

**Asian Television Network International Limited**  
**Management's Discussion and Analysis**  
**For the three and nine months ended September 30, 2017 and September 30, 2016**



The purpose of this Management's Discussion and Analysis ("MD&A"), dated November 27, 2017 is to provide readers with additional and complementary information regarding Asian Television Network International Limited ("ATN" or the "Company") financial condition and results of operations and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2016 and related notes in conjunction with the unaudited interim condensed consolidated financial statements for the three and nine months period ended September 30, 2017. The Company's consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

Copies of these documents as well as additional information concerning the Company can be found on the SEDAR Web site at [www.sedar.com](http://www.sedar.com) and may also be obtained upon request, without charge, to the Secretary of the Company at its executive offices, 330 Cochrane Drive, Markham, Ontario L3R 8E4, telephone: 905-948-8199. The above-mentioned documents, as well as the Company's news releases, are also available on the Company's Web site at [www.asiantelevision.com](http://www.asiantelevision.com).

All amounts herein are expressed in Canadian dollars. Certain comparative figures have been reclassified to conform with the basis of presentation adopted in Fiscal 2016.

All of our operations are in Canada.

<b>Table of Contents</b>	<b>Pages</b>
Forward-looking Statements	2
Profile	2
Financial Highlights for the Quarter	3
Operational Highlights for the Quarter	3
Non-IFRS Measures	3
Performance Review	4-6
Segmented Information	6
Overview of Liquidity, Financing and Share Capital Activities	7-9
Contractual Obligations	9
Risks and Uncertainties Affecting our Businesses	10-11
Accounting	11-12
Controls and Procedures	12

**Asian Television Network International Limited**  
**Management's Discussion and Analysis**  
**For the three and nine months ended September 30, 2017 and September 30, 2016**

## **FORWARD-LOOKING STATEMENTS**

This MD&A contains certain forward-looking statements concerning the future performance of the Company's business, its operations and its financial results and condition, and more particularly as they relate to management's belief in respect of the sufficiency of cash from operations to cover cash requirements as they arise.

When used in this document, the words "believe", "anticipate", "intend", "estimate", "expect" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such words. These forward-looking statements are based on management's current expectations. These forward looking statements relating to the Company's future cash requirements are based on an assumption that cash flow from the future operations in future periods will not be significantly less than for prior periods. We caution that all forward-looking information is inherently uncertain and actual results may differ materially from the forward looking information due to assumptions, estimates or expectations reflected or contained in the forward-looking information. Actual future performance, including cash flow from operations, will be affected by a number of factors, which may result in a decrease in cash flow from operations. These factors include technology changes, economic conditions, regulatory and taxation changes, competitive factors and changes in accounting rules or standards, many of which are beyond the Company's control (see "Risks and Uncertainties Affecting our Business"). Therefore, future events and results may vary substantially from what we currently foresee. Unless otherwise required by applicable securities laws, the Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

## **PROFILE**

We are a Canadian media company focused on Canada's fast expanding South Asian population with all of our operations in Canada. ATN pioneered South Asian programming on television in Canada through its first venture on Rogers Cable Systems in 1971. Today ATN serves Canada's diverse cultural communities with 55 premium pay specialty television channels, in 9 languages. ATN offers its flagship general interest service "ATN - HD", several Bollywood movie channels with over 800 movies a month, and a variety of channels that include sports, news, music, lifestyle, spiritual and several regional language channels. ATN is Canada's pioneer of World Class Cricket. ATN's television channels are distributed to subscribers by various Canadian Broadcast Distribution Undertakings (BDUs), including cable, satellite and telephone companies. ATN operates a South Asian Radio Service on Satellite Radio across Canada and the United States. We are publicly traded on the TSX Venture Exchange (TSX-V: SAT).

ATN derives its revenue principally from subscription revenue and advertising revenue on its speciality pay television channels. Subscription revenue consists of a portion of monthly fees paid by viewers to their Broadcast Distribution Undertakings (BDUs) while advertising revenue consists of revenue earned from the sale of on-air advertisement by ATN. The Company develops some of its programming in-house and also acquires the rights to programs from local and international television and film producers. All of ATN's television channels are speciality pay channels which are available on BDUs (including Canada's cable television networks and satellite and fibre optic television networks) for a monthly fee. The fee payable for a subscription to ATN's channels is in addition to the fee paid by subscribers to the BDUs for "basic" packages. Not all channels are carried by all BDUs. The Company's radio service is available on Canada's satellite radio service for a subscription fee, a portion of which is remitted to the Company by the radio service. Advertisers on ATN's channels consist of national, regional and local businesses who commit to advertising over varying periods of time, principally short term. The Company also earns revenue from the licensing of programming to other broadcasters and from the production of advertising for advertisers. The Company's programming is targeted to Canada's South Asian population which is concentrated in Canada's major urban centres. The Company's operations are based in Markham, Ontario in suburban Toronto.

**Asian Television Network International Limited**  
**Management's Discussion and Analysis**  
**For the three and nine months ended September 30, 2017 and September 30, 2016**

**FINANCIAL HIGHLIGHTS FOR THE QUARTER**

- Consolidated operating revenue decreased 12% during this quarter compared to same three months ended September 30, 2016. The declining revenues are a direct result of continued infiltration of Internet piracy and consumers shifting mostly towards illegal digital and online media.
- In order to conserve cash, the Company reduced its quarterly dividend from \$0.02 to \$0.01 per share.

**OPERATIONAL HIGHLIGHTS FOR THE QUARTER**

- On September 30, 2017, "&TV" replaced Star Plus to be part of the ATN HD channel across Canada. ATN has acquired rights to "&TV" content under a licensing agreement with Zee Entertainment Enterprises Limited one of the world's largest South Asian broadcasters, for inclusion, in part or full, in the said channel's programming mix.

**NON-IFRS MEASURES**

In addition to discussing earnings measures in accordance with IFRS, this MD&A provides the following non-IFRS measures which are also factors used by the Company's management and Board of Directors in monitoring and evaluating the performance of the Company. The Company's management also believe certain investors use it as a measure of the Company's financial performance and for valuation purposes.

**EBITDA** (earnings before interest, taxes, depreciation and amortization) is provided to assist investors in determining the ability of the Company to generate cash flow from operating activities and to cover financial charges. EBITDA is also an indicator widely used for business valuation purposes. The following table reconciles IFRS measures disclosed in the unaudited interim condensed consolidated income statements for the three and nine months ended September 30, 2017 and September 30, 2016 to EBITDA:

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Net (loss) income for the period (earnings)	<b>\$(23,214)</b>	\$105,543	<b>\$(52,472)</b>	\$506,558
Income tax expense	<b>93,762</b>	66,350	<b>109,433</b>	252,393
Finance costs (interest)	<b>5,650</b>	10,486	<b>19,721</b>	31,390
Depreciation and amortization	<b>279,737</b>	193,292	<b>921,766</b>	607,373
<b>EBITDA</b>	<b>\$355,935</b>	\$375,671	<b>\$998,448</b>	\$1,397,714

EBITDA is not defined by IFRS and is not standardized for public issuers. This measure may not be comparable to similar measures presented by other public enterprises.

**Asian Television Network International Limited**  
**Management's Discussion and Analysis**  
**For the three and nine months ended September 30, 2017 and September 30, 2016**

**PERFORMANCE REVIEW**

**Summarized Consolidated Financial Results**

Three and nine months ended September 30, 2017 and September 30, 2016 and % Change

Throughout this MD&A, percentage changes are calculated using numbers rounded as they appear.

	Three months ended September 30			Nine months ended September 30		
	2017	2016	%Change	2017	2016	%Change
<b>Operating revenue</b>	<b>\$5,142,875</b>	\$5,857,505	-12%	<b>\$15,538,174</b>	\$18,200,087	-15%
<b>Administrative expenses</b>	<b>587,733</b>	525,928	12%	<b>1,629,846</b>	1,591,545	2%
<b>Marketing and distribution costs</b>	<b>3,299,917</b>	3,930,774	-16%	<b>10,263,887</b>	12,160,135	-15%
<b>Employee costs</b>	<b>1,055,340</b>	1,093,101	-3%	<b>3,183,010</b>	3,272,755	-3%
<b>Depreciation and amortization</b>	<b>124,698</b>	128,335	-3%	<b>381,064</b>	406,214	-6%
<b>Finance costs</b>	<b>5,650</b>	10,486	-46%	<b>19,721</b>	31,390	-37%
<b>Gain on sale of asset</b>	<b>(752)</b>	-	100%	<b>(752)</b>	(8,852)	-92%
<b>Loss (gain) on foreign exchange differences</b>	<b>(259)</b>	(3,012)	-91%	<b>4,437</b>	(12,051)	-137%
<b>Total operating expenses</b>	<b>5,072,327</b>	5,685,612	-11%	<b>15,481,213</b>	17,441,136	-11%
<b>Income before taxes</b>	<b>70,548</b>	171,893	-59%	<b>56,961</b>	758,951	-102%
<b>Income tax expense</b>	<b>93,762</b>	66,350	41%	<b>109,433</b>	252,393	-57%
<b>Net income for the period</b>	<b>\$(23,214)</b>	\$105,543	-122%	<b>\$(52,472)</b>	\$506,558	-110%
<b>Basic and Diluted Earnings per share</b>	<b>\$0.00</b>	\$0.00	0%	<b>\$0.00</b>	\$0.02	-200%
<b>EBITDA</b>	<b>\$355,935</b>	\$375,671	-5.25%	<b>\$998,448</b>	\$1,397,714	-29%

The most significant variance in this quarter is operating revenue continued to decreased. The Company is experiencing declining revenues from consumers shifting towards mostly illegal digital and online media.

**Asian Television Network International Limited**  
**Management's Discussion and Analysis**  
**For the three and nine months ended September 30, 2017 and September 30, 2016**

**Overall Analysis**

**Operating Revenues**

Operating revenues are derived from subscription fees, advertising sales and programming and finance income. Subscriptions fees are charged to the consumer by the Broadcast Distribution Undertakings ("BDUs" or singular, "BDU") such as cable, satellite and telephone companies. The portion of the fees received for each subscriber is negotiated between ATN and the BDUs and varies for each channel. Subscribers are generally permitted to change their viewing package at any time and therefore may terminate their subscription with the BDUs at any time. Advertising revenues are derived from national, regional and local advertising customers and are aired on the Company's broadcasting channels and they vary according to market and general economic conditions, the quality of programming and the effectiveness of the sales organization. Advertising is sold directly by ATN or through an agency on short and long-term contracts, ranging from one day, a week or several months, however contracts never extend beyond one year.

Operating revenues are detailed as follows:

Three and nine months ended September 30, 2017 and September 30, 2016 and % Change

Throughout this MD&A, percentage changes are calculated using numbers rounded as they appear.

	Three months ended September 30			Nine months ended September 30		
	2017	2016	%Change	2017	2016	%Change
<b>Subscription</b>	<b>\$3,736,714</b>	\$4,342,481	-14%	<b>\$11,502,213</b>	\$13,796,151	-17%
<b>Advertising</b>	<b>1,164,373</b>	1,369,848	-15%	<b>3,521,714</b>	3,939,659	-11%
<b>Programming</b>	<b>228,600</b>	130,241	76%	<b>476,114</b>	420,529	13%
<b>Finance income</b>	<b>13,188</b>	14,935	-12%	<b>38,133</b>	43,748	-13%
<b>Total</b>	<b>\$5,142,875</b>	\$5,857,505	-12%	<b>\$15,538,174</b>	\$18,200,087	-15%

Total revenues reached \$5,142,875 and \$15,538,174 respectively, for the three and nine month periods ended September 30, 2017 compared to \$5,857,505 and \$18,200,087 for the same periods last year, for decreases of \$714,630 and \$2,661,913 respectively.

The decrease in overall revenue for the quarter and the nine months ended September 30, 2017 is due to a 14% decline in subscription revenue, caused by continued consumer pressure for lower retail subscription fees and revenues from consumers shifting towards mostly illegal digital and online media. Advertising revenue has decreased by 15% on a quarter over quarter basis and 11% on a year over year basis. The advertising market has slowed as advertisers strategically shift part of their advertising plans towards other advertising means, such as digital media. Advertising revenue has decreased by \$205,475 and \$417,945 respectively for the three and nine month periods ended September 30, 2017, compared to the same periods last year.

**Administrative expenses**

Administrative expenses were \$587,733 and \$1,629,846 for the three and nine month periods ended September 30, 2017, compared to \$525,928 and \$1,591,545 respectively for the same periods last year, for an increase of \$61,805 and \$38,301 respectively. The variations are attributed mainly by external factors attributed to running the facility along with the added administrative costs of our over-the-top "OTT" service, RootsTv, which launch in June of this year.

**Marketing and distribution costs**

Marketing and distribution costs were \$3,299,917 and \$10,263,887 for the three and nine month periods ended September 30, 2017, compared to \$3,930,774 and \$12,160,135 respectively for the same period last year, for decreases of \$630,857 and \$1,896,248 respectively. The decrease in marketing and distribution costs for the three and nine month periods ended September 30, 2017 are attributable to costs associated directly with subscription revenue.

**Employee costs**

Employee costs were \$1,055,340 and \$3,183,010 for the three and nine month periods ended September 30, 2017, compared to \$1,093,101 and \$3,272,755 respectively for the same period last year, for a decrease of \$37,761 and \$89,745 respectively.

Employee costs represent a material portion of our expenses. Our employee staffing requirements remained relatively constant over the past three and nine months. The decrease is a result of the timing difference of employee vacancies and slight reduction in our staffing requirements.

**Asian Television Network International Limited**  
**Management’s Discussion and Analysis**  
**For the three and nine months ended September 30, 2017 and September 30, 2016**

**Depreciation and amortization**

Depreciation and amortization expense was \$124,698 and \$381,064 for the three and nine month periods ended September 30, 2017, compared to \$128,355 and \$406,214 respectively for the same periods last year, for decreases of \$3,637 and \$25,150 respectively. Depreciation and amortization expense decreases are attributable to no additional acquisition of plant and equipment during this quarter.

**Finance costs**

Finance costs were \$5,650 and \$19,721 for the three and nine month periods ended September 30, 2017, compared to \$10,486 and \$31,390 respectively for the same period last year, for decreases of \$4,836 and \$11,669 respectively. The decrease is due to the Company’s reduction in its long-term debt borrowings.

**(Gain) loss on foreign exchange differences**

(Gain) loss on exchange foreign exchange differences were \$(259) and \$4,437 for the three and nine month periods ended September 30, 2017, compared to \$(3,012) and \$(12,051) respectively for the same periods last year, for a decline of \$2,753 and increase \$16,488 respectively. The changes are due to the Company’s risk associated with transacting in foreign currency, mainly the United States Dollar. Also see section “Interest Rate and Foreign Exchange Management”.

**Income tax expense**

Income tax expense was \$93,762 and \$109,433 for the three and nine month periods ended September 30, 2017, compared to \$66,350 and \$252,393 respectively for the same period last year, for an increase of \$27,412 and decrease of \$142,960 respectively. Non-deductible amounts for Federal tax purposes along with deferred tax assets and liabilities arising from the effect of temporary differences result in income tax expense to vary from the amounts that would be computed by applying the statutory income tax rate of 26.5% to income before tax.

**Net (loss) income for the period and Earnings per share (“EPS”) Basic and Diluted**

Net (loss) income was \$(23,214) (EPS - \$0.00) and \$(52,472) (EPS - \$0.00) for the three and nine month periods ended September 30, 2017, compared to \$105,543 (EPS - \$0.01) and \$506,558 (EPS - \$0.02) respectively for the same period last year. The Company experienced a 122% decrease and 110% in net (loss) income respectively for the three and nine months periods end September 30, 2017, compared to the same period last year. The decrease for the quarter and the nine months ended September 30, 2017 was mainly due to declining subscription and advertising revenues.

**Quarterly Performance**

The following table highlights the quarterly performance of the Company’s operations for the past eight quarters.

	2015	2016	2016	2016	2016	2017	2017	2017
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Revenue	\$6,837,077	\$6,091,874	\$6,250,709	\$5,857,505	\$5,806,636	\$5,189,454	\$5,205,846	\$5,142,875
EBITDA (1)	963,003	507,983	514,061	375,671	156,609	19,823	653,090	355,935
Net income (loss)	538,417	200,653	200,364	105,543	58,524	(231,340)	\$202,081	\$(23,214)
Basic EPS	\$0.03	\$0.01	\$0.01	\$0.00	\$0.00	\$(0.01)	\$0.01	\$0.00
Diluted EPS	\$0.03	\$0.01	\$0.01	\$0.00	\$0.00	\$(0.01)	\$0.01	\$0.00

The Company’s revenue and operations results vary, depending on the quarter. The first quarter is generally a period of lower retail spending and as a result, revenues are generally lower. The fourth quarter tends to be a period of higher retail spending resulting in generally in higher revenues.

The above financial data was prepared in accordance with IFRS except EBITDA which is a Non IFRS measure. See Non-IFRS Measures.

**SEGMENTED INFORMATION**

The Company operates in only one business segment and therefore does not report financial results on a segmented basis.

**Asian Television Network International Limited**  
**Management's Discussion and Analysis**  
**For the three and nine months ended September 30, 2017 and September 30, 2016**

## **OVERVIEW OF LIQUIDITY, FINANCING AND SHARE CAPITAL ACTIVITIES**

### **Liquidity Risk**

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they become due or can do so only at excessive cost. The Company's growth is financed through a combination of the cash flows from operations and borrowings under the existing credit facility. One of management's primary goals is to maintain an optimal level of liquidity through the active management of the assets and liabilities as well as the cash flows. Management deems its liquidity risk to be low and this is explained in the paragraphs that follow.

### **Credit Facility and Covenants**

The Company has an authorized line of credit of \$500,000. The Company chooses this type of credit facility because it provides flexibility with no scheduled repayment terms. The Company is subject to covenants on its credit facility. The Company's bank covenants include standard terms and conditions and the line is secured by terms deposits held by the financial institution. As of September 30, 2017, the Company has utilized \$260,000 of this facility.

During 2012, the Company established a \$4,000,000 non-revolving credit term facility (the "Facility") with a Canadian financial institution. The interest rate applicable to the Facility available from the Canadian financial institution is the chartered bank's prime rate. The Company made an initial draw on the Facility in the amount of \$3,397,608. The proceeds were used to purchase certain Plant and Equipment. The outstanding undrawn portion of this Facility of \$602,392 was cancelled at December 31, 2013. This Facility is subject to certain covenants, repayable in equal monthly installments of principal plus interest, amortized over 5 years. The collateral for this Facility is a security agreement on the Plant and Equipment that was acquired by the funds of this Facility. During 2016 the Company revised its credit facility to include an authorized revolving line of credit of \$500,000 to assist with the financing of broadcasting and similar technology. As of September 30, 2017, the Company has utilized \$173,499 of this facility.

The Company was in compliance with the covenants throughout the quarter and at quarter end. Cash flow from operations and funds available from the Company's \$500,000 credit facility have been the primary funding sources of working capital, capital expenditures, dividend payments, debt repayments, and other contractually required payments through the past several years.

### **Positive Cash Balances**

The Company maintains significant positive cash balances. The fact that the Company has positive cash positions on its statement of financial position reduces its liquidity risk as it can be used to fund any current obligations. It can also access any unused capacity in its credit facility to fund obligations.

### **Working Capital Requirements**

As at September 30, 2017, the Company's working capital balance was approximately \$5.18 million. The cash from current receivables will be sufficient to cover the Company's current obligations to its suppliers and employees and in combination with ongoing cash from operations, the Company will be able to meet all other current cash requirements as they arise. In addition, if cash inflows from customers are not sufficient to cover current obligations because of timing issues, the Company has access to a \$500,000 operating credit line of which \$240,000 is undrawn.

### **Future Cash Requirements**

Other than for operations, the Company's cash requirements are mostly for interest payments, repayment of debt, capital expenditures, dividends and other contractual obligations. Management anticipates that its cash flows from operations will provide sufficient funds to meet its cash requirements. The Company's future cash requirements are summarized in a table under the heading "Contractual Obligations".

**Asian Television Network International Limited**  
**Management's Discussion and Analysis**  
**For the three and nine months ended September 30, 2017 and September 30, 2016**

**Operating, Financing and Investing Activities**

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
<b>Net cash flows from (used in) operating activities</b>	<b>\$580,944</b>	<b>\$(666,105)</b>	<b>\$(221,614)</b>	<b>\$1,368,935</b>
<b>Net cash flows from (used in) investing activities</b>	<b>(199,882)</b>	<b>(70,448)</b>	<b>(660,254)</b>	<b>(643,873)</b>
<b>Net Cash flows (used in) financing activities</b>	<b>(165,341)</b>	<b>(235,869)</b>	<b>(1,433,633)</b>	<b>(1,634,456)</b>
<b>Net cash decrease in cash and cash equivalents</b>	<b>(215,721)</b>	<b>(972,422)</b>	<b>(2,315,501)</b>	<b>(909,394)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>4,745,868</b>	<b>7,809,298</b>	<b>7,277,090</b>	<b>7,746,270</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$4,961,589</b>	<b>\$6,836,876</b>	<b>\$4,961,589</b>	<b>\$6,836,876</b>

**Cash provided by operating activities**

The Company's cash balances decreased from \$7,277,090 as at December 31, 2016, to \$4,961,859 as at September 30, 2017. Net cash flows from operating activities were \$580,944 and \$(211,614) for the three and nine months periods ended September 30, 2017 compared to \$(666,105) and \$1,368,935 respectively for the same period last year. The change was attributed to the timing of collecting our accounts receivable, the payment of our accounts payable and other operating requirements.

**Cash used in investing activities**

Cash used in investing activities was \$199,882 and \$660,254 for the three and nine month periods ended September 30, 2017 compared to \$70,448 and \$643,873 respectively for the same period last year. Cash used in investing activities is primarily as a result of additions to intangible assets.

**Cash used in financing activities**

Cash used in financing activities was \$165,341 and \$1,433,633 for the three and nine month periods ended September 30, 2017, compared to \$235,869 and \$1,634,456 respectively for the same period last year. Cash used in financing activities is primarily as a result of repayments of long-term debt and payments of dividends for the three and nine months ended September 30, 2017 and September 30, 2016. The changes for the three and nine month periods ended September 30, 2017, compared to three and nine month periods ended September 30, 2016 are consistent other than the timing of repayments and borrowings of bank indebtedness.

**Long-term debt and finance lease obligations**

Our long-term debt and finance lease obligations are described in detail in Notes 14 and 15 of our Annual Audited Consolidated Financial Statements and Notes 13 and 14 of our Second Quarter 2017 Unaudited Interim Condensed Consolidated Financial Statements.

**Asian Television Network International Limited**  
**Management's Discussion and Analysis**  
**For the three and nine months ended September 30, 2017 and September 30, 2016**

**Interest Rate and Foreign Exchange Management**

Interest rate risk is the risk that changes in market interest rates will cause fluctuations to the fair values and cash flows of the Company's financial instrument holdings. The exposure to interest rate risk arises from borrowings and investments issued at variable and fixed interest rates.

Currency risk is the risk that changes in foreign exchange rates will cause fluctuations to the fair values and cash flows of the Company's financial instrument holdings.

The Company has minimal interest and foreign exchange risk.

**Outstanding Common Share data**

Set out below is our outstanding common share data as at September 30, 2017 and at September 30, 2016.

Designation of Security	Number or Principal Amount Outstanding	If Convertible, Exercisable or Exchangeable for Common Shares, Maximum Number of Common Shares Issuable
Common Shares	24,402,914	N/A
Stock Options	Nil	Nil
Warrants	Nil	Nil
Total (maximum number of shares – fully diluted)	24,402,914	

We declared and paid dividends on each of our outstanding Common shares during the past 8 quarters, as follows:

Declaration date	Record date	Payment date	Dividend per share	Dividends paid
September 8, 2015	October 15, 2015	October 31, 2015	\$ .02	\$ 488,058
December 6, 2015	January 15, 2016	January 31, 2016	\$ .02	\$ 488,058
April 1, 2016	April 15, 2016	April 30, 2016	\$ .02	\$ 488,058
July 4, 2016	July 15, 2016	July 29, 2016	\$ .02	\$ 488,058
October 3, 2016	October 15, 2016	October 31, 2016	\$ .02	\$ 488,058
January 3, 2016	January 15, 2017	January 31, 2017	\$ .02	\$ 488,058
April 3, 2017	April 13, 2017	April 28, 2017	\$ .02	\$ 488,058
July 4, 2017	July 14, 2017	July 31, 2017	\$ .01	\$ 244,029

**CONTRACTUAL OBLIGATIONS**

See our 2016 Annual MD&A for a summary of our material obligations under Contractual Obligations. These are also discussed in Note 18 of our 2016 Annual Audited Consolidated Financial Statements. Except where otherwise disclosed in this MD&A, there have been no material changes to our material contractual obligations.

## **RISKS AND UNCERTAINTIES AFFECTING OUR BUSINESSES**

Our business is subject to risks and uncertainties that could result in a material adverse effect on our business and financial results.

### **Identifying the Principal Risks of our Business**

Our Board is responsible, in its governance role, for overseeing management in its responsibility for identifying the principal risks of our business and the implementation of appropriate risk assessment processes to manage these risks. The Audit Committee supports the Board through its responsibility to discuss policies with respect to risk assessment and risk management. In addition, it is responsible for assisting the Board in the oversight of compliance with legal and regulatory requirements. The Audit Committee also reviews with senior management the adequacy of the internal controls that we have adopted to safeguard assets from loss and unauthorized use, to prevent, deter and detect fraud, and to verify the accuracy of the financial records.

### **Market Risks and Uncertainties**

The Company has been experiencing rapidly increasing costs for programming. We continue to be active in the purchase of these rights. However we are aware of and will guard against the risks inherent in purchasing product without significant gains in subscribers and revenue. The Company's channels are distributed nation-wide by a small number of cable and satellite companies. We rely on these companies to distribute our channels to our customers.

To achieve this end we work diligently with them to maximize the number of channels carried individually by them. The BDUs, such as cable, satellite and telephone companies are our customers. It is their responsibility to report to us the actual number of subscribers and the actual amount of subscription revenue. In addition, management reviews external data for the current and prior periods to assist in the verification of the data obtained from the BDUs. The risk inherent in this relationship is the possibility of an error in reporting to us the number of subscribers or the amount of subscription revenue. Although management reviews internal and external subscriber data, management nonetheless relies on the accuracy and integrity of reports obtained from BDUs to verify the number of subscribers to the Company's channels.

### **Technology Risks and Uncertainties**

The Company is constantly aware of all changes in technology that affects or will affect the distribution of our channels or offer a new method of distribution. Many of these changes affect the way the Company distributes its content. However, equally important, some changes directly affect the capacity of a carrier to be able to distribute more or all of our channels. Although management remains diligent reviewing these changes for new opportunities for our Company's channels to reach new markets, the cost to the Company of accessing new technologies may negatively impact the Company's profitability.

### **General Economic Conditions and Consumer Audience Confidence Risks and Uncertainties**

Our business is affected by general economic conditions, consumer confidence and spending. Recessions or declines in economic activity or economic uncertainty generally cause an erosion of consumer and business confidence and may materially reduce discretionary consumer spending. Any reduction in discretionary spending by consumers and businesses or weak economic conditions may materially negatively affect us through decreased demand for our services including decreased advertising, decreased revenue and profitability, and higher bad debt expense.

The specialty television industry in which the Company operates involves a certain amount of risk. There can be no assurance of the economic success of any specialty television channel as revenues depend on audience acceptance, which cannot be accurately predicted. Audience acceptance is impacted by the specialty television service's content, reviews of critics, marketing and promotions, the quality and acceptance of other competing services, the availability of alternative forms of entertainment, leisure activities, general economic conditions, public tastes and other intangible factors. The lack of audience acceptance for the Company's specialty television channels could have an adverse impact on the Company's business, results of operations, prospects or financial condition.

We may fail to anticipate or satisfy demand for certain new services, or may not be able to offer or market these new services successfully to subscribers. The failure to attract subscribers to new services, or failure to keep pace with changing consumer preferences, would slow revenue growth and could have a materially adverse effect on our business, results of operations and financial condition.

Our television specialty services compete principally for viewers and advertisers with other Canadian specialty services that broadcast in their respective markets and increasingly with Internet TV video downloading which also represents competition for share of viewership. Although the Company continues to develop flexible advertising packages and distribution channels tailored to the needs of advertisers, a general downturn in advertising budgets for television advertisers will have a negative impact on ATN's advertising revenue.

**Asian Television Network International Limited**  
**Management's Discussion and Analysis**  
**For the three and nine months ended September 30, 2017 and September 30, 2016**

**Dependence on BDUs Distributors or Programming Suppliers**

The Company is dependent on BDUs for its subscription revenue. The termination by any one BDU of its broadcasting of one or more of ATN's channels or changes in how the channels are offered to subscribers may have a significant negative impact on ATN's revenues. The Company address this risk by attempting to ensure that at least one BDU distributes some or all of its channels in each large Canadian metropolitan area, but nonetheless the loss of one BDU could be expected to impact ATN's revenue. Furthermore, the number of pay television households subscribing to traditional Canadian Cable or Satellite TV services continues to decline. Other video offerings available to consumers over the Internet such as, direct-to-consumer subscription or free services, some with pirated content, have contributed to this trend. If this decline continues, it could have a material adverse effect on our results of operations.

The Company has taken an active role in protecting its content rights and is working with many of its BDU partners in combating the threat of piracy by legal means.

The Company is likewise dependent on its content suppliers for its subscription revenue. The termination by any one of its content suppliers could affect the number or quality of ATN's channels thus having a negative impact on ATN's revenues. The Company address this risk by attempting to ensure that it distributes content from most or all of the major south Asian content suppliers, but nonetheless the loss of any supplier could be expected to impact ATN's revenue.

**Regulatory Risks and Uncertainties**

The specialty television services industry is regulated by the Canadian Radio-television and Telecommunications Commission ("CRTC") under the Broadcasting Act (Canada) (the "Broadcasting Act"), which grants and renews licenses. The Company's broadcasting licenses must be renewed from time to time, typically every seven years, and cannot be transferred without regulatory approval. The Company's inability to renew its licenses on favorable terms, or at all, would have an adverse impact on its results of operations, prospects and financial condition.

Changes in the regulations governing the specialty television industry, including decisions by regulators affecting the Company's broadcasting operations, such as the granting or renewal of licenses or the granting of additional broadcasting licenses to competitors or the introduction of new regulations by regulators, could adversely impact operating results, prospects and the financial condition of the Company. Our television specialty services may compete principally for viewers and advertisers with other similar, if any, Canadian or foreign specialty services that broadcast in their respective markets.

Substantially all of our business activities are subject to regulation by the CRTC, and, accordingly, our results of operations are affected by changes in regulations and by the decisions of these regulators.

Our broadcasting specialty services are licensed (or operated pursuant to an exemption order) and regulated by the CRTC pursuant to the Broadcasting Act. Under the Broadcasting Act, the CRTC is responsible for regulating and supervising all aspects of the Canadian broadcasting system with a view to implementing certain broadcasting policy objectives enunciated in that Act.

The Company actively monitors the regulatory environment to ensure it is aware of all risks and opportunities. The licensing process creates a significant barrier to entry which provides a degree of protection for the Company in its existing markets. This also makes it difficult to enter new markets because a company either needs to be awarded a new licence (through the public process) or pay significant funds for existing stations in a market. However, ATN competes with a number of broadcasters who either have existing channels or have resources to acquire new distribution outlets.

**ACCOUNTING**

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

In our 2016 Annual Audited Consolidated Financial Statements and Notes thereto, as well as in our 2016 Annual MD&A, we have identified the accounting policies and estimates that are critical to the understanding of our business operations and our results of operations. For the three and nine months ended September 30, 2017, there were no changes to the critical accounting policies and estimates from those found in our 2016 Annual MD&A except for the following:

**Asian Television Network International Limited**  
**Management's Discussion and Analysis**  
**For the three and nine months ended September 30, 2017 and September 30, 2016**

**FUTURE ACCOUNTING CHANGES**

**IFRS 9**

IFRS 9 Financial Instruments - The standard was issued and will replace IAS 39 – Financial Instruments: Recognition and Measurement. This standard introduces new requirements for classifying and measuring financial assets and liabilities. IFRS 9, which will be applied retrospectively, is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

**IFRS 15**

IFRS 15 Revenue from Contracts with Customers - The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard is effective for fiscal years ending on or after December 31, 2018 and is available for early adoption. The Company's current assessment is that there will be no changes to revenue recognition, however more robust disclosure will be required. The Company is assessing the impact this new interpretation will have on its consolidated financial statements.

**IFRS 16**

IFRS 16 Leases - In January 2016, the IASB issued this standard which introduces a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a 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. Adoption of the new standard will be required effective for annual periods beginning on or after January 1, 2019. The Company expects that IFRS 16 will result in an increase in assets and liabilities as the majority of leases will be brought onto the consolidated statements of financial position. The Company expects an increase in depreciation and interest expenses and also an increase in cash flow from operating activities as cash payments for the principal portion of the lease will be recorded as financing outflows in the consolidated statements of cash flows. The Company is assessing the impact this new interpretation will have on its consolidated.

**CONTROLS AND PROCEDURES**

The management of our company is responsible for establishing and maintaining adequate internal controls over financial reporting. Our internal control system was designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements in accordance with generally accepted accounting principles. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management maintains a system of controls intended to ensure that transactions are executed in accordance with management's authorization, assets are safeguarded, and financial records are reliable. Management also takes steps to see that information and communication flows are effective and to monitor performance, including performance of internal control procedures.

The Chief Executive Officer and Chief Financial Officer of the Company, the "Certifying Officers", evaluated the effectiveness of our internal control over financial reporting ("ICFR") as of November 27, 2017. Based on this evaluation, management has concluded that, as of September 30, 2017, our ICFR reporting is effective. There have been no changes in our ICFR during the three and nine months ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, our ICFR.

The Company is not required to certify the design and evaluation of its disclosure control and procedures (DC&P) or ICFR and although the Certifying Officers have evaluated the effectiveness of the Company's ICFR as at September 30, 2017, the Certifying Officers have not evaluated or caused to be evaluated the effectiveness of the Company's DC&P. The inherent limitations on the ability of the Certifying Officers to design and implement on a cost effective basis DC&P and ICFR for the Company may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

**FOR MORE INFORMATION:**

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