



**QYOU MEDIA INC.**

**INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS – QUARTERLY HIGHLIGHTS**

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

**Dated November 29, 2018**

# **QYOU Media Inc.**

## **Management's Discussion and Analysis**

### **For the three months ended September 30, 2018 and 2017**

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The purpose of this Management's Discussion and Analysis ("**MD&A**") is to provide the reader with an overview of the consolidated financial position, operating results, and cash flows of QYOU Media Inc. ("**QYOU**" or the "**Company**") for the three months ended September 30, 2018 and 2017. This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended June 30, 2018 and 2017, and the notes related thereto (the "**Annual Financial Statements**"), the unaudited condensed consolidated interim financial statements for the three months ended September 30, 2018 and 2017 (the "**Interim Financial Statements**") and with the annual management discussion and analysis for the year ended June 30, 2018.

The Interim Financial Statements have been prepared by management in accordance with generally accepted accounting principles in Canada, as set out in the Chartered Professional Accountant of Canada Handbook – Accounting which incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, using International Accounting Standard 34 - Interim Financial Reporting ("IAS 34"). IFRS requires management to make certain judgments, estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the amount of revenue and expenses incurred during the reporting period. The results of operations for the periods reflected herein are not necessarily indicative of results that may be expected for future periods.

All amounts are expressed in Canadian dollars unless otherwise noted. Certain amounts included in this MD&A are rounded, to make reading easier. References in this MD&A to the "Company", "QYOU", "we", "us" or "our" means QYOU and its subsidiaries.

The Financial Statements and this MD&A have been reviewed by the Company's Audit Committee and approved by its Board of Directors on November 29, 2018.

This MD&A includes forward looking statements and assumptions ("see Forward-looking Statements"). The Company's continuous disclosure documents are available on QYOU's SEDAR profile at [www.sedar.com](http://www.sedar.com).

#### **Forward-Looking Statements**

Certain statements in this MD&A constitute "forward-looking statements" that involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, objectives or achievements of the Company, or industry results, to be materially different from any future results, performance, objectives or achievements expressed or implied by such forward-looking statements. These statements reflect QYOU's current views regarding future events and operating performance and are based on information currently available to QYOU, and speak only as of the date of this MD&A. These forward-looking statements involve a number of known and unknown risks, uncertainties and assumptions and should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such performance or results will be achieved. Those assumptions and risks include, but are not limited to, the future cost structure, availability of additional financing as and when required, future sales and marketing activities, increased penetration into certain markets through strategic partnerships, the impact of the introduction of new products, agreements and partnerships, the ability of management to leverage sales opportunities, increase in the size of certain markets, expected increases in revenue, expected revenue from certain contracts, third party contractual performance, customer rollout plans for specific products, expected increase in gross margins, treatment under governmental regulatory regimes, ability to recover certain taxes, general business, economic, competitive, political and social uncertainties, dependence on key personnel, and fluctuations in foreign currency exchange rates. There can be no assurance that forward-looking statements will be accurate as many factors could cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including factors described in this MD&A and those discussed in QYOU's publicly-available disclosure documents, as filed by QYOU on SEDAR ([www.sedar.com](http://www.sedar.com)) and updated herein. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those described in this MD&A as intended, planned, anticipated, believed, estimated or expected. Accordingly, readers should not place undue reliance on forward-looking statements. All subsequent forward-looking statements, whether written or oral, attributable to QYOU or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements. Unless required by applicable securities laws, QYOU does not intend and does not assume any obligation to update these forward-looking statements.

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#### **Company Overview**

The Company was incorporated pursuant to the *Business Corporations Act* (Alberta) on July 30, 1993 under the name "575161 Alberta Inc." On April 10, 2014, the Company amended its articles to change its name to "Galleria Opportunities Ltd." Effective March 13, 2017, the Company completed a reverse takeover transaction (the "**Transaction**") pursuant to which QYOU Media Holdings Inc. became a wholly-owned subsidiary of the Company and the security holders of QYOU Media Holdings Inc. became security holders of the Company. QYOU Media Holdings Inc. is the entity resulting from the amalgamation of QYOU Media Inc. (as it was then called) and 2561287 Ontario Ltd. (then a wholly-owned subsidiary of the Company) on March 13, 2017 as part of the Transaction. Throughout this MD&A, the term "**QYOU Media**" is used to refer to QYOU Media Holdings Inc. after March 13, 2017 and is used to refer to QYOU Media Inc. (as it was then called) prior to March 13, 2017. In connection with the Transaction, the Company filed articles of amendment to change its name to "QYOU Media Inc." and was continued into Ontario on March 29, 2017 under the *Business Corporations Act* (Ontario). Subsequently, on March 31, 2017, the Company's common shares (the "**Common Shares**") resumed trading on the facilities of the TSX Venture Exchange (the "**TSXV**") under the symbol "QYOU". Following the Transaction, the Company now carries on the business of QYOU Media and its subsidiaries.

The Company, through its subsidiaries, focuses on the curation, programming and distribution of premium digital first short form video content for a multiscreen world. The Company finds and licenses premium videos from around the world in categories ranging from comedy to reality and everything in between; packaging them for linear and on-demand TV and video channels, mobile apps, custom shows and influencer marketing campaigns. The Company identifies sources for content material, records original video programming, edits content and prepares final video product for distribution.

On July 14, 2015, QYOU Media, through its subsidiary, QYOU Limited, entered into an asset purchase agreement with Black Forest Production Services, Inc. (then called QYOUTV, Inc.) ("**BFPS**"), pursuant to which QYOU Limited acquired certain intellectual property and assumed certain contracts from BFPS and all obligations and liabilities related thereto (the "**Asset Purchase**"). In addition, as part of the Asset Purchase, QYOU Limited acquired all of the issued and outstanding shares of QYOUTV International Limited, a corporation established under the laws of the Republic of Ireland in August 2014, which became a wholly-owned indirect subsidiary of QYOU Media as a result.

Prior to the Asset Purchase, from November 2013 through May 2015, BFPS developed a library of internet-curated content and related production services and a Pay-TV linear channel capable of broadcasting curated content. Following the Asset Purchase, QYOU Media outsourced its production services to BFPS, and accordingly the video production business remained within BFPS as a going concern.

An additional wholly-owned indirect subsidiary of QYOU, QYOU USA Inc. ("**QYOU USA**"), was established in August 2015 under the laws of the State of Delaware to undertake new production and coordinate the sourcing of content procurement both from BFPS and other suppliers. As of January 1, 2018 the company ceased utilizing the services of BFPS and began producing all content via its own QYOU USA subsidiary. In addition, QYOU USA is examining the marketing potential in the United States of its products.

On November 16, 2017, QYOU Productions Inc. ("**QYOU Productions**"), a corporation established under the federal laws of Canada, was created as a wholly-owned indirect subsidiary of QYOU. QYOU Productions was established to produce Heads Up Daily ("**HUD**"), a new daily show of curated esports content. The first licensing partner for the series is Super Channel's Ginx ESports TV Canada.

#### **Description of the Business**

QYOU is a content licensing, production and distribution company focused on the curation and programming of premium short-form made-for-web (i.e. YouTube-style) video content for multi-screen distribution. Its low cost, multi-platform content offerings are designed primarily for millennials and gen-z audiences, and are distributed globally via satellite, cable, over-the-top ("**OTT**"), mobile carriers and other content distribution partners, making it a leading next generation content company.

TV subscribers today are increasingly becoming "cord-cutters", demonstrating a desire to view content on-demand on the device of their choosing. In response, broadcasters have expanded their services, reaching customers' smart phones and other mobile devices where, once authenticated, they are allowed access to content on multiple devices as part of their subscription service.

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QYOU is offered as a linear channel (“**The Q**”), via subject specific and localized programs, as video-on-demand, via mobile apps and by other means of content distribution based on customer requirements. The linear channel initially focused exclusively on distribution outside of North America, with an emphasis on high growth platforms like Mobile, OTT and Digital Terrestrial (“**DTT**”). QYOU has since expanded into app-driven and mobile experiences, custom show development, and marketing services.

**Significant Events in the Quarter**

On July 19, 2018, the Company completed a short form prospectus offering (the “**Offering**”) on a bought deal basis and issued 15,500,000 units of the Company at a price of \$0.20 per unit and an additional 1,012,500 Common Share purchase warrants at a price of \$0.004 per warrant, for aggregate gross proceeds of \$3,104,050. Each unit was comprised of one Common Share and one-half of one Common Share purchase warrant. Each whole warrant entitles the holder to acquire one Common Share at a price of \$0.37 until July 19, 2020.

During the three months ended September 30, 2018, Andy Kaplan, former president of Sony Pictures Worldwide Networks, was appointed non-executive chairman of QYOU India Private Limited, an entity in which the Company has a controlling interest. Mr. Kaplan will work with management to aid in the growth of operations and revenues in India.

In September 3018, HUD was launched in Europe on the Sony Pictures Television pay-TV channel AXN Spin.

**Selected Quarterly Financial Highlights**

The following table presents selected interim financial information for the three months ended September 30, 2018 and 2017 and as at September 30, 2018 and June 30, 2018:

	<b>Three months ended September 30</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<b>Revenues</b>	<b>1,712,703</b>	<b>1,514,938</b>
Content and production costs	939,496	759,363
Other operating expenses	2,036,872	2,091,629
Income tax expense	44,458	-
<b>Total Expenses</b>	<b>3,020,826</b>	<b>2,850,992</b>
<b>Net loss</b>	<b>(1,308,123)</b>	<b>(1,336,054)</b>
<b>Loss per share, basic and diluted</b>	<b>(0.01)</b>	<b>(0.02)</b>

	<b>As at September 30,</b>	<b>As at June 30,</b>
	<b>2018</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Cash	2,622,110	1,069,248
Total assets	6,519,997	5,301,128
Total liabilities	1,974,379	2,269,914

**Overall Financial Performance**

- For the three months ended September 30, 2018, revenues were \$1,712,703 as compared to \$1,514,938 for the three months ended September 30, 2017, an increase of \$197,765 or 13%. The increase in revenue is primarily due to timing of deliverables under various contracts.
- For the three months ended September 30, 2018, content and production costs increased by \$180,133 or 24% compared to the three months ended September 30, 2017 as a result of costs incurred related to increased activities for Heads Up Daily (HUD) as well as for the influencer campaigns run by the Company during the three months ended September 30, 2018. There were three influencers campaigns run by the Company during the three months ended September 30, 2018, as compared to one during the three months ended September 30, 2017.

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- For the three months ended September 30, 2018, other operating expenses decreased by \$54,757 or 3% compared to the three months ended September 30, 2017.
- For the three months ended September 30, 2018, net loss decreased by \$27,931 as compared to the three months ended September 30, 2017, due to increase in revenue offset by increase in content and production costs.
- Cash as at September 30, 2018 was \$2,622,110 compared to \$1,069,248 as at June 30, 2018, representing an increase of \$1,552,862. The increase in cash is due to the completion of the Offering July, 2018 for net proceeds of \$2,660,326, net of issuance costs. This was offset by cash used in operating activities of \$603,382 and cash used in investing activities of \$521,800, primarily related to content and production costs.
- Total assets as at September 30, 2018 increased by \$1,218,869 as compared to June 30, 2018, primarily due to increase in current assets of \$1,010,375 driven by increase in cash from financings and an increase in capitalized content and production costs, which was offset by depreciation expense.

**Review of Operations for the Three Months Ended September 30, 2018 and 2017**

	Three months ended September 30		Change	%
	2018	2017		
	\$	\$	\$	
REVENUE	1,712,703	1,514,938	197,765	13%
OPERATING EXPENSES				
Content and productions costs	939,496	759,363	180,133	24%
Sales and marketing	569,721	495,058	74,663	15%
Salaries and benefits	348,005	452,178	(104,173)	-23%
Legal and consulting	756,384	488,773	267,611	55%
General and administrative	199,976	212,878	(12,902)	-6%
Bad debts written off	—	39,051	(39,051)	-100%
Foreign exchange (gain) loss	(61,244)	264,217	(325,461)	-123%
Interest and other expenses (income)	1,239	(9,152)	10,391	-114%
Depreciation	35,458	6,477	28,981	447%
Stock-based compensation	187,333	142,149	45,184	32%
<b>Total operating expenses</b>	<b>2,976,368</b>	<b>2,850,992</b>	<b>125,376</b>	<b>4%</b>
<b>Loss before listing expense</b>	<b>(1,263,665)</b>	<b>(1,336,054)</b>	<b>72,389</b>	<b>-5%</b>
Income tax expense	44,458	—	44,458	100%
<b>NET LOSS</b>	<b>(1,308,123)</b>	<b>(1,336,054)</b>	<b>27,931</b>	<b>-2%</b>
Net loss per share - basic and diluted	(0.01)	(0.02)	0.01	-36%

The following discussion includes an explanation of the primary factors in changes in operations for the three months September 30, 2018 and 2017. Additional, less significant changes are not articulated.

**Revenue**

For the three months ended September 30, 2018, revenues were \$1,712,703 as compared to \$1,514,938 for the three months ended September 30, 2017, an increase of \$197,765 or 13%. The increase in revenue is primarily due to timing of deliverables under various contracts, including the contract for HUD, as well as higher concentration of influencer campaigns during the three months ended September 30, 2018. There were three influencers campaigns run by the Company during the three months ended September 30, 2018, as compared to one during the three months ended September 30, 2017.

There are four customers, each individually representing greater than 10% of the Company's revenue, which on a combined basis represented 82% of total revenue recognized for the three months ended September 30, 2018, as compared to two customers representing 78% of revenue for the three months ended September 30, 2017.

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#### **Content and Production Costs**

Production costs represent the costs of sales of earning the Company's revenue and is comprised of content development, production expenses and channel delivery expenses. As of September 30, 2018, the Company's linear channel, The Q, has created more than 5,000 hours of original programming as part of an active library and presented globally.

In 2015, QYOU Media entered into an operating lease with M7 Group SA for satellite, transponder and technical services (the "**M7 Lease**"). This agreement gives QYOU the ability to distribute its content throughout all of Europe, the Middle East and Africa. Additionally, the Company uses a third party to deliver content via Internet Protocol (IP).

In July, 2017, the Company announced a new distribution agreement with Ericsson AB that brings its curated online video content to the Ericsson Unified Delivery Network (UDN) ecosystem.

For the three months ended September 30, 2018, content and production costs increased by \$180,133 or 24% as compared to the three months ended September 30, 2017, as a result of costs incurred for HUD as well as influencer campaigns run by the Company during the three months ended September 30, 2018. There were three influencers campaigns run by the Company during the three months ended September 30, 2018, as compared to one during the three months ended September 30, 2017.

As a percentage of total operating expenses, content and production costs were 32% for the three months ended September 30, 2018 compared with 27% for the three months ended September 30, 2017.

#### **Selling, General and Administrative Costs**

Selling, general and administrative expenses are comprised of sales and marketing, salaries and benefits, legal and consulting, and general and administrative costs.

Selling, general and administrative costs represented 63% and 58% of the Company's total operating expenses for the three months ended September 30, 2018 and 2017, respectively. For the three months ended September 30, 2018, selling, general and administrative costs increased by \$225,199 or 14% over the three months ended September 30, 2017.

During the three months ended September 30, 2018, sales and marketing costs increased by \$74,663 or 15% primarily due to costs associated with launching new program initiative, including increased selling and higher travel costs.

Salaries and benefit costs decreased by \$104,173 or 23%, primarily due to lower headcount during the three months ended September 30, 2018, as compared to the three months ended September 30, 2017.

Legal and consulting costs increased by \$267,611 or 55%, entirely driven by legal and accounting fees associated with the Offering in July 2018 and other one time events which more than offset what would have otherwise been a reduction in these costs over the comparable period.

General and administrative costs of \$199,976 during the three months ended September 30, 2018 were consistent with the expenses of \$212,878 during the three months ended September 30, 2017.

#### **Bad Debts Written Off**

There were no bad debts written off during the three months ended September 30, 2018.

#### **Foreign Exchange Gain/Loss**

Foreign exchange gain during the three months ended September 30, 2018 was \$61,244 compared to a foreign exchange loss of \$264,217 for the three months ended September 30, 2017. The change in foreign exchange gain/loss is a result of fluctuating exchange rates from transactions incurred in currencies other than the functional currency of the Company or its subsidiaries.

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#### **Stock Based Compensation**

The Company recognized \$187,333 and \$45,184 of share-based compensation expense related to stock options and restricted share units ("RSUs") during the three months ended September 30, 2018 and 2017, respectively. The increase in expense is primarily due to the recognition of expense related to the RSUs issued in 2018 and additional stock options granted in October 2017. No RSUs were issued and outstanding during the period ended September 30, 2017.

#### **Review of Financial Condition as at September 30, 2018**

The following is a comparison of the financial position of the Company as at September 30, 2018 to the financial position of the Company as at June 30, 2018.

#### **Cash**

Cash as at September 30, 2018 was \$2,622,110 compared to \$1,069,248 as at June 30, 2018, representing an increase of \$1,552,862. The increase in cash was due to the net proceeds of the Offering completed in July 2018 of \$2,660,326, net of issuance costs. This was offset by cash used in operating activities of \$603,382 and cash used in investing activities of \$521,800, primarily related to content and production costs.

#### **Trade and Other Receivables**

Trade and other receivables decreased by \$630,939 or 39% as at September 30, 2018 over the balance as at June 30, 2018. The decrease was primarily due to collection of a large receivable from Sinclair Broadcast Group for their TBD channel, which was resolved in a negotiated settlement with Sinclair during the three months ended September 30, 2018. During the three months ended March 31, 2018, the Company recorded a charge against an HST collectible in the amount \$480,000. During the three months ended September 30, 2018, \$41,000 was collected and the balance remains under review, and efforts to collect the balance from the Canada Revenue Agency continue.

#### **Property and Equipment**

Property and equipment decreased by \$36,431 or 11% as at September 30, 2018 over the balance as at June 30, 2018. The decrease can be attributed to depreciation expense of \$35,458 and foreign exchange translation adjustment of \$2,015, offset by additions of \$1,042.

#### **Capitalized Programming Asset**

The Company has segregated its film investments into two categories: current productions and library or acquired productions. Current productions are considered to be library productions immediately subsequent to their initial availability for licensing as they are considered completed.

Current productions are amortized using the declining balance method at rates from 50-70% at the time the initial episodic delivery and at annual rates of 10-25% thereafter.

The increase can be attributed to additions of \$520,800, offset by amortization of \$251,622.

#### **Application Development Costs**

Pursuant to the Asset Purchase, on July 14, 2015, QYOU Media, through its subsidiary, QYOU Limited, acquired certain assets from BFPS, including the rights to the "QYOU" brand and related intellectual property, and assumed net liabilities of \$56,454 for a cash payment of \$25,000. Accordingly, a value of \$81,454 has been allocated to the "QYOU" brand.

The Company, through its wholly-owned indirect Irish subsidiary, QYOU Limited, owns a Broadcast License granted by the Broadcasting Authority of Ireland, which allows QYOU Limited to broadcast its programs in Ireland and the European Union.

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As of September 30, 2018, the Company invested \$975,461 (June 30, 2018 – \$997,542) in the development of an application to facilitate the delivery of its content through non-linear channels, including mobile. The decrease of \$22,081 is all attributable to foreign exchange adjustment. As of September 30, 2018, the application remained in the development phase with plans to bring it to the market as a final product in fiscal 2019. Amortization of the capitalized application development cost will commence upon launch of the mobile application.

**Trade and Other Payables**

Trade and other payables decreased by \$179,245 or 9% as at September 30, 2018 over the balance as at June 30, 2018. The decrease can be attributed primarily to timing of the payments to vendors.

**Deferred Revenue**

Deferred revenue decreased by \$146,359 or 44% as at September 30, 2018 over the balance as at June 30, 2018. During the year ended June 30, 2018, the Company entered into contracts with various customers which were invoiced in advance per their respective agreements. The decrease in deferred revenue is the portion of the obligations fulfilled towards these contracts for the three months ended September 30, 2018.

**Share Capital and Warrants**

The increase in share capital of \$2,594,912 and in warrants of \$28,859 during the three months ended September 30, 2018 was due to:

- [a] On July 19, 2018, the Company completed the Offering on a bought deal basis and issued 15,500,000 units of the Company at a price of \$0.20 per unit and an additional 1,012,500 Common Share purchase warrants at a price of \$0.004 per warrant, for aggregate gross proceeds of \$3,104,050. Each unit was comprised of one Common Share and one-half of one Common Share purchase warrant. Each whole warrant entitles the holder to acquire one Common Share at a price of \$0.37 per share until July 19, 2020.

Fair value of the Common Share and Common Share purchase warrants was determined to be \$0.196 per Common Share and \$0.004 per Common Share purchase warrant, based on the transaction prices in the Offering. Gross proceeds of \$3,104,050 were allocated to the Common Shares and Common Share purchase warrants in the amount of \$3,069,000 and \$35,050, respectively.

Transaction costs related to the Offering consisted of \$443,724 in cash and the issuance of 1,426,000 compensation units to the underwriters in the Offering. Each compensation unit is exercisable to acquire one unit containing Common Share and one-half of one Common Share purchase warrant at an exercise price of \$0.20 per compensation unit for a period of two years from the date of issuance. The total fair value of the compensation units was \$104,555 and was determined using the Black-Scholes option pricing model with a market price per compensation unit of \$0.20, a risk-free interest rate of 1.93%, an expected annualized volatility of 65% and expected dividend yield of 0%.

- [b] During the three months ended September 30, 2018, 200,000 RSUs were redeemed by a former employee for 200,000 Common Shares and \$68,000 was transferred from contributed surplus to share capital.

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**Selected Unaudited Consolidated Quarterly Financial Information**

The following table presents selected unaudited consolidated quarterly financial information for each of the eight quarters indicated, as prepared in accordance with IFRS.

	Sept. 30, 2018 \$	Jun.30, 2018 \$	Mar. 31, 2018 \$	Dec. 31, 2017 \$	Sept. 30, 2017 \$	Jun. 30, 2017 \$	Mar. 31, 2017 \$	Dec. 31, 2016 \$
<b>Total Revenue</b>	1,712,703	730,279	1,745,738	1,574,393	1,514,938	1,309,790	1,088,593	889,627
<b>Operating Expenses</b>	2,976,368	3,130,070	3,852,444	3,291,726	2,850,992	3,352,652	2,546,249	1,898,590
<b>Net Loss</b>	(1,308,123)	(2,539,082)	(2,106,706)	(1,717,333)	(1,336,054)	(2,186,469)	(2,935,505)	(1,008,963)
<b>Net loss per share – basic and diluted</b>	(0.01)	(0.01)	(0.03)	(0.03)	(0.02)	(0.04)	(0.06)	(0.02)

Notes:

- 1) Net loss as presented above excludes impact of listing expenses of \$1,477,849 and \$143,607, which were incurred during the quarters ended March 31, 2017 and June 30, 2017, respectively.

**Liquidity and Capital Resources**

	As at September 30, 2018 \$	As at June 30, 2018 \$
Current Assets	3,712,682	2,702,307
Current Liabilities	1,974,379	2,269,914
<b>Working Capital</b>	<b>1,738,303</b>	<b>432,393</b>
Total Assets	6,519,997	5,301,128
Total Liabilities	1,974,379	2,269,914
Total Shareholders' Equity	4,545,618	3,031,214

Working capital is defined as current assets less current liabilities.

QYOU's capital requirements consist primarily of working capital necessary to fund operations and support a growing business. Sources of funds available to meet these requirements include existing cash balances, cash flow from operations and capital raised through equity financings. QYOU must generate sufficient revenue from operations to attract additional investment from the capital markets; failure to do so would adversely impact QYOU's ability to pay current liabilities.

The Company has not incurred any long-term debt or declared any cash dividend since its inception.

As of September 30, 2018, the Company had a positive working capital balance of \$1,738,303 compared to a working capital balance of \$432,393 as at June 30, 2018. The increase is primarily due to the net proceeds of the Offering completed in July 2018, offset by losses incurred during the period.

*Cash Flow Activity*

For the three month period ended September 30, 2018, cash used in operations was \$603,382, compared to \$912,010 for the comparable period ended September 30, 2017. The decrease in cash used was primarily due to lower cash operating costs and positive changes in non-cash working capital items driven by collections of trade and other receivables.

For the three month period ended September 30, 2018, cash used in investing activity was \$521,800, predominately related to capitalization of content and production costs.

Cash from financing activities for the three months ended September 30, 2018 was \$2,660,326, which represents net cash received from the Offering.

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#### *Liquidity and Cash Resource Requirements*

The Financial Statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The Financial Statements do not include any adjustments to the amounts and classification of assets and liabilities that would be necessary should the Company be unable to continue as a going concern.

#### *Going concern uncertainty*

As at September 30, 2018, the Company has not yet achieved profitable operations, and has an accumulated deficit of \$23.1 million. Whether, and when, the Company can attain profitability and positive cash flows from operations has material uncertainty, which may cast significant doubt upon the Company's ability to continue as a going concern. The application of the going concern assumption is dependent upon the Company's ability to generate future profitable operations and obtain necessary financing to do so. While the Company has been successful in obtaining financing to date, there can be no assurance that it will be able to do so in the future, on terms favourable to the Company or at all. The Company will need to raise capital in order to fund its operations. This need may be adversely impacted by factors such as uncertain market conditions and adverse results from operations. The Company believes it will be able to acquire sufficient funds to cover planned operations through the next 12-month period from anticipated revenue growth during fiscal 2019 and by securing additional financing through additional credit access from its commercial bank, plus other financing alternatives and strategic options currently being explored. The outcome of these matters cannot be predicted at this time.

#### *Commitments*

As at September 30, 2018, the Company is committed under operating leases, primarily relating to office and studio space, for the following minimum annual rentals:

	\$
2019	494,813
2020	41,305
2021	7,510
2022	-
2023	-
Thereafter	-
	<u>543,628</u>

#### **Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements other than those described under commitments above.

#### **Transactions between Related Parties**

On June 5, 2017, the Company agreed to loan Curt Marvis, the Chief Executive Officer of the Company, an aggregate principal amount of US\$150,000, as evidenced by a promissory note issued by Mr. Marvis to the Company, which bears interest at a rate of 3% per annum (the "**Officer Loan**"). As at September 30, 2018, the carrying value of the Officer Loan, inclusive of principle and interest was US\$155,500 (June 30, 2018 – US\$154,375) or C\$201,295 (June 30, 2018 – C\$203,281).

The Company paid consulting fees of \$59,328 to Curt Marvis for services rendered for the three months ended September 30, 2018 (three months ended September 30, 2017 – \$53,359).

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BFPS and the Company are considered to be related parties for accounting purposes as a result of common share ownership and because an officer of the Company also acts as a director of BFPS.

In addition, BFPS provides outsourced production services, on a cost plus basis, for the Company's videos under the terms of a production services contract. This service contract ended December 31, 2017. For the three months ended September 30, 2018, the Company paid production cost of nil (three months ended September 30, 2017 – \$151,488). As at September 30, 2018, the total amount due to BFPS was nil.

The Offering completed in July 2018 included a subscription by G. Scott Paterson, Chairman of the Company, for 1,000,000 units, representing a \$200,000 investment.

#### **Significant Accounting Policies and Critical Accounting Estimates**

We describe our significant accounting policies and critical accounting estimates in Note 2 to the Financial Statements.

#### **Changes in Accounting Policy**

***The following new accounting standards were applied or adopted during the period ended September 30, 2018:***

*[i] IFRS 9 - Financial Instruments ("IFRS 9")*

The adoption of IFRS 9 did not have any impact on the Company's consolidated financial statements. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the consolidated financial statements. The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortized cost; fair value through other comprehensive income ("FVOCI"); or fair value through profit and loss ("FVTPL"). The classification of financial assets under IFRS 9 is based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated. Instead, the hybrid financial asset as a whole is assessed for classification.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

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The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at FVTPL	Subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
Financial assets at amortized cost	Subsequently measured at amortized cost using the effective interest method, less any impairment losses. Interest income, foreign exchange gains and losses and impairment losses are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt investments at FVOCI	Subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment losses are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	Subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are not reclassified to profit or loss, even upon derecognition.

*[ii] IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”)*

IFRS 15 supersedes IAS 18 – *Revenue* and IAS 11 – *Construction Contracts* and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Company adopted IFRS 15 using the modified retrospective method of adoption on July 1, 2018. The effect of adopting IFRS 15 did not have any impact on the Company’s consolidated financial statements.

*Content and program revenue and influencer marketing revenue*

The Company contracts with its customers for the development and delivery of programs through fixed price agreements. Each episode of program is generally a performance obligation. The Company has concluded that revenue from content and program and influencer marketing should be recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the episode. Therefore, the adoption of IFRS 15 did not have an impact on the timing or the amount of revenue recognition.

*Licensing revenue*

The Company also generates subscriber revenue from pay television distributors.

Under IFRS 15, the Company concluded that licensing revenue will continue to be recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of programming. Therefore, the adoption of IFRS 15 did not have an impact on the timing or the amount of revenue recognition.

*Disclosure requirements*

As required for the condensed interim consolidated financial statements, the Company disaggregated revenue recognized from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Company has determined that revenue by geography

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best depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Refer to segment note in the Financial Statements for the disclosure on disaggregated revenue by geography.

***The Company has not applied the following new and revised accounting standards that have been issued but are not yet effective:***

***[i] IFRS 16 – Leases (“IFRS 16”)***

In January 2016, the IASB issued IFRS 16, which specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides 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. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019, and a lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. The Company is in the process of evaluating the impact of IFRS 16 on the Company's financial statements.

***[ii] IFRIC 23 – Uncertainty over Income Tax Treatment (“IFRIC 23”)***

In June 2017, the IASB issued IFRIC 23, which clarifies the accounting for uncertainties in income taxes. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. The requirements are applied by recognizing the cumulative effect of initially applying them in retained earnings, or in other appropriate components of equity, at the start of the reporting period in which the Company first applies them, without adjusting comparative information. Full retrospective application is permitted, if the Company can do so without using hindsight. The Company is in the process of evaluating the impact of IFRIC 23 on the Company's consolidated financial statements.

#### **Financial Instruments and Risk Management**

The Company's financial instruments consist of cash, trade receivables, other receivables, trade and other payables and their carrying value approximates fair value due to their immediate or short-term maturity. The Company does not use derivative financial instruments to manage existing exposures.

The nature and extent of risks arising from financial instruments, and their related risk management, are described in the Company's management discussion and analysis and consolidated financial statements for the year ended June 30, 2018. In the three months ended September 30, 2018, there was no material change to the nature of risks arising from or classification of financial instruments, or related risk management objectives.

#### **Risks and Uncertainties**

The results of operations and financial condition of the Company are subject to a number of risks and uncertainties, and are affected by a number of factors outside of the control of management. An investment in the Company's securities involves risks. Before making an investment decision with respect to our securities, you should carefully consider the risks and uncertainties described elsewhere in this MD&A and those described under the heading “Risk Factors” in the Company's annual information form dated November 6, 2017 and in other publicly available disclosure documents filed by the Company on SEDAR ([www.sedar.com](http://www.sedar.com)). The risks and uncertainties described in the documents referred to in the preceding sentence and in other documents filed by us with Canadian securities regulatory authorities are not the only ones we may face. Those risks and uncertainties, together with additional risks and uncertainties not currently known to us or that we may deem immaterial, could impair our business, financial condition and results of operations. The market price of our securities could decline if one or more of these risks and uncertainties develop into actual events, and you may lose all or part of your investment.

#### **Disclosure of Equity and Outstanding Share Data**

The Company's authorized share capital currently consists of an unlimited number of First Preferred Shares, Second Preferred Shares and Common Shares. As of the date hereof, there are 98,483,810 Common Shares, nil First Preferred Shares and nil Second Preferred Shares issued and outstanding. As of the date hereof, the Company also has issued and outstanding (i) Common Share purchase warrants to acquire an aggregate of up to 23,848,550 Common Shares; (ii) compensation options to acquire an aggregate of up to 5,209,128 Common Shares; (iii) stock options to acquire an

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aggregate of up to 6,142,913 Common Shares; and (iv) 3,775,000 RSUs, each redeemable for one Common Share on the vesting thereof.

**Investor Information**

Stock Exchange Listing

The Common Shares of the Company are listed on the TSXV under the symbol "QYOU".

Transfer Agent and Registrar

Computershare Investor Services Inc.

Auditors

Ernst & Young LLP

Investor Relations

If you have inquiries, please visit our website at [www.theqyou.com](http://www.theqyou.com) or contact:

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