Condensed Interim Consolidated Financial Statements of

Wow Unlimited Media Inc.

For the three and nine months ended September 30, 2018 and 2017

(Unaudited)

Wow Unlimited Media Inc.

Condensed Interim Consolidated Statements of Financial Position

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

Expressed in Canadian dollars

	Note	September 30, 2018	December 31, 2017
ASSETS			
Current			
Cash and cash equivalents		$ 8,456,378	$ 6,354,432
Trade and other accounts receivable	**4**	26,671,275	25,699,001
Prepaid expenses, deposits and other		1,198,311	835,154
		36,325,964	32,888,587
Property, plant and equipment		1,128,275	1,395,228
Investment in film and television programming	**5**	14,127,766	7,764,141
Other intangible assets	**7**	9,238,162	5,951,652
Goodwill		10,808,528	10,497,250
Long-term accounts receivable	**4**	3,023,555	257,025
Deposits and other assets		283,133	278,226
		38,609,419	26,143,522
TOTAL ASSETS		**$ 74,935,383**	**$ 59,032,109**
LIABILITIES			
Current			
Accounts payable and accrued liabilities		$ 11,153,217	$ 4,903,734
Interim production financing	**8**	22,267,255	19,359,764
Deferred revenue	**11**	7,469,140	4,045,185
Current portion of finance lease obligations		761,911	460,575
Other current liabilities		98,143	–
		41,749,666	28,769,258
Finance lease obligations		319,176	540,614
Interim production financing	**8**	296,599	525,146
Convertible debentures	**9**	3,944,442	3,815,364
Deferred tax liabilities		570,543	1,168,408
Other non-current liabilities		1,971,713	275,154
		7,102,473	6,324,686
TOTAL LIABILITIES		**48,852,139**	**35,093,944**
SHAREHOLDERS' EQUITY			
Share capital		83,006,928	76,596,510
Reserves		4,170,206	3,141,678
Accumulated deficit		(61,093,890)	(55,800,023)
TOTAL SHAREHOLDERS' EQUITY		**26,083,244**	**23,938,165**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$ 74,935,383**	**$ 59,032,109**

Going concern (Note 2 (c)), Related parties (Note 19)

Approved by: the Directors

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

Michael Hirsh, Director Steve Hendry, Director

See accompanying notes to these unaudited condensed interim consolidated financial statements

Wow Unlimited Media Inc.

Condensed Interim Consolidated Statements of Comprehensive Loss

For the three and nine months ended September 30, 2018 and 2017 (Unaudited)

Expressed in Canadian dollars

	Note	For the three months ended September 30, 2018	For the three months ended September 30, 2017	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017
			(Restated - Note 7)		(Restated - Note 7)
Revenue	11	$ 17,711,309	$ 11,719,970	$ 49,644,457	$ 27,985,294
Expenses					
Operating	12	17,938,500	9,912,449	46,610,179	24,520,922
Depreciation and amortization		1,379,759	3,160,230	4,804,537	7,126,871
General and administration	12	693,589	503,494	2,480,336	1,604,089
Share based compensation expense	14	182,830	384,655	660,627	1,017,683
Loss before finance costs and taxes		(2,483,369)	(2,240,858)	(4,911,222)	(6,284,271)
Finance costs	15	358,569	114,090	1,011,577	302,155
Loss before taxes		**(2,841,938)**	**(2,354,948)**	**(5,922,799)**	**(6,586,426)**
Deferred income tax (recovery) expense		209,374	(735,327)	(628,932)	(1,249,175)
Net loss		**$ (3,051,312)**	**$ (1,619,621)**	**$ (5,293,867)**	**$ (5,337,251)**
Other comprehensive (income) loss:					
Item that may be reclassified subsequently to profit or loss:					
Foreign currency translation adjustment		127,966	643,126	(265,901)	1,206,099
Total comprehensive loss		**$ (3,179,278)**	**$ (2,262,747)**	**$ (5,027,966)**	**$ (6,543,350)**
Loss per share					
- basic and diluted		**$ (0.11)**	**$ (0.06)**	**$ (0.20)**	**$ (0.21)**
Weighted average number of shares outstanding					
- basic and diluted		27,759,773	25,178,604	26,163,726	25,262,255

See accompanying notes to these unaudited condensed interim consolidated financial statements

Wow Unlimited Media Inc.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

For the nine months ended September 30, 2018 and 2017 (Unaudited)

Expressed in Canadian dollars

	Note	Number of non-voting shares issued	Number of common voting shares issued [1]	Share capital	Escrow shares subject to retirement	Reserves: Equity component of convertible debentures	Reserves: Warrant Reserve	Reserves: Share-based payment reserve	Reserves: Foreign currency translation reserve	Accumulated deficit	Total
Balance as at January 1, 2017 (Restated - Note 7)		3,179,174	22,402,403	$ 77,321,861	$ (1,075,351)	$ –	$ 357,747	$ 1,338,192	$ 233,051	$ (50,713,577)	$ 27,461,923
Nine months ended September 30, 2017											
Net loss		–	–	–	–	–	–	–	–	(5,337,251)	(5,337,251)
Other comprehensive loss		–	–	–	–	–	–	–	(1,206,099)	–	(1,206,099)
Total comprehensive loss for the period (Restated - Note 7)		–	–	–	–	–	–	–	(1,206,099)	(5,337,251)	(6,543,350)
Equity settled share-based compensation expense	14	–	–	–	–	–	–	1,017,683	–	–	1,017,683
Options capitalized		–	–	–	–	–	–	625,630	–	–	625,630
Common shares issued to settle remaining share issue costs		–	194,444	350,000	–	–	–	–	–	–	350,000
Escrow shares cancelled		(597,417)	–	(1,075,351)	1,075,351	–	–	–	–	–	–
Balance as at September 30, 2017 (Restated - Note 7)		2,581,757	22,596,847	76,596,510	–	–	357,747	2,981,505	(973,048)	(56,050,828)	22,911,886
Three months ended December 31, 2017											
Net loss		–	–	–	–	–	–	–	–	250,805	250,805
Other comprehensive loss		–	–	–	–	–	–	–	98,976	–	98,976
Total comprehensive loss for the period		–	–	–	–	–	–	–	98,976	250,805	349,781
Equity settled share-based compensation expense		–	–	–	–	–	–	324,647	–	–	324,647
Fair value of equity component of convertible debentures on issuance, net of transaction costs		–	–	–	–	490,044	–	–	–	–	490,044
Deferred tax liability relating to convertible debentures		–	–	–	–	(138,193)	–	–	–	–	(138,193)
Balance as at December 31, 2017		2,581,757	22,596,847	76,596,510	–	351,851	357,747	3,306,152	(874,072)	(55,800,023)	23,938,165
Nine months ended September 30, 2018											
Net loss		–	–	–	–	–	–	–	–	(5,293,867)	(5,293,867)
Other comprehensive loss		–	–	–	–	–	–	–	265,901	–	265,901
Total comprehensive loss for the period		–	–	–	–	–	–	–	265,901	(5,293,867)	(5,027,966)
Common shares issued in private placement	13	–	1,573,527	2,360,291	–	–	–	–	–	–	2,360,291
Common shares issued	6	–	3,433,446	4,120,135	–	–	–	–	–	–	4,120,135
Warrants issued	6	–	–	–	–	–	102,000	–	–	–	102,000
Share issue costs	13	–	–	(70,008)	–	–	–	–	–	–	(70,008)
Equity settled share-based compensation expense	14	–	–	–	–	–	–	660,627	–	–	660,627
Balance as at September 30, 2018		2,581,757	27,603,820	$ 83,006,928	$ –	$ 351,851	$ 459,747	$ 3,966,779	$ (608,171)	$ (61,093,890)	$ 26,083,244

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

See accompanying notes to these unaudited condensed interim consolidated financial statements

Wow Unlimited Media Inc.

Condensed Interim Consolidated Statements of Cash Flows

For the nine months ended September 30, 2018 and 2017 (Unaudited)

Expressed in Canadian dollars

	Note	For the nine months ended September 30, 2018	September 30, 2017
			(Restated - Note 7 and 18)
OPERATING ACTIVITIES			
Net loss		$ (5,293,867)	$ (5,337,251)
Items not involving cash:			
Depreciation and amortization		508,454	315,990
Amortization of investment in film and television programming	5	2,465,322	3,469,278
Amortization of other intangible assets	7	1,830,761	3,341,603
Share-based compensation expense	14 (b)	660,627	1,017,683
Finance costs	15	1,011,577	302,155
Deferred income tax recovery		(628,932)	(1,249,175)
Impairment reversal		–	(132,990)
Other non-cash (gains) losses		(361,612)	294,232
		192,330	2,021,525
Investment in film and television programming	5	(9,052,651)	(18,029,827)
Funding received for investment in film and television programming		327,148	1,835,327
Changes in non-cash working capital and other	18	7,238,638	125,208
Cash used in operating activities		**(1,294,535)**	**(14,047,767)**
FINANCING ACTIVITIES			
Proceeds from interim production financing		9,713,537	11,958,356
Repayment of interim production financing		(7,351,218)	(3,357,301)
Interest paid		(870,147)	(171,229)
Repayment of finance lease obligations		(521,740)	(328,916)
Proceeds from bank indebtedness		12,820,000	759,155
Repayment of bank indebtedness		(12,820,000)	(759,155)
Proceeds from private placement, net of share issuance costs	13	2,325,283	–
Cash generated by financing activities		**3,295,715**	**8,100,910**
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(66,049)	(330,039)
Purchase of other intangible assets	7	(5,730)	(84,361)
Cash used in investing activities		**(71,779)**	**(414,400)**
Increase (decrease) in cash and cash equivalents for the period		1,929,401	(6,361,257)
Effect of foreign exchange on cash and cash equivalents		172,545	(146,111)
Cash and cash equivalents, beginning of the period		6,354,432	11,156,260
Cash and cash equivalents, end of the period		**$ 8,456,378**	**$ 4,648,892**

Supplemental information (Note 18)

See accompanying notes to these unaudited condensed interim consolidated financial statements

1. Nature of operations

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

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

2. Basis of presentation

(a) Statement of compliance

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

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

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

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

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on November 27, 2018.

(b) Basis of measurement

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

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

(c) Going concern

These condensed interim consolidated financial statements have been prepared using the going concern assumption, which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and settle its liabilities in the normal course of business. For the nine months ended September 30, 2018, the Company had negative cash flows from operating activities of $1,294,535 (nine months ended September 30, 2017 – negative $14,047,767), and at September 30, 2018, had net current liabilities of $5,423,702 (December 31, 2017 – net current assets $4,119,329).

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

Management continues to explore options to raise equity financing. To that end, the Company completed a non-brokered private placement of its common voting and variable voting shares on June 11, 2018. Refer to Note 13 for further details.

The Company will need to raise funds through public or private equity and/or debt financings. This funding may not be available on acceptable terms, or at all, and may be dilutive to shareholder interests. If the Company is unable to generate positive cash flows or obtain adequate financing, the Company may need to curtail operations. These factors cast significant doubt on the Company's ability to continue as a going concern. Should the Company be unable to 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 statements of financial position.

3. Significant accounting policies

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

(a) IFRS 15 - Revenue from Contracts with Customers

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

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

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

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

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

Type of service or products	Nature, timing of satisfaction of performance obligations, significant payment terms	Nature of change in accounting policy
Film and television licensing	The Company has determined that the Company controls the output until the earlier of the license start date or when the customer has control over the asset and can benefit from its use. Transaction prices may contain both fixed non-refundable guaranteed amounts, as well as royalties, profit participations and other contractual payments with the potential to vary. Such variable consideration is recognized as revenue based on the most likely outcome. If the payment term for a license is longer than 12 months from the date at which the customer controls the output, a portion of the sales price will be considered a financing charge and will be recognized as such over the length of the payment term.	There is no change with regards to the timing of revenue recognition. The application of the method of estimating the amount of variable consideration and the timing of when this is recognized does not differ from the Company's previous policy. The change in transaction price as a result of implicit financing charges will split the contract value between revenue immediately recognized and a financing income component to be recognized over time.

(b) IFRS 9 - Financial instruments

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

The adoption of IFRS 9 did not have a material impact on the Company's condensed interim consolidated financial statements and related disclosures. With respect to the classification and measurement, the Company previously classified its financial assets as 'loans and receivables' and its financial liabilities as 'other financial liabilities'. Both of these categories were previously measured at amortized cost. The measurement basis has remained the same under IFRS 9, however the categories for classification are referred to as amortized cost. Please refer to Note 17 for the carrying amounts and fair values of financial instruments.

(c) Distribution rights

Distribution rights, classified under investment in film and television, represent contract rights acquired from third parties to distribute animation productions. The assets and liabilities related to these rights are recorded when the Company controls the asset, the expected future economic benefits are probable and the cost is reliably measurable.

Expressed in Canadian dollars

The Company generally considers these criteria to be met and records the assets and liabilities when the licensed distribution period has begun, the program material is accepted, and the material is available for airing. These costs are amortized at 50% - 90% immediately when the production is available for airing, with the balance amortized on a straight line basis over the remaining useful life of the distribution license period.

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

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

(d) Future changes in accounting policies

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

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

Expressed in Canadian dollars

4. Trade and other accounts receivable

	September 30, 2018	December 31, 2017
Trade receivables	$ 9,673,388	$ 5,628,053
Tax credits receivable	19,905,240	20,639,858
Tax credits allowance	(304,252)	(349,284)
Other receivables	420,454	37,399
	$ 29,694,830	$ 25,956,026
Less long-term accounts receivable	(3,023,555)	(257,025)
Current portion of accounts receivable	$ 26,671,275	$ 25,699,001

5. Investment in film and television programming

	Distribution rights	Productions in development	Productions in progress	Completed productions	Total
Cost					
As at January 1, 2018	$ –	$ 2,150,270	$ 3,966,793	$ 11,356,733	$ 17,473,796
Additions, net of government assistance and third party contributions	3,039,315	246,703	5,407,163	–	8,693,181
Transfer to completed productions	–	–	(490,418)	490,418	–
Exchange difference	12,970	9,321	91,080	109,874	223,245
Balance at September 30, 2018	$ 3,052,285	$ 2,406,294	$ 8,974,618	$ 11,957,025	$ 26,390,222
Accumulated amortization and impairment					
As at January 1, 2018	$ –	$ 1,715,451	$ –	$ 7,994,204	$ 9,709,655
Additions	1,803,420	–	–	661,902	2,465,322
Exchange difference	12,905	–	–	74,574	87,479
Balance at September 30, 2018	$ 1,816,325	$ 1,715,451	$ –	$ 8,730,680	$ 12,262,456
Carrying amount					
December 31, 2017	$ –	$ 434,819	$ 3,966,793	$ 3,362,529	$ 7,764,141
September 30, 2018	$ 1,235,960	$ 690,843	$ 8,974,618	$ 3,226,345	$ 14,127,766

Additions to productions in progress include interest capitalized of $177,035 and $252,809 for the three and nine months ended September 30, 2018, respectively (three and nine months ended September 30, 2017 – $108,106 and $254,890).

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

6. Transaction with Bell Media Inc.

On August 31, 2018, the Company executed an amended and restated asset purchase agreement (the “Bell Agreement”) for the acquisition of the Option (as defined below) to acquire a Category B specialty service, and the Canadian Radio-television and Telecommunications (“CRTC”) broadcasting license relating to this service (the “Broadcasting License”), from Bell Media Inc. (“Bell Media”) through the Company’s wholly-owned subsidiary WOW! Unlimited Networks Inc. (the “Transaction”). 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 “Consideration Shares”), the Company acquired the exclusive option (the "Option") to receive the Broadcasting License. The fair value of the Consideration 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 Broadcasting 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 the Company on April 1, 2019.

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 to ‘Broadcast License’ intangible asset, as a directly attributable cost of bringing the asset to its working condition. The corresponding tangible benefits obligation has been recognized in ‘other current and other non-current liabilities’. The Company has recognized interest accretion expense of $2,205 on the tangible benefits obligation for the three and nine months ended September 30, 2018, respectively.

Concurrent with the execution of the Bell Agreement, the Company and Bell Media entered into a lock-up agreement pursuant to which, among other things, Bell Media agreed not to sell, transfer, or assign the Consideration Shares for a period of up to twenty-four months following the closing of the Transaction.

At the same time, the Company and Bell Media entered into an investor rights agreement pursuant to which Bell Media was granted: (i) the right to nominate one individual to the board of directors of the Company at each annual meeting of the Company’s shareholders following the closing of the Transaction; (ii) the right to appoint a representative to attend all meetings of the board of directors in a non-voting observer capacity following the closing of the Transaction; and (iii) subject to customary exceptions, a pre-emptive right to participate in any future offerings of the Company’s common shares on a pro-rata basis following the closing of the Transaction.

Bell Media has further agreed to provide certain services to effect the transition of the Broadcasting License to the Company. As partial consideration for such services, the Company issued 900,000 non-transferable common share purchase warrants (the “Warrants”). See Note 14(a) for further discussion on the terms of the Warrants that were granted as partial consideration.

In June 2017, in connection with previous announcements regarding the Transaction, the board of directors of the Company approved the grant of 1,258,930 options to be issued to certain officers of the Company. The options have an exercise price of $2.00 per share, a fair value of $1,622,274 and are exercisable for a period of five years from the date of grant. 503,572 of the options vested immediately on the date of grant and 755,358 vest equally over a three-year period. Of the fair value relating to the 503,572 options that vested immediately, $625,630 was attributable to the 'Broadcast License' intangible asset and capitalized.

Expressed in Canadian dollars

As at September 30, 2018, the Company has capitalized professional fees of $116,260 (December 31, 2017 - $112,733) in relation to the Bell Agreement.

7. Other intangible assets

	Production agreements	Animation network	Brands	Software	Broadcast license	Total
Cost						
Balance at January 1, 2018	$ 1,003,600	$ 7,953,530	$ 551,980	$ 3,956,678	$ 738,363	$ 14,204,151
Additions	–	–	–	288,439	4,682,407	4,970,846
Exchange difference	29,760	235,848	16,368	–	–	281,976
Balance at September 30, 2018	$ 1,033,360	$ 8,189,378	$ 568,348	$ 4,245,117	$ 5,420,770	$ 19,456,973
Accumulated amortization						
Balance at January 1, 2018	$ 261,354	$ 4,058,478	$ 57,497	$ 3,875,170	$ –	$ 8,252,499
Additions	193,115	1,498,990	42,485	96,171	–	1,830,761
Exchange difference	8,390	125,314	1,847	–	–	135,551
Balance at September 30, 2018	$ 462,859	$ 5,682,782	$ 101,829	$ 3,971,341	$ –	$ 10,218,811
Carrying amount						
December 31, 2017	$ 742,246	$ 3,895,052	$ 494,483	$ 81,508	$ 738,363	$ 5,951,652
September 30, 2018	$ 570,501	$ 2,506,596	$ 466,519	$ 273,776	$ 5,420,770	$ 9,238,162

As a result of finalizing the Frederator purchase price allocation in the fourth quarter of 2017, Production agreements, Animation network and Brands intangible assets were recognized. The unaudited condensed interim consolidated statement of comprehensive loss for the three months ended September 30, 2017, has been restated to reflect the increased amortization expense of $1,048,864 associated with these intangible assets along with the impact of the restatement on deferred income taxes of a recovery of $735,327, and a foreign currency translation adjustment loss of $732,532. For the nine months ended September 30, 2017, the unaudited condensed interim consolidated statement of comprehensive loss has been restated to reflect the increased amortization expense of $3,282,222 associated with these intangible assets along with the impact of the restatement on deferred income taxes of a recovery of $1,249,175, and a foreign currency translation adjustment loss of $1,354,220.

Expressed in Canadian dollars

8. Bank indebtedness and Interim production financing

			September 30, 2018		December 31, 2017	
	Currency	Year of maturity	Facility amount[1] (CAD)	Carrying amount (CAD)[2]	Facility amount[1] (CAD)	Carrying amount (CAD)[2]
Interim production financing	CAD	On demand	$ 17,608,458	$ 15,565,369	$ 22,533,525	$ 17,164,389
Interim production financing	USD	March 31, 2020	4,520,950	3,461,264	4,390,750	2,720,521
Interim production financing	USD	On demand	17,844,836	3,537,221	-	-
Bank indebtedness	CAD	On demand	1,745,000	-	1,195,000	-
			$ 41,719,244	$ 22,563,854	$ 28,119,275	$ 19,884,910
Current portion				22,267,255		19,359,764
Non-current portion				$ 296,599		$ 525,146

[1] Facility amount of the loans represents the maximum facility available, excluding interest reserve

[2] Carrying amount represents the amount drawn as at September 30, 2018, including interest reserve

(a) Interim production financing

The Company has interim production financing facilities with Canadian and US banks that bear interest at rates ranging from bank prime plus 1.00% - 1.75% per annum. The interim production financing facilities are generally repayable on demand and are generally secured by a combination of federal and provincial tax credits, other government incentives, production service agreements, and license agreements.

(b) Bank indebtedness

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

9. Convertible debentures

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

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

Expressed in Canadian dollars

	Convertible Debentures	Equity component of convertible debentures	Total
Balance at December 31, 2017	$ 3,815,364	$ 351,851	$ 4,167,215
Interest accretion expense	387,926	–	387,926
Interest paid	(171,617)	–	(171,617)
Interest payable recorded in accounts payable and accrued liabilities	(87,231)	–	(87,231)
Balance at September 30, 2018	$ 3,944,442	$ 351,851	$ 4,296,293

10. Segmented information

The Company operates and evaluates its business based on its products and services, and the mediums in which they are brought to market. The Company has two reportable segments: (i) Animation Production, and (ii) Networks and Platforms.

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

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

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

	For the three months ended			For the nine months ended		
September 30, 2018	Animation Production	Networks and Platforms	Total	Animation Production	Networks and Platforms	Total
Segment and external revenues	$ 5,566,121	$ 12,145,188	$ 17,711,309	$ 23,160,008	$ 26,484,449	$ 49,644,457
Operating expenses	5,094,025	12,844,475	17,938,500	17,674,239	28,935,940	46,610,179
Amortization of investment in film and television programming	554,786	27,140	581,926	2,438,182	27,140	2,465,322
Depreciation and amortization	201,674	8,995	210,669	578,930	25,695	604,625
Finance costs	356,364	2,205	358,569	1,009,372	2,205	1,011,577
Segment profit (loss)	$ (640,728)	$ (737,627)	(1,378,355)	$ 1,459,285	$ (2,506,531)	(1,047,246)
Amortization of acquisition related intangibles			587,164			1,734,590
General and administration			693,589			2,480,336
Share based compensation expense			182,830			660,627
Loss before taxes			$ (2,841,938)			$ (5,922,799)
Capital expenditures						
Investment in film and television programming	$ 4,094,650	$ 529	$ 4,095,179	$ 8,624,947	$ 68,234	$ 8,693,181
Other intangible assets	$ 2,203	$ -	$ 2,203	$ 5,730	$ -	$ 5,730
Property, plant & equipment	$ 34,232	$ 7,799	$ 42,031	$ 43,264	$ 22,785	$ 66,049

The comparative information below has been restated as a result of finalizing the Frederator purchase price allocation in the fourth quarter of 2017. Refer to Note 7 for further details.

Expressed in Canadian dollars

	For the three months ended			For the nine months ended		
September 30, 2017	Animation Production	Networks and Platforms	Total	Animation Production	Networks and Platforms	Total
Segment and external revenues	$ 8,775,314	$ 2,944,656	$ 11,719,970	$ 21,002,376	$ 6,982,918	$ 27,985,294
Operating expenses	6,391,938	3,520,511	9,912,449	16,245,375	8,275,547	24,520,922
Amortization of investment in film and television programming	1,968,651	-	1,968,651	3,469,278	-	3,469,278
Depreciation and amortization	142,715	-	142,715	375,371	-	375,371
Finance costs	114,090	-	114,090	302,155	-	302,155
Segment profit (loss)	$ 157,920	$ (575,855)	(417,935)	$ 610,197	$ (1,292,629)	(682,432)
Amortization of acquisition related intangibles			1,048,864			3,282,222
General and administration			503,494			1,604,089
Share based compensation expense			384,655			1,017,683
Loss before taxes			$ (2,354,948)			$ (6,586,426)
Capital expenditures						
Investment in film and television programming	$ 1,366,693	$ -	$ 1,366,693	$ 11,185,678	$ -	$ 11,185,678
Other intangible assets	$ 37,839	$ 4,226	$ 42,065	$ 40,727	$ 43,634	$ 84,361
Property, plant & equipment	$ -	$ 12,361	$ 12,361	$ 267,910	$ 62,129	$ 330,039

11. Revenue

a) Revenue

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

	For the three months ended			For the nine months ended		
September 30, 2018	Animation Production	Networks and Platform		Animation Production	Networks and Platform	
Point in time	$ 274,880	$ 12,139,632	**$ 12,414,512**	$ 4,588,327	$ 26,478,893	**$ 31,067,220**
Over time	5,291,241	5,556	**5,296,797**	18,571,681	5,556	**18,577,237**
	$ 5,566,121	$ 12,145,188	**$ 17,711,309**	$ 23,160,008	$ 26,484,449	**$ 49,644,457**

	For the three months ended			For the nine months ended		
September 30, 2017	Animation Production	Networks and Platform		Animation Production	Networks and Platform	
Point in time	$ 2,578,829	$ 2,944,656	**$ 5,523,485**	$ 4,819,321	$ 6,982,918	**$ 11,802,239**
Over time	6,196,485	–	**6,196,485**	16,183,055	–	**16,183,055**
	$ 8,775,314	$ 2,944,656	**$ 11,719,970**	$ 21,002,376	$ 6,982,918	**$ 27,985,294**

Expressed in Canadian dollars

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

	For the three months ended		For the nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
United States	$ 16,066,738	$ 8,138,350	$ 43,546,788	$ 22,533,014
Canada	173,358	3,103,279	2,857,893	4,887,808
United Kingdom	1,471,213	478,341	3,239,776	564,472
	$ 17,711,309	$ 11,719,970	$ 49,644,457	$ 27,985,294

b) Contract balances

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

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

Deferred revenue

Balance as at January 1, 2018	$ 4,045,185
Revenue recognized that was included in the deferred revenue balance at the beginning of the period	(3,235,914)
Increases due to cash received, excluding amounts recognized as revenue during the period	6,624,338
Exchange difference	35,531
Balance as at September 30, 2018	$ 7,469,140

Balance as at January 1, 2017	$ 4,783,544
Revenue recognized that was included in the deferred revenue balance at the beginning of the period	(1,984,218)
Increases due to cash received, excluding amounts recognized as revenue during the period	6,141,385
Exchange difference	(109,645)
Balance as at September 30, 2017	$ 8,831,066

12. Nature of expenses

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

Expressed in Canadian dollars

	For the three months ended		For the nine months ended	
Operating expenses	**September 30, 2018**	**September 30, 2017**	**September 30, 2018**	**September 30, 2017**
Employee costs	$ 5,228,171	$ 6,246,203	$ 17,332,511	$ 16,780,555
Refundable tax credits	(2,101,087)	(1,052,026)	(7,022,957)	(3,179,159)
Contractors and subcontracted services	13,126,118	3,301,764	30,831,843	7,024,987
Rent and occupancy	633,597	536,022	2,040,547	1,388,197
IT support and maintenance	510,188	333,775	1,405,883	1,018,933
Royalties and participations	–	–	1,091,530	–
Other	541,513	546,711	930,822	1,620,399
Reversals of impairments of properties in development	–	–	–	(132,990)
	$ 17,938,500	$ 9,912,449	$ 46,610,179	$ 24,520,922

	For the three months ended		For the nine months ended	
General and administration expenses	**September 30, 2018**	**September 30, 2017**	**September 30, 2018**	**September 30, 2017**
Employee costs	$ 321,153	$ 199,832	$ 1,007,192	$ 631,267
Legal and accounting	121,490	149,404	632,131	495,873
Contractors	25,900	–	287,188	16,423
Rent and occupancy	50,920	50,014	149,784	150,043
Other	174,126	104,244	404,041	310,483
	$ 693,589	$ 503,494	$ 2,480,336	$ 1,604,089

	For the three months ended		For the nine months ended	
Employee costs and benefits	**September 30, 2018**	**September 30, 2017**	**September 30, 2018**	**September 30, 2017**
Employee costs	$ 5,549,324	$ 6,446,035	$ 18,339,703	$ 17,411,822
Share based compensation expense	182,830	384,655	660,627	1,017,683
	$ 5,732,154	$ 6,830,690	$ 19,000,330	$ 18,429,505

13. Share Capital

On September 4, 2018, in connection with the transaction with Bell Media (Note 6), the Company issued 3,433,446 common voting shares based on the closing price of the Company's shares on the TSX-V on August 31, 2018, of $1.20 per share for total consideration of $4,120,135. In connection with the transaction with Bell Media, the Company incurred share issuance costs of $35,000.

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

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$2,360,291 at an issuance price of $1.50 per share. In connection with the offering, the Company incurred share issuance costs of $35,008.

14. Share-based compensation

a) Share purchase warrants

In the third quarter of 2018, as partial consideration for certain services to effect the transition of the Broadcasting License (Note 6), the Company issued 900,000 Warrants to Bell Media. Each Warrant entitles Bell Media to acquire one common share in the capital of the Company 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.

For the three months ended September 30, 2018, an expense of $nil was recorded as share-based compensation expense. The value of the pro rata share of Warrants that vested and became exercisable on September 30, 2018, was $102,000 and has been recorded as a prepaid expense and reported under ‘prepaid expenses, deposits and other’ on the balance sheet. The prepaid share-based compensation expense will be deferred until the Company has exercised the Option to receive the Broadcasting License and begins receiving services under the agreement. The value of the services to be received was determined indirectly based on the grant date fair value of the Warrants, determined using the Black-Scholes pricing model with the following assumptions:

Risk-free interest rate	2.09%
Expected dividend yield	0.00%
Expected life of option	2.75 years
Expected volatility (based on historical share prices)	177.76%

b) Share-based compensation expense

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

Share based compensation expense	For the three months ended September 30, 2018	September 30, 2017	For the nine months ended September 30, 2018	September 30, 2017
Stock options	$ 141,747	$ 343,595	$ 537,149	$ 730,131
Share appreciation rights	41,083	41,060	123,478	287,552
	$ 182,830	$ 384,655	$ 660,627	$ 1,017,683

Expressed in Canadian dollars

15. Finance costs

	For the three months ended		For the nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Interest expense on interim production financing	$ 385,666	$ 208,494	$ 819,216	$ 529,590
Interest and accretion on convertible debentures (Note 9)	130,729	–	387,926	–
Interest accretion on obligations under finance lease	17,004	13,702	55,039	27,455
Interest accretion on tangible benefit obligation (Note 6)	2,205	–	2,205	–
Interest capitalized to investments in film and television (Note 5)	(177,035)	(108,106)	(252,809)	(254,890)
	$ 358,569	$ 114,090	$ 1,011,577	$ 302,155

16. Leases

Operating leases

The remaining terms of the various non-cancellable operating leases are from one to 13 years plus renewal options. Future minimum lease payments under these operating leases are as follows:

	< 1 year	1 to 5 years	> 5 years	Total
Future minimum lease payments	$ 1,509,053	$ 5,257,614	$ 11,340,238	$ 18,106,905

For the three and nine months ended September 30, 2018, gross operating lease payments of $946,816 and $2,626,471, respectively (three and nine months ended September 30, 2017 - $790,833 and $2,217,602) were recognized as an expense, which include the minimum lease payments and operating costs for the leased premises.

During the three months ended September 30, 2018, the Company renegotiated and extended the terms of a premises lease at one of its locations.

17. Financial instruments

(a) Fair value measurement of financial instruments

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

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

- Level 1 - Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets.

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

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

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

The Company has designated its financial instruments as follows:

		September 30, 2018		December 31, 2017	
	Fair Value Hierarchy	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Loans and receivables:					
Cash and cash equivalents	Level 1	$ 8,456,378	$ 8,456,378	$ 6,354,432	$ 6,354,432
Trade and other accounts receivable	Level 2	26,671,275	26,671,275	25,699,001	25,699,001
Long-term accounts receivable	Level 2	3,023,555	3,023,555	257,025	257,025
Deposits and other assets	Level 2	283,133	283,133	278,226	278,226
Other financial liabilities:					
Accounts payable and accrued liabilities	Level 2	11,153,217	11,153,217	4,903,734	4,903,734
Finance lease obligations	Level 2	1,081,087	1,081,087	1,001,189	1,001,189
Interim production financing	Level 2	22,563,854	22,563,854	19,884,910	19,884,910
Convertible debentures	Level 2	3,944,442	4,326,000	3,815,364	4,326,000
Other liabilities	Level 2	2,069,856	2,069,856	275,154	275,154

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

(b) Risks arising from financial instruments

Liquidity risk

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

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

Expressed in Canadian dollars

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

As at September 30, 2018	< 1 year	1 to 5 years	Greater than 5 years	Total	Carrying Amount
Accounts payable and accrued liabilities	$11,153,217	$ –	$ –	$ 11,153,217	$ 11,153,217
Finance lease obligations [1]	803,209	325,530	–	1,128,739	1,081,087
Interim production financing	22,267,255	296,599	–	22,563,854	22,563,854
Convertible debentures [1]	346,080	4,832,320	–	5,178,400	3,944,442
Other liabilities [1]	98,143	392,571	196,286	687,000	560,950
	$34,667,904	$ 5,847,020	$ 196,286	$ 40,711,210	$ 39,303,550

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

18. Consolidated statement of cash flows - supplemental information

Changes in non-cash working capital

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

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

	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017
Trade and other accounts receivable	$ (3,490,028)	$ (2,788,744)
Prepaid expenses, deposits and other	(140,822)	(230,371)
Deposits and other assets	(4,907)	(145,851)
Accounts payable and accrued liabilities	6,214,483	(1,432,604)
Deferred revenue	3,423,955	4,743,738
Other financial liabilities	–	(15,450)
Other current and non-current liabilities	1,235,957	(5,510)
Net change in non-cash working capital	$ 7,238,638	$ 125,208

19. Related parties

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

In the first and second quarter of 2018, certain officers/directors of the Company made unsecured, non-recourse production advances aggregating $200,000 USD to an unrelated animation services provider in order to expedite production of a television series for which the Company had not yet entered into a formal production commitment. During the three months ended September 30, 2018, these production advances were repaid in full by the animation services provider.

Rights and Services Agreement with a Director

During the three months ended September 30, 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.