3 QUARTER 2018

THREE AND NINE MONTHS ENDED SEPTEMBER 30 2018

Share Information

At November 27, 2018, the Company had 30,185,577 common shares outstanding and stock options exercisable for 2,343,897 additional common shares and warrants exercisable into 1,163,786 common shares.

Investor Information

All financial reports, news releases and corporate information can be accessed on our website at www.wowunlimited.co

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") is dated November 27, 2018 and is intended to assist in understanding the results of operations and financial condition of Wow Unlimited Media Inc. as at and for the three and nine months ended September 30, 2018 and should be read in conjunction with the unaudited condensed interim consolidated financial statements and accompanying notes for the three and nine months ended September 30, 2018 and other public disclosure documents of Wow Unlimited Media Inc., including its previously filed December 31, 2017, annual consolidated financial statements.

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

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

FORWARD LOOKING STATEMENTS

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

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

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

NON-IFRS FINANCIAL MEASURES

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

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

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

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

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

COMPANY PROFILE

Wow Unlimited 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 TV, 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 formalizing a business plan for the use of the license. See *Financial and Operational Highlights* for further details.

OVERVIEW OF RESULTS

Cumulative prior period information in the following tables has been restated for purchase price allocation adjustments relating to the acquisition of Frederator. See *Financial and Operational Highlights* for further discussion.

Results of operations

$000's, except per share amounts	For the three months ended September 30, 2018	For the three months ended September 30, 2017	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017
Revenue	**$ 17,711**	**$ 11,720**	**$ 49,644**	**$ 27,985**
Operating EBITDA[1]	(1,502)	(664)	(1,911)	(1,608)
Operating loss[1]	(2,659)	(1,970)	(5,262)	(5,569)
Operating loss per share:				
- basic and diluted	$ (0.10)	$ (0.08)	$ (0.20)	$ (0.22)
Net loss	**$ (3,051)**	**$ (1,620)**	**$ (5,294)**	**$ (5,337)**
Net 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

[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	September 30, 2018	December 31, 2017
Financial position		
Total assets	$ 74,935	$ 59,032
Total current assets	36,326	32,889
Total non-current assets	38,609	26,144
Convertible debentures	3,944	3,815
Total liabilities	48,852	35,094
Shareholders' equity	26,083	23,938

FINANCIAL AND OPERATIONAL HIGHLIGHTS

Finalization of purchase price allocation

During the fourth quarter of 2017, the Company finalized revisions to certain preliminary estimates of the purchase price allocation relating to the acquisition of Frederator Networks Inc. (“Frederator”) which was completed on December 15, 2016. The adjustments were applied retrospectively to the acquisition date resulting in the recognition of intangible assets, deferred taxes and goodwill. As a result, the unaudited condensed interim consolidated statement of comprehensive loss for the three and nine months ended September 30, 2017, has been restated to reflect the increased amortization expense associated with these intangible assets along with the impact of the restatement on deferred taxes and foreign currency translation adjustment.

Convertible Debt

On December 14, 2017, the Company issued convertible debentures in the amount of $4,326,000, upon the completion of a non-brokered private placement offering (the “Convertible Debentures”). 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.

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.

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 TV, Canada's leading streaming service. Over 200 hours of kids programming is now available to stream on Crave TV in two new collections, WOW! Preschool Playdate (targeted at kids aged 0-5) and WOW! World Kids (ages 6 and up).

The Bell Agreement and strategic partnership with Bell Media is expected to drive the Company's planned multi-platform rollout of a new paradigm in entertainment for kids and youth across Canada. The Company is working with its advisors to formulate a business plan that will maximize the value of the new broadcasting license. Management expects to implement that plan in the first half of 2019.

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 with production commencing in Q4 2018.
- Animated series *Costume Quest* and *Bravest Warriors*, season 4, continue in production with full deliveries expected by the end of 2018.
- Season 2 of the series *Bee & Puppy Cat* is currently in production, with delivery set for 2019.
- Channel Frederator Network continues to enjoy growth. Statistics from YouTube's Content Management System show that Channel Frederator Network had grown to 202 million subscribers and 3,084 channels as at September 30, 2018, which was primarily driven by the addition of 157 channels to the network in the nine months ended September 30, 2018. Channel Frederator Network also attracted a total of 9.9 billion views for the three months ended September 30, 2018, representing a 32% increase over the prior quarter.
- Continuing the long-standing relationship between Mattel and Mainframe Studios, the studio is producing another Barbie title, *Barbie Dreamhouse Adventures*, a 26-episode animated series which commenced production during the first quarter of 2017 and also began delivery of completed episodes in June 2018, with an expected final episode delivery in the fourth quarter of 2018.
- The Company delivered the final episode of the 26-episode series, *Spy Kids: Mission Critical*, in April, 2018.
- Production of season 5 of the series *Octonauts,* comprising 28 episodes of 11 minutes each, for Silvergate Media, continues, with deliveries expected to commence in late 2018.

- *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.

CONSOLIDATED RESULTS

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

	For the three months ended		For the nine months ended	
$000's	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Revenue	**$ 17,711**	**$ 11,720**	**$ 49,644**	**$ 27,985**
Amortization of investment in film and television programming	**$ 582**	**$ 1,969**	**$ 2,465**	**$ 3,469**
Operating EBITDA	**$ (1,502)**	**$ (664)**	**$ (1,911)**	**$ (1,608)**
Finance costs	359	114	1,012	302
Depreciation and amortization[1]	798	1,192	2,339	3,658
Operating loss	(2,659)	(1,970)	(5,262)	(5,569)
Items affecting comparability:				
Share-based compensation expense	183	385	661	1,018
Deferred income tax (recovery) expense	209	(735)	(629)	(1,249)
	392	(350)	32	(231)
Net loss	**$ (3,051)**	**$ (1,620)**	**$ (5,294)**	**$ (5,337)**

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

Revenue and Operating EBITDA

Revenue for the three and nine months ended September 30, 2018, increased by $6.0 million and $21.7 million, respectively, compared to the same periods in 2017. The increase in revenues for the nine months ended September 30, 2018, compared to 2017 was a result of an increase in revenues for the Networks and Platforms segment of $19.5 million driven by increased views and revenues generated by Channel Frederator, and an increase in revenues for the Animation Production segment by $2.2 million, resulting from the continued production of *Costume Quest*, *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.* The increase in revenue for the three months ended September 30, 2018, compared to the same period in 2017 was driven by increased views and revenues generated by Channel Frederator.

Operating EBITDA for the three and nine months ended September 30, 2018, decreased by $0.8 million and $0.3 million, respectively, compared to the same periods in 2017. The decrease in operating EBITDA for the three months ended September 30, 2018, was primarily a result of higher operating costs in the Networks and Platforms segment as the Company continues to invest in building content and audience on the YouTube platform including expanding its reach to the gaming market, as well as investing into the VRV platform and Crave TV. In addition, the Company experienced production delays in the Animation Production segment resulting in lower studio utilization for the three months ended September 30, 2018, compared to the same period in 2017.

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 including *Reboot: The Guardian Code* and *Castlevania,* season 1, 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, which was completed and delivered to Netflix in June 2017.

Finance costs

$000's	For the three months ended September 30, 2018	September 30, 2017	For the nine months ended September 30, 2018	September 30, 2017
Finance expense:				
Interest expense on interim production financing	$ 386	$ 208	$ 820	$ 530
Interest and accretion on convertible debentures	131	–	388	–
Interest accretion on obligations under finance lease	17	14	55	27
Interest accretion on tangible benefit obligation	2	–	2	–
Interest capitalized to investments in film and television	(177)	(108)	(253)	(255)
	$ 359	**$ 114**	**$ 1,012**	**$ 302**

The increase in overall finance costs of $0.2 million and $0.7 million for the three and nine months ended September 30, 2018, is largely due to the interest expense on the Convertible Debentures issued on December 14, 2017, as discussed previously. 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	For the three months ended September 30, 2018	September 30, 2017	For the nine months ended September 30, 2018	September 30, 2017
Property, plant and equipment	$ 175	$ 164	$ 508	$ 440
Other intangible assets[1]	623	1,060	1,831	3,342
Amounts capitalized to Investment in film and television	–	(32)	–	(124)
	$ 798	**$ 1,192**	**$ 2,339**	**$ 3,658**

[1] 2017 figures have been adjusted for purchase price allocation adjustments relating to the acquisition of Frederator.

Depreciation on property plant and equipment increased for the three and nine months ended September 30, 2018, compared to the three and nine months ended September 30, 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. Amounts capitalized to investment in film and television relates entirely to the capitalization of depreciation expense on *Reboot: The Guardian Code* which was fully delivered by the end of 2017.

Net loss and items affecting comparability

The comparison of financial results under IFRS between periods is hindered by the inclusion and variability of specified items that may not be indicative of the ongoing operational performance of the Company's ongoing business. For the three and nine months ended September 30, 2018, the net loss after adjusting for such items was $3.1 million and $5.3 million, respectively. The most significant of these specified items are discussed below.

Share-based compensation expense

Share-based compensation expense for the three and nine months ended September 30, 2018, was $0.2 million and $0.7 million, compared to $0.4 million and $1.0 million for the same periods in 2017. The decrease in 2018 is in line with expectations as the current period expense is entirely a result of the vesting of options issued in the previous year.

Deferred income tax (recovery) expense

For the three and nine months ended September 30, 2018, deferred income taxes resulted in an expense of $0.2 million and a recovery of $0.6 million, respectively, compared to a recovery of $0.7 million and a recovery of $1.2 million for the three and nine months ended September 30, 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.

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 considering and 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 becomes one of only six online destinations to be sanctioned by CAVCO and will help support creators of original Canadian content by providing those programs access to a broader Canadian and global audience in addition to Canadian tax credits to support those programs.

The Company's production service business has provided and will continue 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 September 30, 2018, the Company's backlog was $58.3 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.

Frederator is expected to be a key growth driver in the years ahead. According to YouTube's Content Management System, as of September 30, 2018, the Channel Frederator Network had approximately 3,084 channels, a 2% growth over the quarter. The Network saw a 156% growth in YouTube subscribers since December 31, 2017, to 202 million at September 30, 2018 which was primarily driven by the addition of 157 channels during the same period. 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 2018, 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 Company's strategic partnership with Bell Media is expected to drive the Company's multi-platform rollout of a new paradigm in entertainment for kids and youth across Canada. The Company is working with its advisors to formulate a business plan that will maximize the value of the new broadcasting license. Management expects to implement that plan in the first half of 2019.

The unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 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. For the three and nine months ended September 30, 2018, the Company had generated cash flows from operating activities of $2.7 million and had negative cash flows from operations of $1.3 million, respectively (three and nine months ended September 30, 2017 – negative $2.7 million and negative $14.0 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.

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.

The Company is currently producing an episodic series for Mattel, *Barbie Dreamhouse Adventures*, with expected final delivery of the series in the fourth quarter of 2018.

In April 2018, the Company delivered the final episode of a 20-episode CG animation series, *Spy Kids: Mission Critical*, to The Weinstein Company. The series premiered on Netflix on April 20, 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 will be in production until December 2018.

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, and has an expected delivery date of late 2018.

Animation Production - Intellectual property

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 quarter. The Canadian broadcast premiere debuted on June 4, 2018.

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 for renewal on Netflix and production for the season will begin 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 are currently in production 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 though Frederator's SVOD channel, Cartoon Hangover, and is expected to debut 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 actively seeks new affiliate channels to their network as part of a strategy to increase views in the long term and identify and foster talent for its own content development. The Company continues to build its unique appeal to affiliate members with video tools, music rights and member programs targeting the animation community.

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 TV, 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

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

$000's	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
Revenue				
Animation Production	$ 5,566	$ 8,775	$ 23,160	$ 21,002
Networks and Platforms	12,145	2,945	26,484	6,983
Total revenue	$ 17,711	$ 11,720	$ 49,644	$ 27,985
Amortization of investment in film and television programming				
Animation Production	$ 555	$ 1,969	$ 2,438	$ 3,469
Networks and Platforms	27	–	27	–
Total amortization of investment in film and television programming	$ 582	$ 1,969	$ 2,465	$ 3,469
Segment Profit (Loss)				
Animation Production	$ (641)	$ 158	$ 1,459	$ 610
Networks and Platforms	(737)	(576)	(2,506)	(1,292)
Total segment loss	$ (1,377)	$ (418)	$ (1,047)	$ (682)

Animation Production

Revenue for the Animation Production segment was $5.6 million and $23.2 million for three and nine months ended September 30, 2018, compared to $8.8 million and $21.0 million for the same periods in 2017. Higher revenues for the three months ended September 30, 2017, compared to the same period in 2018, were primarily attributed to the delivery of the first eight episodes of the *Reboot: The Guardian Code* series to Corus and Nelvana. The increase in revenues for the nine months ended September 30, 2018, over the same period of the previous year were driven by additional revenues from the continued production of *Costume Quest*, *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 three and nine months ended September 30, 2018, includes *Reboot: The Guardian Code*, *Castlevania,* season 1, and the amortization of the US distribution rights of *Bravest Warriors,* season 4. The amortization of investment in film and television programming for the three and nine months ended September 30, 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 (loss) for the Animation Production segment was a loss of $0.6 million and a profit of $1.5 million for the three and nine months ended September 30, 2018, compared to a profit of $0.2 million and $0.6 million for the same periods in 2017. The decrease in segment profit for the three months ended September 30, 2018, compared to the same period in 2017 was directly a result of the lower revenues during the quarter as previously noted. For the nine months ended September 30, 2018, the large 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 $12.1 million and $26.5 million for the three and nine months ended September 30, 2018, compared to $2.9 million and $7.0 million for the three and nine months ended September 30, 2017. The increase in revenue for the three and nine months ended September 30, 2018 compared to the same period in 2017 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 profit for the Networks and Platforms segment was a loss of $0.7 million and $2.5 million for three and nine months ended September 30, 2018, compared to a loss of $0.6 million and $1.3 million for the same periods in 2017. The lower segment profits for the three and nine months ended September 30, 2018, are a result of the Company's continued investment in building content and audience in the YouTube platform including expanding its reach to the gaming market, as well as investing in content for the VRV platform and Crave TV. 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.

QUARTERLY FINANCIAL DATA (UNAUDITED)

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

	For the three months ended			
$000's	**Sep 30, 2018**	**Jun 30, 2018**	**Mar 31, 2018**	**Dec 31, 2017**
Revenue	**$ 17,711**	**$ 16,270**	**$ 15,663**	**$ 16,675**
Operating EBITDA[1]	(1,502)	(1,230)	821	(865)
Operating loss	(2,659)	(2,311)	(292)	(2,227)
Net (loss) profit	**$ (3,051)**	**$ (2,080)**	**$ (162)**	**$ 250**
Basic net (loss) profit per share	$ (0.11)	$ (0.08)	$ (0.01)	$ 0.01
Diluted net (loss) profit per share	$ (0.11)	$ (0.08)	$ (0.01)	$ 0.01

	For the three months ended			
	Sep 30, 2017	**Jun 30, 2017**	**Mar 31, 2017**	**Dec 31, 2016**
Revenue	**$ 11,720**	**$ 10,399**	**$ 5,867**	**$ 3,454**
Operating EBITDA[1]	(664)	(150)	(794)	(346)
Operating loss	(1,970)	(1,487)	(2,111)	(1,039)
Net loss	**$ (1,620)**	**$ (2,252)**	**$ (1,466)**	**$ (6,530)**
Basic net loss per share	$ (0.06)	$ (0.09)	$ (0.06)	$ (2.33)
Diluted net loss per share	$ (0.06)	$ (0.09)	$ (0.06)	$ (2.33)

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

The growth in revenues during the four quarters of 2017 was a result of incorporating operations of Frederator subsequent to the acquisitions on December 15, 2016, and 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 quarter 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 TV.

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			
$000's	**Sep 30, 2018**	**Jun 30, 2018**	**Mar 31, 2018**	**Dec 31, 2017**
Operating EBITDA	**$ (1,502)**	**$ (1,230)**	**$ 821**	**$ (865)**
Finance costs	359	300	353	141
Depreciation and amortization[1]	798	781	760	1,221
Operating loss	(2,659)	(2,311)	(292)	(2,227)
Items affecting comparability:				
Share-based compensation expense	183	217	261	325
Deferred income tax (recovery) expense	209	(448)	(391)	(2,802)
	392	(231)	(130)	(2,477)
Net (loss) profit	**$ (3,051)**	**$ (2,080)**	**$ (162)**	**$ 250**

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

	For the three months ended			
$000's	**Sep 30, 2017**	**Jun 30, 2017**	**Mar 31, 2017**	**Dec 31, 2016**
Operating EBITDA	**$ (664)**	**$ (150)**	**$ (794)**	**$ (346)**
Finance costs	114	100	88	364
Depreciation and amortization[1]	1,192	1,237	1,229	329
Operating (loss) profit	(1,970)	(1,487)	(2,111)	(1,039)
Items affecting comparability:				
Share-based compensation expense	385	453	180	–
Acquisition costs	–	–	–	5,760
Impairments	–	–	–	(1)
Share of results of Ratchet Productions, LLC	–	–	–	(182)
Deferred income tax (recovery) expense	(735)	312	(825)	(86)
	(350)	765	(645)	5,491
Net (loss) profit	**$ (1,620)**	**$ (2,252)**	**$ (1,466)**	**$ (6,530)**

[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 condensed interim consolidated financial statements for the three and nine months ended September 30, 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. For the three and nine months ended September 30, 2018, the Company had generated cash flows from operating activities of $2.7 million and had negative cash flows from operations of $1.3 million, respectively (three and nine months ended September 30, 2017 – negative 2.7 million and negative $14.0 million). As at September 30, 2018, the Company had a cash balance of $8.5 million and $17.4 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 which was undrawn as at September 30, 2018.

A summary of the Company's cash flows for the three and nine months ended September 30, 2018 and 2017 is as follows:

$000's	**For the three months ended September 30, 2018**	**September 30, 2017**	**For the nine months ended September 30, 2018**	**September 30, 2017**
Cash (used in) generated by operating activities	$ 2,659	$ (2,739)	$ (1,295)	$ (14,048)
Cash generated by financing activities	1,746	568	3,296	8,101
Cash used in investing activities	(44)	(54)	(72)	(414)
Net change in cash and cash equivalents	4,361	(2,225)	1,929	(6,361)
Effect of foreign exchange on cash and cash equivalents	90	(137)	173	(146)
Cash and cash equivalents, begininng balance	4,005	7,011	6,354	11,156
Cash and cash equivalents, ending balance	$ 8,456	$ 4,649	$ 8,456	$ 4,649

Cash flows from operating activities

$000's	For the three months ended September 30, 2018	September 30, 2017	For the nine months ended September 30, 2018	September 30, 2017
Cash (used in) provided by operating activities before changes in non-cash working capital	$ (759)	$ 1,530	$ 192	$ 2,022
Investment in film and television programming	(4,530)	(2,636)	(9,053)	(18,030)
Funding received for investment in film and television programming	327	600	327	1,835
Changes in non-cash working capital:				
Trade and other accounts receivable	(1,910)	(275)	(3,490)	(2,789)
Other assets [1]	(25)	66	(145)	(376)
Accounts payable and accrued liabilities	5,060	(384)	6,214	(1,433)
Deferred revenue	4,470	(1,637)	3,424	4,744
Other liabilities [2]	26	(3)	1,236	(21)
Cash (used in) generated by operating activities	$ 2,659	$ (2,739)	$ (1,295)	$ (14,048)

[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 from operating activities for the three and nine months ended September 30, 2018, generated $2.7 million and used $1.3 million in cash compared to using cash of $2.7 million and $14.0 million for the same periods in 2017.

Investment in film and television programming decreased cash by $4.5 million and $9.1 million for the three and nine months ended September 30, 2018, compared to $2.6 million and $18.0 million for the three and nine months ended September 30, 2017. The outflow of cash for the nine months ended September 30, 2017 was primarily due to spending on *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 TV.

The funding received for investment in film and television programming for the three and nine months ended September 30, 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 result in an increase in cash flows from operating activities. Refundable tax credits earned are significant and therefore can have a large impact on our working capital balances.

During the three and nine months ended September 30, 2018, $2.3 million and $8.0 million in tax credit refunds were received compared to $nil and $2.1 million for the three and nine months ended September 30, 2017. Tax credits earned for the three and nine months ended September 30, 2018, were $2.4 million and $7.4 million compared to $2.0 million and $8.9 million for the same periods in 2017. In addition, during the three and nine months ended September 30, 2018, changes in trade and other receivables decreased cash by $1.8 million and $4.1 million compared to increasing cash by $1.8 million and $4.0 million for the same periods in 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 accounts payable and accrued liabilities and other liabilities primarily relate to the timing of invoices received and paid.

Deferred revenue represents cash received from customers in excess of revenues earned to date on a production. The balance of deferred revenue generally increases during periods where there are more active productions and decreases when there are fewer productions. The change in deferred revenue for the three and nine months ended September 30, 2018, generated operating cash flows of $4.4 million and $3.4 million, compared to decreasing cash by $1.6 million and generating cash of $4.7 million for the same periods in 2017, as a result of the timing of cash receipts. This reflects the stage of productions at September 30, 2018. Generally, the earlier in a production, the higher the deferred revenue, as invoices are issued in advance of work performed to ensure that cash is received before it is required to be paid.

Cash flows from financing activities

$000's	For the three months ended September 30, 2018	September 30, 2017	For the nine months ended September 30, 2018	September 30, 2017
Proceeds from interim production financing, net of repayment	$ 2,918	$ 1,486	$ 2,363	$ 8,601
Interest paid	(302)	(36)	(870)	(171)
Repayment of finance lease obligations	(200)	(123)	(522)	(329)
Proceeds from bank indebtedness	4,065	–	12,820	759
Repayment of bank indebtedness	(4,735)	(759)	(12,820)	(759)
Proceeds from private placement, net of share issuance costs	–	–	2,325	–
Cash generated by financing activities	$ 1,746	$ 568	$ 3,296	$ 8,101

The Company's interim production financing is secured by the tax credit receivables. Proceeds from interim production financing, less repayments, for the three and nine months ended September 30, 2018, resulted in net proceeds of $2.9 million and $2.4 million compared to net proceeds of $1.5 million and $8.6 million for the same periods in 2017. The higher cash proceeds during the nine months ended September 30, 2017, compared to 2018, was a result of production funding needs of the Company's proprietary intellectual property *Reboot: The Guardian Code* which commenced live action shooting during the first quarter of 2017. The *Reboot* series was fully delivered by the end of December 31, 2017, and as a result, no additional amounts were drawn on the production loan balance in 2018.

Interest paid on interim production loans, finance leases and convertible debentures during the three and nine months ended September 30, 2018 increased primarily as a result of the interest paid on the Convertible Debentures issued on December 14, 2017.

Principal repayments on finance leases for the three and nine months ended September 30, 2018, were $0.2 million and $0.5 million compared to $0.1 million and $0.3 million for the same periods in 2017. The increase compared to prior year is as a result of new leases entered into during the first quarter of 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, during the three months ended June 30, 2018, the Company raised $2.3 million through the completion of a non-brokered private placement of its common voting shares and variable voting shares.

CONTRACTUAL OBLIGATIONS

The following is a summary of the Company's contractual obligations as at September 30, 2018:

$000's	Less than 1 year	1 to 5 years	Greater than 5 years	Total
Accounts payable and accrued liabilities	$ 11,153	$ –	$ –	$ 11,153
Finance lease obligations [1]	803	326	–	1,129
Interim production financing	22,267	297	–	22,564
Convertible debentures [1]	346	4,832	–	5,178
Other liabilities [1]	98	393	196	687
Operating leases [2]	1,509	5,258	11,340	18,107
	$ 36,176	$ 11,106	$ 11,536	$ 58,818

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

CAPITAL EXPENDITURES

During the three and nine months ended September 30, 2018, the Company incurred capital expenditures of $0.04 million and $0.1 million compared to $0.1 million and $0.4 million, respectively, for the three and nine months ended September 30, 2017. The additions during 2018 consisted of purchases of computer equipment and software through finance lease obligations. 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, trade and other payables, bank indebtedness, finance lease obligations, interim production financing, tangible benefit obligation, and convertible debentures.

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

SEASONALITY

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

RISKS AND UNCERTAINTIES

Risks and uncertainties are included in the Company's annual information form dated April 27, 2018, and the Management's Discussion and Analysis for the year ended December 31, 2017 and are available on SEDAR at www.sedar.com.

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

JUDGEMENTS AND CRITICAL ACCOUNTING ESTIMATES

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

In preparing the unaudited condensed interim consolidated financial statements, the areas of estimation and judgment that management considers most significant are the same as those applied to and disclosed in the audited consolidated financial statements for the year ended December 31, 2017.

FUTURE CHANGES IN ACCOUNTING POLICIES

A number of new standards and amendments to standards and interpretations are not yet effective at September 30, 2018 and have not been applied in preparing the unaudited condensed interim consolidated financial statements. The Company is currently reviewing relevant standards to determine the potential impact on the consolidated financial statements of the Company.

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 condensed interim consolidated financial statements and related disclosures.

Distribution rights

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

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

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.

CONTROLS AND PROCEDURES

For the three and nine months ended September 30, 2018, no changes were made in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

CAPITAL STRUCTURE AND OUTSTANDING SHARE DATA

Stock options and common share purchase warrants

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

During the three months ended September 30, 2018, there were no new issuances of stock options.

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.

During the three months ended September 30, 2018, 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. 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 September 30, 2018 and November 27, 2018, the total stock options outstanding is 2,343,897, and total warrants outstanding is 1,163,786.

As at September 30, 2018, the Company had stock options exercisable for 1,577,069 additional common shares and warrants exercisable for 363,786 additional common shares.

As at November 27, 2018, the Company had stock options exercisable for 1,598,784 additional common shares and warrants exercisable for 363,786 additional common shares.

Outstanding Shares

As at September 30, 2018 and November 27, 2018, the Company had 30,185,577 common shares issued and outstanding. The total shares outstanding 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 unaudited condensed interim consolidated financial statements.

RELATED PARTIES

Remuneration of key management personnel

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

	For the three months ended		For the nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Short-term benefits	$ 418,602	$ 343,510	$ 1,227,164	$ 1,075,724
Share-based compensation expense[1]	$ 124,353	$ 316,369	$ 470,939	$ 1,241,555
	$ 542,955	$ 659,879	$ 1,698,103	$ 2,317,279

[1] 2017 figures include share-based compensation expense issued as compensation for Bell Media transaction which have been capitalized as other intangible assets

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 three and nine months ended September 30, 2018 and 2017, rent was paid in the amount of $50,014 and $150,043, respectively.

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.

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 concept 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.