania,* season 2, began in the first quarter of 2017 and was delivered to Netflix on October 26, 2018. The second season is comprised of eight 25-minute episodes and 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. Season 3 of the hit series was also announced by Netflix and production for the season began in the fourth quarter of 2018.

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 has bought-out 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 in Canada.

Networks and Platforms

As one of the key areas for future growth, 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.

The Company's owned & operated channels have experienced continued growth as a result of the increasing number of videos uploaded to the YouTube platform as well as the development of additional series concepts.

In September 2018, the Company became the exclusive curator of children's content on Crave, Canada's leading streaming service. Results to date have been positive and are consistent with the Company's commitment to build its brand within Canada.

RESULTS BY SEGMENT

$000's		2018		2017
Revenue				
Animation Production	$	33,722	$	32,003
Networks and Platforms		44,906		12,657
Total revenue	$	78,628	$	44,660
Amortization of investment in film and television programming				
Animation Production	$	7,065	$	7,455
Networks and Platforms		76		–
Total amortization of investment in film and television programming	$	7,141	$	7,455
Segment Profit (Loss)				
Animation Production	$	1,744	$	1,137
Networks and Platforms		(3,234)		(2,173)
Total segment loss	$	(1,490)	$	(1,036)

Animation Production

Revenue for the Animation Production segment was $33.7 million for the year ended December 31, 2018, compared to $32.0 million for the year ended December 31, 2017. The increase in revenues in 2018 were driven by additional revenues from the continued production of *Costume Quest*, *Castlevania,* season 2*, Barbie Dreamhouse Adventures, Octonauts,* season 5 and *Spy Kids: Mission Critical*, as well as revenue from the US licensing of *Bravest Warriors*, season 4, and the recognition of the Company's estimated share of the distributor's net proceeds from the licensing of the worldwide SVOD rights of *Reboot: The Guardian Code.*

The amortization of investment in film and television programming for the year ended December 31, 2018, includes *Reboot: The Guardian Code*, *Castlevania,* season 1 and 2, and the amortization of the US distribution rights of *Bravest Warriors,* season 4. The amortization of investment in film and television programming for the year ended December 31, 2017, was due to the delivery of *Castlevania,* season 1, to Netflix in June 2017, as well as the amortization on the first eight episodes of the *Reboot: The Guardian Code* series which delivered to Corus and Nelvana during the period.

Segment profit for the Animation Production segment was a profit of $1.7 million, compared to a profit of $1.1 million in 2017. The increase in segment profit was primarily due to the increase in revenue for *Reboot: The Guardian Code* net of accrued costs and amortization as noted above.

Networks and Platforms

Revenue earned in the Networks and Platforms segment was $44.9 million, compared to $12.7 million. The increase in revenue was due to increased advertising revenue driven by a higher number of views on the channels within Channel Frederator, however, the Company expended comparatively more on content providers.

Segment loss for the Networks and Platforms segment was $3.2 million, compared to a loss of $2.2 million in 2017. The increased segment loss was a result of higher network affiliate payments, together with the Company's investment in content and audience on Frederator's owned and operated YouTube channels, as well as investing in content for the VRV platform and Crave. Results from this segment are primarily generated through the Channel Frederator Network. As discussed previously under *Operational Highlights*, Channel Frederator Network continues to enjoy growth in both views and channels added over the course of the year which has resulted in increases to revenue.

FOURTH QUARTER 2018

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

Selected financial information for the three months ended December 31, 2018, and 2017 is as follows:

`000's		Q4 2018		Q4 2017
Revenue	**$**	**28,984**	**$**	**16,675**
Amortization of investment in film and television	**$**	**4,676**	**$**	**3,986**
Operating EBITDA		**(920)**		**(864)**
Finance costs		165		141
Depreciation and amortization[1]		790		1,221
Operating loss		(1,875)		(2,226)
Items affecting comparability:				
Share based payments		138		325
Deferred income tax recovery		(584)		(2,802)
		(446)		(2,477)
Net (loss) profit	**$**	**(1,429)**	**$**	**251**

[1] Excludes amortization of investment in film and television properties

Operating EBITDA decreased by $0.1 million for the three months ended December 31, 2018, compared to the three months ended December 31, 2017. This decrease was driven primarily by an impairment loss on investment in film and television of $0.5 million recorded during the quarter for a production currently in progress in the Animation Production segment.

Revenue for the three months ended December 31, 2018, was $29.0 million compared to $16.7 million for the three months ended December 31, 2017. The increase of $12.3 million was driven primarily by revenue generated through the Networks and Platforms segment by Channel Frederator of $18.4 million (2017 - $5.7 million).

Amortization of investment in film and television during the three months ended December 31, 2018 relates primarily to the amortization of *Reboot: The Guardian Code*, *Castlevania,* season 1 and 2, and the amortization of the US distribution rights of *Bravest Warriors*, season 4. The amortization of investment in film and television during the three months ended December 31, 2017, was only due to the amortization of *Reboot: The Guardian Code* and *Castlevania,* season *1*.

Depreciation and amortization expense was $0.8 million for the three months ended December 31, 2018, compared to $1.2 million for the same period in 2017. The decrease of $0.4 million was primarily due to the decline in the amortization of the animation network, which is amortized on a 50% declining basis each year.

Shared-based compensation expense was $0.1 million for the three months ended December 31, 2018, compared to $0.3 million for the same period in 2017. The decrease in 2018 is in line with expectations as the current year expense is entirely as result of the vesting of options issued in the previous year.

Deferred income tax recovery decreased by $2.2 million for the three months ended December 31, 2018, compared to the same period in 2017. The decrease is attributed to a decrease in differences in the tax basis and accounting basis of the intangible assets acquired as a result of increased accounting amortization taken on these assets during 2017.

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.

	For the three months ended			
$000's	**Dec 31, 2018**	**Sep 30, 2018**	**Jun 30, 2018**	**Mar 31, 2018**
Revenue	**$ 28,984**	**$ 17,711**	**$ 16,270**	**$ 15,663**
Operating EBITDA(1)	(920)	(1,502)	(1,230)	821
Operating loss	(1,875)	(2,659)	(2,311)	(292)
Net loss	**$ (1,429)**	**$ (3,051)**	**$ (2,080)**	**$ (162)**
Basic net loss per share	$ (0.05)	$ (0.11)	$ (0.08)	$ (0.01)
Diluted net loss per share	$ (0.05)	$ (0.11)	$ (0.08)	$ (0.01)

	For the three months ended			
	Dec 31, 2017	**Sep 30, 2017**	**Jun 30, 2017**	**Mar 31, 2017**
Revenue	**$ 16,675**	**$ 11,720**	**$ 10,399**	**$ 5,867**
Operating EBITDA(1)	(864)	(664)	(150)	(794)
Operating loss	(2,226)	(1,970)	(1,487)	(2,111)
Net (loss) profit	**$ 251**	**$ (1,620)**	**$ (2,252)**	**$ (1,466)**
Basic net (loss) profit per share	$ 0.01	$ (0.06)	$ (0.09)	$ (0.06)
Diluted net (loss) profit per share	$ 0.01	$ (0.06)	$ (0.09)	$ (0.06)

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

The growth in revenues during the four quarters 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*.

Increases in operating and general and administration costs as a result of the corporate reorganization and addition of Frederator on December 15, 2016, contributed towards the operating losses and the decrease in operating EBITDA in the first quarter of 2017.

The second quarter of 2017 saw an improvement in operating EBITDA due to a decrease in operating expenses relative to revenue generated, as a result of the recognition of revenue earned on delivery of *Castlevania,* season 1, at the end of the second quarter, when amortization commenced.

The decreases in operating EBITDA in the third and fourth quarter of 2017 was a result of increased operating expenses in comparison to revenue recognized, 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 related to 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.

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.

	For the three months ended			
$000's	**Dec 31, 2018**	**Sep 30, 2018**	**Jun 30, 2018**	**Mar 31, 2018**
Operating EBITDA	**$ (920)**	**$ (1,502)**	**$ (1,230)**	**$ 821**
Finance costs	165	359	300	353
Depreciation and amortization[1]	790	798	781	760
Operating loss	(1,875)	(2,659)	(2,311)	(292)
Items affecting comparability:				
Share-based compensation expense	138	183	217	261
Deferred income tax (recovery) expense	(584)	209	(448)	(391)
	(446)	392	(231)	(130)
Net (loss) profit	**$ (1,429)**	**$ (3,051)**	**$ (2,080)**	**$ (162)**

[1] Excludes amortization of investment in film and television programming which has been included in operating EBITDA above.

$000's	For the three months ended Dec 31, 2017	Sep 30, 2017	Sep 30, 2017	Mar 31, 2017
Operating EBITDA	**$ (864)**	**$ (664)**	**$ (150)**	**$ (794)**
Finance costs	141	114	100	88
Depreciation and amortization[1]	1,221	1,192	1,237	1,229
Operating (loss) profit	(2,226)	(1,970)	(1,487)	(2,111)
Items affecting comparability:				
Share-based compensation expense	325	385	453	180
Deferred income tax (recovery) expense	(2,802)	(735)	312	(825)
	(2,477)	(350)	765	(645)
Net (loss) profit	**$ 251**	**$ (1,620)**	**$ (2,252)**	**$ (1,466)**

[1] Excludes amortization of investment in film and television programming w hich 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 finance 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 Company manages liquidity risk by continuously monitoring actual and forecast cash flows, drawing upon available facilities and using lease financing.

The consolidated financial statements for the year ended December 31, 2018 and 2017 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. As at December 31, 2018, the Company had positive cash flows from operating activities of $1.7 million (December 31, 2017 – utilized $16.2 million). As at December 31, 2018, the Company had a cash balance of $3.9 million and $5.6 million in additional unutilized credit facilities available by way of interim production loans secured against refundable tax credits and sales contracts. In addition, the Company had $1.7 million in credit facilities available under a CAD line of credit, of which $1.3 million was drawn as at December 31, 2018.

A summary of the Company's cash flows for the year ended December 31, 2018 and 2017 are as follows:

$000's	2018	2017
Cash generated (used in) by operating activities	$ 1,699	$ (16,246)
Cash (used in) generated by financing activities	(4,023)	12,053
Cash used in investing activities	(254)	(497)
Net change in cash and cash equivalents	(2,578)	(4,690)
Effect of foreign exchange on cash and cash equivalents	87	(112)
Cash and cash equivalents, begininng balance	6,354	11,156
Cash and cash equivalents, ending balance	$ 3,863	$ 6,354

Cash used in operating activities

$000's	2018	2017
Cash provided by (used in) operating activities before changes in non-cash working capital	$ 3,944	$ 4,492
Investment in film and television programming	(13,203)	(16,560)
Funding received for investment in film and television programming	524	1,010
Changes in non-cash working capital:		
Trade and other accounts receivable	(1,859)	(5,042)
Other assets [1]	(19)	(384)
Accounts payable and accrued liabilities	7,846	1,000
Deferred revenue	2,974	(738)
Other liabilities [2]	1,492	(24)
Cash generated (used in) by operating activities	$ 1,699	$ (16,246)

[1] Other assets include prepaid expenses, other financial assets, and deposits and other assets.

[2] Other liabilities include other current liabilities, other financial liabilities, and other non-current liabilities.

Cash flows generated by operating activities for the year ended December 31, 2018, were $1.7 million compared to $16.2 million used in 2017.

Investment in film and television decreased cash by $13.2 million for the year ended December 31, 2018, compared to a decrease of $16.6 million for 2017. The larger outflow of cash for 2017 was primarily due to spending on the *ReBoot: The Guardian Code* which was completed and delivered during 2017. Expenditures in 2018 primarily relate to the costs incurred on *Castlevania,* season 2, the acquisition of the United States distribution rights of *Bravest Warriors,* season 4, and the acquisition of various children's TV programming rights acquired for streaming on Crave.

The funding received for investment in film and television programming for the year ended December 31, 2018 and 2017, represent government funding and third-party grants received towards the cost of production of *Reboot*: *The Guardian Code.*

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 results 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.

During the year ended December 31, 2018, $17.3 million in tax credits refunds were received compared to $4.1 million for the year ended December 31, 2017. Tax credits earned for the year ended December 31, 2018 was $9.3 million compared to $5.6 million for 2017. 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". The changes in trade and other receivables decreased cash by $9.9 million compared to $3.5 million in 2017 primarily as a result of timing of invoices received and paid.

The increase in cash flow as a result of changes in accounts payable and accrued liabilities primarily relates to a larger network affiliate payment outstanding at the end of December 31, 2018 compared to 2017.

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 year ended December 31, 2018, increased operating cash flows by $3.0 million, compared to negative cash of $0.7 million for 2017, as a result of the timing of cash receipts. This reflects the stage of productions at year end. 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 generated by financing activities

$000's	2018	2017
Proceeds from interim production financing, net of repayment	$ (6,021)	$ 8,458
Interest paid	(939)	(264)
Repayment of finance lease obligations	(689)	(438)
Proceeds from bank indebtedness	18,442	759
Repayment of bank indebtedness	(17,106)	(759)
Share issuance costs related to asset purchase agreement	(35)	–
Proceeds from private placement, net of share issuance costs	2,325	–
Net proceeds on issuance of convertible debentures	–	4,297
Cash (used in) generated by financing activities	$ (4,023)	$ 12,053

As discussed under “Cash flow from operating activities”, the Company uses interim production financing to finance tax credit receivables. Proceeds from interim production financing, less repayments for the year ended December 31, 2018, resulted in a net cash outflow of $6.0 million compared to a net inflow of $8.5 million in 2017. The decrease during the year ended December 31, 2018, reflects the overall increase in loan repayments during the year as more tax credit receivables and government incentives were collected to pay down the loans.

Interest paid on interim production loans, finance leases and convertible debentures during the year ended December 31, 2018 was $0.9 million compared to $0.3 million for 2017. The increase is primarily as a result of the interest paid on the convertible debentures issued on December 14, 2017.

Principal repayments on finance leases for the year ended December 31, 2018, was $0.7 million compared to $0.4 million for 2017. The increase compared to prior year is a result of new leases entered into during 2018.

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.

As noted previously, the Company raised $2.3 million net of share issuance costs through the completion of a non-brokered private placement of its common voting shares and variable voting shares on June 11, 2018.

In connection with the convertible debentures issued on December 14, 2017, the Company raised $4.3 million in cash through a non-brokered private placement offering.

CONTRACTUAL OBLIGATIONS

The following is a summary of the Company's contractual obligations as at December 31, 2018.

$000's	Less than 1 year	1 to 5 years	Greater than 5 years	Total
Accounts payable and accrued liabilities	$ 12,836	$ –	$ –	$ 12,836
Bank indebtedness	1,337	–	–	1,337
Finance lease obligations [1]	1,459	1,601	–	3,060
Interim production financing	14,520	–	–	14,520
Convertible debentures [1]	346	4,658	–	5,004
Other liabilities [1]	98	1,605	196	1,900
Operating leases [2]	2,419	8,451	17,550	28,420
	$ 33,016	$ 16,315	$ 17,746	$ 67,077

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

[2] Operating leases are primarily facility leases and the Company's committed lease of outsourced rendering capacity.

During the year ended December 31, 2018, the Company renegotiated and extended a premise lease at one of its locations.

CAPITAL EXPENDITURES

During the year ended December 31, 2018, the Company incurred capital expenditures of $0.3 million compared to $0.5 million for 2017. The additions in 2018 primarily consisted of operating equipment purchases. The Company endeavours to fund IT purchases through finance 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, finance 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 the 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.

In 2018, the Company entered into a USD forward contract to the notional value of $383,000 USD which was fully exercised during the year at an exchange rate of 1.2339, realizing a net loss of $13,903 (2017 - $nil). As at December 31, 2018, there are no further remaining outstanding USD forward contracts. Subsequent to the acquisition of Frederator, the Company has seen an increase in cash outflows denominated in USD which has lowered our need for foreign exchange forward contracts in order to manage our exposure to foreign exchange risk.

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 recognised. The Company's Networks and Platforms revenues are driven by advertising preferences, which experiences seasonal fluctuations that are somewhat aligned to the retail industry.

RISKS AND UNCERTAINTIES

The following describes certain risks, events and uncertainties that could affect the Company and that each reader should carefully consider. Please refer to the Company's AIF for additional risks, events and uncertainties that could affect the Company.

Fluctuation of the market price for the Company's shares

Securities markets have a high level of price and volume volatility, and the market price of shares of many companies have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. The market price of the Common Voting Shares and Variable Voting Shares may be subject to significant fluctuation in response to numerous factors, many of which are beyond the Company's control, including variations in its annual or quarterly financial results or those of its competitors, conditions in the economy in general or in the broadcasting, film or television sectors in particular and unfavourable changes in applicable laws and regulations.

As a result of numerous factors, the market price of the Common Voting Shares and Variable Voting Shares may be volatile and, at any given point in time, may not accurately reflect the long term value of the Company. This volatility may affect the ability of holders of shares to sell their shares at an advantageous price. In addition, the Company's Common Voting Shares and Variable Voting Shares structure is unusual in the United States. As a result, brokers, dealers and other market participants may not understand the conversion features of the Common Voting Shares and Variable Voting Shares, which may negatively impact liquidity in the trading market for each class of shares and may result in differences between the trading prices of each class of shares that do not reflect differences in the underlying economic or voting interests represented by each class of shares.

Currency fluctuations and dependence on foreign currency and revenue from outside Canada

Many of the Company's customers have historically found Canada particularly attractive because of the exchange rate of the Canadian dollar in relation to the USD. The CAD to USD exchange rate has historically provided certain cost savings to U.S. based film producers obtaining production services in Canada. Fluctuations in currency exchange rates could decrease the production activity of the Company's customers and adversely affect the results of operations and financial condition of the Company. The Company cannot predict the effect of exchange rate fluctuations upon its future operating results. Subsequent to the acquisition of Frederator, the Company has seen an increase in operating expenses denominated in USD which has reduced our need to manage our foreign exchange risk through uses of foreign exchange forward contracts and other hedging instruments.

Dependence on key personnel

There are a number of employees who are key to the operations of the Company and their continued employment is important in order to maintain current relationships with customers and suppliers. The future success of the Company depends critically upon the continued service of current senior management, key creative artists, skilled technicians and other key personnel. If the Company does not attract and retain such personnel, the business may not be maintained or grown. Competition for highly qualified employees is intense and the process of locating key technical, creative and management personnel with the required combination of skills and attributes is often times consuming and difficult. Failure to attract and retain key personnel could have a material adverse effect on the Company's business and results of operations.

Access to financing

The Company may require capital in the future in order to meet additional working capital requirements, to make capital expenditures, to take advantage of investment and/or acquisition opportunities or for other reasons. Accordingly, the Company may need to raise additional capital in the future. The Company's ability to obtain additional financing will be subject to a number of factors including market conditions and its operating performance. These factors may make the timing, amount, terms and conditions of additional financing unattractive or unavailable for the Company.

In order to raise such capital, the Company may sell additional equity securities in subsequent offerings and may issue additional equity securities. Sales or issuances of a substantial number of equity securities, or the perception that such sales could occur, may adversely affect the prevailing market price for the securities. With any additional sale or issuance of equity securities, investors will suffer dilution of their voting power and the Company may experience dilution in its earnings per share. Capital raised through debt financing would require the Company to make periodic interest payments and may impose restrictive covenants on the conduct of the Company's business. Furthermore, additional financings may not be available on terms favourable to the Company, or at all. The Company's failure to obtain additional funding could prevent the Company from making expenditures that may be required to grow its business or maintain its operations.

The Company may issue additional Common Voting Shares and/or Variable Voting Shares, including upon the exercise of its currently outstanding stock options. Accordingly, holders of Common Voting Shares and Variable Voting Shares may suffer dilution.

History of operating losses

The Company has incurred operating losses in each of the past five years and may not be able to achieve or sustain profitable operations in the future or generate positive cash flows from operations. Although the Company has $3.9 million in cash and cash equivalents as at December 31, 2018, to the extent that the Company continues to incur operating losses, it may not have sufficient working capital to fund its operations in the future and as such may need to raise additional capital.

Government incentives

Currently, the Federal and Provincial governments provide grants and incentives to attract foreign producers and support domestic film and television production. There can be no assurances that the government grants and incentive programs presently being offered to participants in the film and television production industry will continue at their present levels. If such grants or incentives are reduced or discontinued, the level of activity in the industry may be reduced and the Company's results of operations and financial condition might be adversely affected. Many of the major studios and other key customers of the Company finance a portion of their production budgets through Canadian government incentive programs, including Federal and Provincial tax credits. The ultimate collection of previously recorded estimates is subject to ordinary course audits from the Canada Revenue Agency ("CRA"). Any changes in administrative policies by the CRA or the applicable government program or subsequent review of eligibility documentation may impact the collectability of these estimates and could have a material impact on previously recorded estimates.

Dependence on key customers

For the year ended December 31, 2018, three customers accounted for 78% of the Company's revenues. There can be no assurance that the revenues generated from key customers, individually or in the aggregate, will reach or exceed historical levels in any future period. A substantial decrease in the services provided to one or more key customers could have a serious adverse effect on the Company's results of operation and financial condition.

Control over streaming content

The Company has limited control over the extent, timing, and availability of streaming content provided by our network partner affiliates and our business may be adversely affected if our access to content is reduced.

Joint ventures and co-productions

The Company enters into co-investments and co-production agreements, and will continue to pursue these types of contractual agreements. The Company may encounter difficulties in working through joint ventures and joint arrangements and may not realize the benefits anticipated when the transactions are entered into. In addition, the negotiation of these arrangements can be costly and time consuming. There can be no assurance that joint ventures, co-productions or similar arrangements can be successfully integrated into or with the Company's business.

Performance risk

The Company has begun investing and producing its own content. There is a risk that the Company will be unable to secure distribution or licensing contracts for the content that it produces. The ultimate profitability of the project and the Company is subject to the successful sales of these projects.

Market acceptance

Each intellectual property produced has an inherent risk that it will not be accepted by the market despite large scale advertising and distribution. There can be no assurances that a property will be accepted by the market regardless of production or distribution strategies.

Potential for budget overruns and other production risks

Actual television program, video/DVD, and feature film costs may exceed their budgets, sometimes significantly in the case of feature films, although television program and video/DVD costs typically do not. Risks such as labour disputes, death or disability of a star performer, rapid technological changes, shortage of necessary equipment, and damage to master tapes and recordings may cause cost overruns and delay or frustrate completion of a production. There can be no assurance that the Company will complete its productions within budget. In the event of substantial budget overruns, the Company may have to seek additional financing from outside sources in order to complete production of a television program, video/DVD, or feature film. No assurance can be given as to the availability of such financing on terms acceptable to the Company. In addition, in the event of substantial budget overruns, there can be no assurance that such costs will be recouped, which could have a significant impact on the Company's results of operations.

Regulatory risk

The film and television production and broadcasting industries in Canada are highly regulated. Any changes to these regulations could materially impact the Company's ability to operate.

Dependence on entertainment industry

The Company is dependent on the success of the film and television industries. The success of these industries in turn is dependent on a number of factors, including the availability of alternative forms of entertainment and leisure activities, general economic conditions and international demand for content originating in North America.

Government incentives in locations outside of Canada or British Columbia and other influences

Canada's successful tax credit model has been copied by other countries around the world and by many states in the United States of America. Some producers may select locations other than Canada to take advantage of tax credit programs they may conclude to be as attractive as those Canada offers. Other factors such as director or star preference may also have the effect of productions being shot in a location other than Canada.

Fixed costs

Fixed costs, including costs associated with leases, labour and capital equipment, account for a significant portion of the Company's expenses. If the level of production activity is not sufficient to cover fixed costs, the financial stability of the Company may be adversely affected.

Capital reinvestment and new technology

The equipment and software utilized by the Company in providing certain services to customers are subject to rapid technological change, as well as evolving customer needs and industry standards. As necessary, the Company may be required to undertake significant capital expenditures to maintain its technological and competitive position within the industry. There can be no assurance that the Company will have sufficient capital or be able to obtain sufficient financing to fund such capital expenditures, or that subsequent technological change will not make acquired infrastructure obsolete before the Company recovers its investment.

Competition

The Company operates in a competitive environment for animation production studios. Competitors are well-established companies and may have greater financial, marketing, technical, creative and other resources. In addition, the emergence of low cost competitors in markets overseas, such as India and China, offers alternative low cost solutions that could impact the Company. Increased competition could result in price reductions, reduced profit margins or loss of market share, all of which would have a material adverse effect on the Company's results of operations, and in turn, the value of the Common Voting Shares and Variable Voting Shares

General economic conditions

The Company's financial performance will be influenced by the general economic conditions in areas where the Company operates. General economic conditions impact the volume of film and television production work available in Canada and the United States. There can be no assurances that growth in film and television production activity will continue. The Company cannot predict the impact of the current global economic conditions on its continuing operations.

Labour relations

The Company's operations are dependent on the services of skilled artists and individuals in the technology sector. The Company operates in a competitive market for these individuals both locally (in the Vancouver and Toronto labour markets) and internationally. Increased competition in the local and/or international labour market, as well as regulations imposed by Government, could affect the Company's financial operations.

In addition, many individuals associated with the Company's projects are members of guilds or unions which bargain collectively with producers on an industry-wide basis from time to time. While the Company has positive relationships with the guilds and unions in the industry, a strike or other form of labour protest affecting those guilds or unions could, to some extent, disrupt production schedules which could result in delays and additional expenses.

The Company's expanding operations have placed significant demands on the managerial, operational and financial personnel and systems of the Company

As a result of acquisitions completed by the Company, significant demands have been placed on the managerial, operational and financial personnel and systems of the Company. No assurance can be given that the Company's systems, procedures and controls will be adequate to support the expansion of operations of the Company. The future operating results of the Company will be affected by the ability of its officers and key employees to manage changing business conditions and to implement and improve its operational and financial controls and reporting systems. If the Company is unsuccessful in managing such demands and changing business conditions, its financial condition and results of operations could be materially adversely affected.

The Company faces risks inherent in doing business internationally

The Company offers production services and conducts other business outside Canada and derives revenues from these sources. As a result, the Company's business is subject to certain risks inherent in international business, many of which are beyond its control. These risks include: changes in local regulatory requirements, including restrictions on content; changes in the laws and policies affecting trade, investment and taxes (including laws and policies relating to the repatriation of funds and to withholding taxes); differing degrees of protection for intellectual property; instability of foreign economies and governments; cultural barriers; wars and acts of terrorism; and the spread of viruses, diseases or other widespread health hazards.

Any of these factors could have a material adverse effect on the Company's business, results of operations or financial condition.

Management estimates for revenues and expenses for a production may not be accurate

The Company makes numerous estimates as to its revenues and matching production expenses on a project by project basis. As a result of this accounting policy, earnings can widely fluctuate if the Company's management has not accurately forecast the revenue potential of a production.

Technological changes may diminish the value of the Company's existing equipment and programs if the Company is unable to adapt to these changes on a timely basis

Technological change may have a material adverse effect on the Company's business, results of operations and financial condition if the Company is unable to adapt to these changes on a timely basis. The emergence of, among other things, new production or computer-generated imagery technologies may diminish the value of the Company's existing equipment and programs. Although the Company is committed to leading production technologies, there can be no assurance that it will be able to incorporate future production and post-production technologies which may become de facto industry standards.

Fluctuation of quarterly operating results

The Company's quarterly operating results are not predictable with any significant degree of certainty and future results may differ from historical patterns. The Company relies on sales to a limited number of customers, impacting the ability to forecast timing and amount of revenue in a particular quarter. Longer term, the revenues, rate of revenue growth and earnings or losses will be affected by such factors as the introduction of new services, market acceptance of its services, competition, technological change, and the ability to control the mix and gross margins of its various revenue streams.

Voting rights of holders of Variable Voting Shares may be automatically decreased if votes attached to the Variable Voting Shares exceed certain limits under the Articles

The terms of the Variable Voting Shares pursuant to the Articles provide for the voting rights attached to the Variable Voting Shares to decrease automatically and without further act or formality on the part of the Company or the holder if the total number of votes that may be exercised in respect of all issued and outstanding Variable Voting Shares exceed certain limits. As a result, holders of Variable Voting Shares may have less influence on a per share basis than holders of Common Voting Shares on matters requiring a vote of the Company's shareholders. An automatic decrease of voting rights attaching to the Variable Voting Shares, or the risk that such a decrease of voting rights attaching to the Variable Voting Shares may occur, could affect the ability of holders of Variable Voting Shares to sell their Shares at an advantageous price.

The public announcement of potential future corporate developments may significantly affect the market price of the shares

Management of the Company, in the ordinary course of the Company's business, regularly explores potential strategic opportunities and transactions. These opportunities and transactions may include strategic joint venture relationships, significant debt or equity investments in the Company by third parties, the acquisition or disposition of material assets, the licencing, acquisition or disposition of material intellectual property, the development of new product lines or new applications for its existing intellectual property, significant distribution arrangements and other similar opportunities and transactions. The public announcement of any of these or similar strategic opportunities or transactions might have a significant effect on the price of the shares. The Company's policy is to not publicly disclose the pursuit of a potential strategic opportunity or transaction unless it is required to do so by applicable law, including applicable securities laws relating to continuous disclosure obligations. There can be no assurance that investors who buy or sell shares of the Company are doing so at a time when the Company is not pursuing a particular strategic opportunity or transaction that, when announced, would have a significant effect on the price of the shares.

In addition, any such future corporate development may be accompanied by certain risks, including exposure to unknown liabilities of the strategic opportunities and transactions, higher than anticipated transaction costs and expenses, the difficulty and expense of integrating operations and personnel of any acquired companies, disruption of the Company's ongoing business, diversion of management's time and attention, possible dilution to the Company's shareholders and other factors as discussed below in more detail. The Company may not be able to successfully overcome these risks and other problems associated with any future acquisitions and this may adversely affect the Company's business and financial condition.

JUDGEMENTS AND CRITICAL ACCOUNTING ESTIMATES

The audited 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. The areas of estimation and judgement that management considers to be most significant are:

Impairment of assets and investments

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

Business combinations

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

The process of allocating the purchase price requires that management exercises their best estimates and assumptions to accurately value assets acquired and liabilities assumed as part of the business combination. These estimates and assumptions are inherently uncertain and subject to refinement.

Goodwill

Goodwill resulting from the acquisition of a business is carried at cost at the date of the acquisition less impairment losses, if any. For impairment testing purposes, goodwill is allocated to each of the Company's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indicator that the cash-generating unit may be impaired. Management will evaluate goodwill for impairment annually as of December 31. While management uses their best estimate and assumptions to assess goodwill for impairment, there are inherent uncertainties in projecting future cash flows.

Capitalizing of costs to productions in progress

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

Revenue recognition

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

Amortization of completed productions

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

Tax credits receivable

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

Accounting for joint arrangements

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

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

On October 25, 2015, Ratchet Productions, LLC concluded a financing and loan arrangement with a syndicate of lenders for the purposes of financing the Prints and Advertising ("P&A") expenditures required to market and distribute Ratchet & Clank theatrically in the United States. Recourse for the loan is limited to the United States distribution rights of the film, subject to limited guarantees provided by Rainmaker under specific limited circumstances. The conclusion of the financing and loan arrangement led management to reassess the classification of the joint arrangement. In management's judgement, the structure of the financing and loan arrangement, in particular, the limited recourse to the United States distribution rights of the film altered the nature of the Company's interest, from rights to the assets and obligations for the liabilities, to the rights to the net assets of the arrangement. As such, the Company's interest in Ratchet Productions, LLC changed from a joint operation to a joint venture, and is recognized as an investment in a joint venture from October 25, 2015.

ADOPTION OF NEW ACCOUNTING POLICIES

IFRS 15 – Revenue from Contracts with Customers

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 recognised 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 financial statements, and as a result, there was no adjustment made to retained earnings on January 1, 2018.

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 consolidated financial statements and related disclosures.

IFRIC 22 - Foreign Currency Transactions and Advance Consideration

IFRIC 22 clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. The application of this interpretation did not have a material impact on the amounts recognized in the Company's consolidated financial statements or its disclosures.

STANDARDS, INTERPRETATIONS AND AMENDMENTS TO STANDARDS NOT YET EFFECTIVE AND NOT YET APPLIED

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2018, and have not been applied in preparing the consolidated financial statements. A summary of standards not yet effective and the Company's assessment of the impact of implementing them in the future are included below:

IFRS 16 – Leases

IFRS 16 is required to be adopted for years beginning on or after January 1, 2019. This standard supersedes IAS 17 - *Leases* and related interpretations. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors.

The Company will transition to IFRS 16 using the modified retrospective approach that will result in no restatement to prior reporting periods presented and using the option that results in no adjustments to opening retained earnings as at January 1, 2019. The Company's consolidated balance sheet will be materially impacted by the recognition of right-of-use assets and lease liabilities at the date of adoption. This is mainly due to the capitalization of certain premises leases that are currently treated as operating leases under the IAS 17 standard. The consolidated statement of comprehensive income will be impacted as IFRS 16 will no longer recognize these leases as straight-line operating lease expenses and instead will recognize depreciation expense on right-of-use assets and interest accretion expense on lease liabilities. In addition, the transition to the standard will impact the presentation of leases in the consolidated statement of cash flows, however, there is no change in the amount of cash exchanged between the parties of these leases.

The Company plans to elect the practical expedient to apply this standard from the date of transition to all contracts that were previously identified as leases under IAS 17 and IFRIC 4 - *Determining whether an Arrangement contains a Lease*. In addition, the Company plans to apply the recognition exemption for short-term leases. The Company has updated its accounting system and is implementing processes and internal controls to complete the transition to IFRS 16.

IFRS 23 – Uncertainty Over Income Tax Treatments

IFRIC 23 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.

The Company intends to adopt the interpretation in its consolidated financial statements for the annual period beginning on January 1, 2019. The Company does not expect the interpretation to have a material impact on its consolidated financial statements.

CONTROLS AND PROCEDURES

Disclosure controls and procedures

The Chief Executive Officer and the Chief Financial Officer are responsible for designing and monitoring the effectiveness of the disclosure controls and procedures (“DC&P”). Effective disclosure controls provide reasonable assurance that external financial reporting and statements are reliable. The Company is not required to certify the design and evaluation of DC&P and internal controls over financial reporting (“ICFR”) and has not completed such an evaluation. Inherent limitations on the ability of the certifying officers to design and implement on a cost effective basis DC&P and ICFR for the Company may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation. Management is responsible for the preparation and integrity of the financial statements, including the maintenance of appropriate information systems, procedures and internal controls and to ensure that information used internally or disclosed externally, including the financial statements and MD&A, is complete and reliable. The Company’s board of directors follows recommended corporate governance guidelines for public companies to ensure transparency and accountability to shareholders. The board’s audit committee meets with management annually to review the financial statements including the MD&A and to discuss other financial, operating and internal control matters.

CAPITAL STRUCTURE AND OUTSTANDING SHARE DATA

Stock options and 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.

On August 31, 2018, in connection with the Bell Agreement the Company issued 3,433,446 common voting shares at a fair value of $4,120,135 based on the closing price of the Company's shares on the TSX-V on August 31, 2018 of $1.20 per share.

In addition, as partial consideration for certain services to effect the transition of the broadcasting license from Bell Media, the Company issued 900,000 share purchase warrants on August 31, 2018. Each warrant entitles Bell Media to acquire one common share for a period of three years from the date of issuance at an exercise price of $2.00. The warrants are subject to vesting, such that a pro rata portion of the warrants shall vest and become exercisable on the last day of the nine successive calendar quarters beginning on September 30, 2018.

As at December 31, 2018, and April 25, 2019, the Company had stock options exercisable for 2,281,858 additional common shares. As at December 31, 2018, the Company had warrants exercisable for 200,000 additional common shares. As at April 25, 2019, the Company had warrants exercisable for 300,000 additional common shares.

Outstanding Shares

As at December 31, 2018, the Company had 30,185,577 common shares issued and outstanding. On April 25, 2019, the Company had 32,024,314 common shares issued and outstanding. The total shares outstanding as at December 31, 2018 were comprised of the following balances:

- Common Voting Shares 20,396,756
- Variable Voting Shares 7,207,064
- Common Non-Voting Shares 2,581,757

OFF-BALANCE SHEET ARRANGEMENTS

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

RELATED PARTIES

Remuneration of key management personnel

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

	2018	2017
Short-term benefits	$ 1,626,935	$ 1,443,132
Share-based compensation expense	569,101	1,509,480
	$ 2,196,036	$ 2,952,612

Rental of office space

Office space in Toronto has been rented on a month to month basis from a company that is related to an officer of the Company. For the year ended December 31, 2018, rent was paid in the amount of $197,017 (2017 – $200,058).

Share appreciation rights granted

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

As at December 31, 2018, there are 400,531 (2017 - 438,678) SARs outstanding. During the year ended December 31, 2018, 38,147 SARs (2017 – nil) were forfeited. The fair value the SARs granted was $1.50; estimated on the date of grant using the Black-Scholes option-pricing model. For the year ended December 31, 2018, an expense of $151,226 (2017 – $328,634) related to the vesting of SARs was recorded. The remaining expense of $120,937 will be recorded over the remaining vesting period which is three years.

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. These production advances were repaid in full by the animation services provider in the third quarter of 2018.

Rights and services agreement with a director

In the third quarter of 2018, the Company entered into an option agreement with a director of the Company for the exclusive rights to develop and produce a children's television property over a two-year period. The Company paid $1,000 to the director for the option. If the option is exercised, the Company will pay an additional $4,000 to the director and the director will be entitled to a percentage of any future royalties and the first right of refusal for certain executive producer rights.

COMMITMENTS AND CONTINGENCIES

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

DIVIDENDS

The Company has no present intention to pay dividends. Any decision to pay dividends will be made in by the board of directors of the Company in their sole discretion, and will depend on numerous factors including profitability, fluctuations in working capital, the sustainability of margins, capital expenditures and other conditions existing at such future time.