



**QYOU MEDIA INC.  
(formerly Galleria Opportunities Ltd.)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the years ended June 30, 2018 and 2017**

**Dated October 29, 2018**

**QYOU Media Inc.  
Management's Discussion and Analysis  
As at June 30, 2018 and June 30, 2017**

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**QYOU Media Inc.  
Management's Discussion and Analysis  
October 29, 2018**

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 years ended June 30, 2018 and June 30, 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 "Financial Statements"). The Financial Statements were prepared in accordance with generally accepted accounting principles in Canada for publicly accountable enterprises, as set out in the CPA Canada Handbook – Accounting, which incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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 October 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, 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

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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.

### **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.

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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.

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**

On January 15, 2018, the Company launched Heads Up Daily (HUD), a new daily format of curated esports content aimed at the rapidly-growing number of esports fans around the world. The first licensing partner for the series was Super Channel's GINX Esports TV Canada, which became North America's first 24-hour gaming channel in May 2017. HUD has subsequently completed distribution agreements with Sony AXN networks and WPT distribution.

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In January 2018, 14,583,668 Common Share purchase warrants, each exercisable at a price of \$0.75, expired in accordance with their terms.

On February 6, 2018, the Company through its subsidiary QYOU USA signed a partnership agreement with iflix Ltd., the leading subscription OTT service for emerging markets, to distribute QYOU's curated online video content in 25 global territories. The agreement includes exclusive locally hosted formats on iflix Ltd.'s service in Indonesia, Malaysia and Philippines.

On February 27, 2018, the Company issued an aggregate of 4,125,000 restricted share units ("RSUs") of the Company to its existing directors, officers, employees and consultants pursuant to the Company's restricted share unit plan. Upon vesting, each RSU entitles the holder to one Common Share.

On March 13, 2018, 147,500 options to purchase Common Shares issued pursuant to the Company's stock option plan expired in accordance with their terms.

On March 15, 2018, the Company, through its subsidiary QYOU Limited, signed its first agreement in the United Kingdom with GoMedia, Europe's leading on-board infotainment provider, which will see QYOU's curated online video content distributed to United Kingdom rail passengers.

On March 27, 2018, the Company announced that industry veteran and former Co-COO and Co-Motion Picture President of Lionsgate, Steve Beeks, would join QYOU Media's Board of Directors pending all necessary approvals and that Wendy Bernfeld had resigned from the board of directors.

On April 12, 2018, the Company announced it partnered with WPT Distribution USA ("WPT") to promote and distribute QYOU's dedicated esports program *Heads Up Daily (HUD)*. WPT, a premier name in internationally televised gaming and entertainment, will distribute *Heads Up Daily (HUD)* as part of its global push into the televised esports genre.

On May 8, 2018, the Company announced it partnered with a major global distributor (later identified as Sony AXN) to license its flagship esports format *Heads Up Daily (HUD)* in 13 countries across Eastern Europe.

On May 24, 2018, the Company issued an aggregate of 350,000 RSUs of the Company to certain directors, officers and consultants pursuant to the Company's restricted share unit plan. Upon vesting, each RSU entitles the holder to one Common Share.

On June 6, 2018, the Company announced a partnership with Frequency to distribute QYOU programming via major cable and satellite providers globally

On June 13, 2018, the Company was awarded first prize for "Best Social Media" campaign of the year for its influencer marketing work on the movie *Trolls*.

On June 25, 2018, the Company announced a short form prospectus offering on a bought deal basis, underwritten by Clarus Securities Inc., which subsequently closed on July 19, 2018 for total gross proceeds of \$3.1 million.

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**Selected Annual Financial Information**

The following tables present selected annual financial information for each of the three most recently completed financial years, as prepared in accordance with IFRS.

	<b>Three months ended</b>		<b>Year ended June 30</b>		
	<b>June 30</b>		<b>2018</b>	<b>2017</b>	<b>2016</b>
	<b>2018</b>	<b>2017</b>			
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Revenues</b>	<b>730,279</b>	<b>1,309,790</b>	<b>5,565,348</b>	<b>4,185,067</b>	<b>1,800,399</b>
Content and production costs	611,981	714,878	3,354,452	2,981,205	4,337,613
Other operating expenses	2,032,089	2,637,774	9,284,780	6,350,723	5,285,016
Listing expense	-	143,607	-	1,621,456	-
<b>Total Expenses</b>	<b>2,644,070</b>	<b>3,496,259</b>	<b>12,639,232</b>	<b>10,953,384</b>	<b>9,622,629</b>
Income tax	139,290		139,290		
<b>Net loss</b>	<b>(1,913,791)</b>	<b>(2,186,469)</b>	<b>(7,213,174)</b>	<b>(6,768,317)</b>	<b>(7,822,230)</b>
<b>Loss per share, basic and diluted</b>	<b>(0.01)</b>	<b>(0.04)</b>	<b>(0.09)</b>	<b>(0.13)</b>	<b>(0.17)</b>

	<b>As at</b>	<b>As at</b>	<b>As at</b>
	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>
	<b>2018</b>	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash	1,069,248	2,582,966	1,802,694
Total assets	5,301,128	4,873,463	2,830,571
Total liabilities	2,269,914	1,190,206	1,002,189

**Overall Financial Performance**

*Three months ended June 30, 2018*

- For the three months ended June 30, 2018, revenues were \$730,279 compared to \$1,309,790 for the same period in 2017, a decrease of \$579,511 or 44%. The decrease in revenue was due to timing of deliverables under various contracts, reversal of revenue related to a contract terminated and unfavorable foreign exchange impact.
- For the three months ended June 30, 2018, content and production costs decreased by \$102,897 or 14% compared to the three months ended June 30, 2017 as a result of a reduction in content production related to TBD and the PGM segments in Ireland.
- For the three months ended June 30, 2018, other operating expenses decreased by \$605,685 or 23% compared to the three months ended June 30, 2017 due to professional fees incurred in the three months ended June 30, 2017 as a result of the Company's reverse take-over transaction and associated costs incurred therewith.

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- For the three months ended June 30, 2018, net loss decreased by \$272,678 due to the decrease in total expenses of \$852,189, offset by the decline in revenues of \$579,511.

*Year ended June 30, 2018*

- For the year ended June 30, 2018, revenues were \$5,565,348 compared to revenues of \$4,185,067 for the same period in 2017, representing an increase of 33%. Revenue increased due to the organic growth of the Company's linear channel, the production of *Heads Up Daily (HUD)*, as well as managing the operations of the channel created for Sinclair Broadcast Group ("**Sinclair**"), "TBD".
- For the year ended June 30, 2018, content and production costs increased \$373,247 or 13% and other operating expenses increased \$2,934,057 or 46%, as compared to the same period in 2017. Cost growth is driven by increased expenses to fulfill new revenue generating projects led by Heads Up Daily (HUD).
- For the year ended June 30, 2018, the Company incurred nil costs related to the Company's reverse take-over transaction involving the Company (then called Galleria Opportunities Ltd.) and QYOU Media (then called QYOU Media Inc.) and subsequent listing on the TSX Venture Exchange. During the year ended June 30, 2017, \$1,621,456 was incurred in respect of such costs.
- The net loss for the year ended June 30, 2018 decreased by \$444,857 or 7% as compared to the year ended June 30, 2017. The change in net loss was due primarily to an increase of revenues of \$1,380,281, an increase in content and production costs of \$373,247, an increase in other operating expenses of \$2,934,057, offset by a reduction in listing expense of \$1,621,456 as compared to the year ended June 30, 2017.
- The Company concluded the year ended June 30, 2018 with cash of \$1,069,248 (June 30, 2017 – \$2,582,966). Cash used in operating activities for the year ended June 30, 2018 was \$4,711,672 compared to cash used for the year ended June 30, 2017 of \$5,261,066. Cash used from investing activities for the year ended June 30, 2018 was \$2,017,018 compared to cash from investing activities for the year ended June 30, 2017 of \$9,895.
- Cash from financing activities of \$5,264,568 for the year ended June 30, 2018 (year ended June 30, 2017 – \$6,053,538) arose due to a short form prospectus offering on a bought deal basis completed on November 21, 2017 (the "**Offering**"). Pursuant to the Offering, the Company issued 15,541,100 units of the Company (the "**Units**") at a price of \$0.37 per Unit for aggregate gross proceeds of \$5,750,207. Each Unit consisted of one Common Share and one-half of one Common Share purchase warrant (each whole Common Share purchase warrant, a "**Warrant**"). Each Warrant entitles the holder thereof to acquire one Common Share at a price of \$0.55 per Common Share until November 21, 2019. Additionally, In July 2017, the Company received notices to exercise 1,002,750 compensation options in the capital of the Company, each exercisable at a price of \$0.50 into one unit of the Company, for gross proceeds of \$501,375.

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

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

**Revenue**

For the three months ended June 30, 2018, total revenue decreased by \$579,511 or 44% compared to the three months ended June 30, 2017 due to timing of deliverables under various contracts, reversal of revenue related to a contract terminated and unfavorable foreign exchange.

For the year ended June 30, 2018, total revenue increased by \$1,380,281 or 33% compared to the same period in 2017. Revenue increased due to the organic growth of the Company's linear channel, the production of *Heads Up Daily (HUD)*, as well as managing the operations of the channel created for Sinclair, "TBD".

Two customers represented 61% of total revenue recognized for the year ended June 30, 2018 (2017 – 72%).

**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 June 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 June 30, 2018, content and production costs decreased by \$102,897 or 14% as compared to the three months ended June 30, 2017, as a result of a reduction in content production related to TBD and the PGM segments in Ireland. As a percentage of total operating expenses, content and production costs were 23% for the three months ended June 30, 2018 compared with 20% for the same period in 2017.

For the year ended June 30, 2018, cost of sales increased by \$373,247 or 13% as compared to the year ended June 30, 2017. As a percentage of total operating expenses, cost of sales was 27% for the year ended June 30, 2018 compared with 32% for the year ended June 30, 2017.

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**Selling, General and Administrative Costs**

	<b>Three months ended June 30, 2018</b>	<b>Three months ended June 30, 2017</b>	<b>Year ended June 30, 2018</b>	<b>Year ended June 30, 2017</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Sales and marketing	726,973	445,383	2,463,915	1,646,544
Salaries and benefits	416,091	695,770	1,882,374	1,530,587
Legal and consulting	383,228	966,507	2,033,764	1,601,023
General and administrative	892,679	256,223	1,620,943	752,744
<b>Total selling, general and administrative costs</b>	<b>2,418,971</b>	<b>2,363,883</b>	<b>8,000,996</b>	<b>5,530,898</b>

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

Selling and administrative costs represented 91% and 68% of the Company's total operating expenses for the three months ended June 30, 2018 and June 30, 2017, respectively. For the three months ended June 30, 2018, selling and administrative costs increased by \$55,948 or 2% over the three months ended June 30, 2017.

During the three months ended June 30, 2018, sales and marketing costs increased by \$281,590 or 63%, salary and benefit costs decreased by \$279,679 or 40%, legal and consulting costs decreased by \$583,279 or 60%, and general and administrative costs increased by \$636,456 or 248%, primarily driven by headcount and other professional services, over the three months ended June 30, 2017.

For the year ended June 30, 2018, selling and administrative costs increased by \$2,470,958 or 45% over the year ended June 30, 2017. During the year ended June 30, 2018, sales and marketing costs increased by \$817,371 or 50% over the year ended June 30, 2017, salary and benefit costs increased by \$351,787 or 23% over the year ended June 30, 2017, legal and consulting costs increased by \$432,741 or 27% over the year ended June 30, 2017 and general and administrative costs increased by \$869,059 or 115% over the year ended June 30, 2017.

The increase in selling and administrative costs was due primarily to increased legal and filing costs related to the Offering in November 2017, as well as public relations, marketing and salary and benefits.

**Bad Debts Written Off**

Bad debts written off during the three months and year ended June 30, 2018 was nil and nil, respectively, compared to nil and \$75,510, respectively, for the three months and year ended June 30, 2017.

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**Foreign Exchange Gain**

Foreign exchange gain/(loss) during the three months and year ended June 30, 2018 was (\$385,340) and \$6,012, respectively, compared to \$85,180 and \$31,600 for the three months and year ended June 30, 2017. The foreign exchange loss arose as a result of fluctuating exchange rates from transactions incurred in currencies other than the functional currency of the Company or its subsidiaries.

**Stock Based Compensation**

The Company recognized \$454,230 and \$1,187,848 of share-based compensation expense related to stock options and RSUs during the three months and year ended June 30, 2018, respectively, compared to \$285,683 and \$785,858 during the three months and year ended June 30, 2017.

**Review of Financial Condition as at June 30, 2018**

The following is a comparison of the financial position of the Company as at June 30, 2018 to the financial position of the Company as at December 31, 2017.

**Cash**

Cash decreased by \$1,513,718 or 59% as at June 30, 2018 over the balance as at June 30, 2017. Refer to the section entitled "Liquidity and Capital Resources" for the detailed discussion provided.

**Trade and Other Receivables**

Trade receivables increased by 135,387 or 9% as at June 30, 2018 over the balance as at June 30, 2017. The increase was primarily due to a significant receivable from Sinclair for their TBD channel, which has subsequently been resolved in a negotiated settlement with Sinclair. In Q3 2018, the Company took a charge against HST collectible in the amount \$480,000. Subsequently, \$41,000 has been collected and the balance remains under review and efforts to collect from CRA continue.

**Property and Equipment**

Property and equipment increased by \$278,080 or 599% as at June 30, 2018 over the balance as at June 30, 2017. The increase can be attributed to additions of \$352,717, foreign exchange translation adjustment of \$3,773, offset by depreciation expense of \$78,410.

**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.

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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 \$1,350,904, offset by amortization of \$258,402.

**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.

QYOU, 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.

As of June 30, 2018, the Company invested \$997,542 (June 30, 2017 - \$657,797) in the development of an application to facilitate the delivery of its content through non-linear channels, including mobile. As of June 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 increased by \$817,059 or 69% as at June 30, 2018 over the balance as at June 30, 2017. The increase can be attributed primarily to the increase in operating expenses in support of additional revenue generation incurred in the year ended June 30, 2018. As a result, the Company has obtained new vendors, which make up the bulk of trade payables, as well as an increase in accrued content costs related to an increase in content production in the year ended June 30, 2018.

**Deferred Revenue**

Deferred revenue increased by \$262,649 or 100% as at June 30, 2018 over the balance as at June 30, 2017. The increase can be attributed primarily to contracts entered into with various customers, which were all invoiced in advance per their respective agreements and the obligations towards these contracts are yet to be performed as at June 30, 2018.

**Share Capital and Warrants**

The increase in share capital of \$4,636,969 and decrease in warrants of \$2,166,573 is due to:

[a] In July 2017, the Company received notices to exercise 1,002,750 compensation options in the capital of the Company, each exercisable at a price of \$0.50 into one unit of the Company, for gross proceeds of \$501,375. Each unit was comprised of one Common Share and one-half of one Common Share purchase warrant, each whole Common Share purchase warrant exercisable for one Common Share at a price of \$0.75, with expiration dates ranging from January 15, 2018 to January 29, 2018. The fair value of the Common Share purchase warrants was determined to be \$61,580 using the Black-Scholes option

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pricing model and has been recorded as a reduction of share capital and allocated to warrants. The Company also transferred the associated amount of \$262,046 from contributed surplus to share capital.

- [b] On November 21, 2017, the Company completed the Offering of 15,541,100 "Units", at a price of \$0.37 per Unit on a bought deal basis pursuant to a short form prospectus for gross proceeds of \$5,750,207. Each Unit consists of one Common Share and one-half of one Warrant. Each Warrant entitles the holder thereof to acquire one Common Share at a price of \$0.55 per Common Share until November 21, 2019. In connection with the Offering, the Company also granted the underwriter, Clarus Securities Inc. ("**Clarus**"), and other members of its selling group compensation equal to: (i) cash commission of \$402,514.49, being 7% of the gross proceeds derived from the Offering (the "**Underwriting Fee**"); and (ii) 1,087,877 compensation options of the Company (the "**Compensation Options**"), each Compensation Option exercisable into one Unit until November 21, 2019 at a price of \$0.37. Also in connection with the Offering, the Company paid a cash fee of \$125,000 to PowerOne Capital Markets Limited as compensation for acting as special financial advisor in connection with the Offering (the "**Advisory Fee**"). The net proceeds to the Company from the Offering was \$4,763,193, after deducting the Underwriting Fee of \$402,514, the Advisory Fee of \$125,000, legal costs of \$359,750 and audit related costs of \$99,750.

As part of the Offering, 7,770,550 Warrants partially comprising the Units were issued. Each Warrant entitles the holder thereof to acquire one Common Share at a price of \$0.55 per share until November 21, 2019. The fair value of the Warrants was determined to be \$683,746 based on the Black-Scholes option pricing model and has been recorded as a reduction of share capital.

In connection with the Offering, the Underwriting Fee was \$402,514, the Advisory Fee was \$125,000, and the Company also incurred \$459,500 of legal/audit fees, all of which have been recorded as a reduction of share capital.

In connection with the Offering, the Company also granted Clarus and other members of its selling group 1,087,877 Compensation Options, each Compensation Option exercisable into one Unit until November 21, 2019 at a price of \$0.37. The fair value of the Compensation Options was determined to be \$144,319 based on the Black-Scholes option pricing model and has been recorded as a reduction of share capital.

- [c] In January 2018, 14,583,668 warrants expired in accordance with their terms resulting in transfer of \$2,911,899 from warrants to contributed surplus.

**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.

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	Jun.30, 2018 \$	Mar. 31, 2018 \$	Dec. 31, 2017 \$	Sept. 30, 2017 \$	Jun. 30, 2017 \$	Mar. 31, 2017 \$	Dec. 31, 2016 \$	Sept. 30, 2016 \$
Total Revenue	730,279	1,745,738	1,574,393	1,514,938	1,309,790	1,088,593	889,627	897,057
Operating Expenses	3,130,070	3,852,444	3,291,726	2,850,992	3,352,652	2,546,249	1,898,590	1,534,437
Net Loss	(2,539,082)	(2,106,706)	(1,717,333)	(1,336,054)	(2,186,469)	(2,935,505)	(1,008,963)	(637,380)
Net loss per share – basic and diluted	(0.01)	(0.03)	(0.03)	(0.02)	(0.04)	(0.06)	(0.02)	(0.01)

Notes:

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

**Liquidity and Capital Resources**

	As at June 31, 2018 \$	As at June 31, 2017 \$
Current Assets	2,702,307	4,073,707
Current Liabilities	2,269,914	1,190,206
<b>Working Capital</b>	<b>570,823</b>	<b>2,883,501</b>
Total assets	5,301,128	4,873,463
Total Liabilities	2,269,914	1,190,206
Total shareholders' equity	3,031,214	3,683,257

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.

Working capital is defined as current assets less current liabilities.

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

As of June 30, 2018, the Company had a positive working capital balance of \$570,823 compared to a working capital balance of \$2,883,501 as at June 30, 2017. The decrease is primary due to losses incurred during the period.

*Cash Flow Activity*

For the year ended June 30, 2018, cash used in operations was \$4,711,672 and the Company had a net cash balance of \$1,069,248. For the year ended June 30, 2017, cash used in operations was \$5,261,066 and the Company had a net cash balance of \$2,582,966.

For the year ended June 30, 2018, cash used from investing activity was \$2,017,018, as compared to cash acquired of \$9,895 for the year ended June 30, 2017.

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For the year ended June 30, 2018, the Company increased its net cash by \$5,264,568 from financing activities due to the proceeds raised from the Offering completed on November 21, 2017 and the Company received notices to exercise 1,002,750 compensation options in the capital of the Company, each exercisable at a price of \$0.50 into one unit of the Company, for gross proceeds of \$501,375.

*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.

As at June 30, 2018, the Company has not yet achieved profitable operations, and has an accumulated deficit of \$21.7 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 twelve-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 June 30, 2018, the Company is committed under operating leases, primarily relating to office and studio space, for the following minimum annual rentals:

	\$
2019	1,132,459
2020	142,733
2021	7,680
2022	-
2023	-
Thereafter	-
	<u>1,282,872</u>

On September 10, 2018, the Company terminated one of the leases and entered into a new premise lease resulting in reduction of commitments above of \$382,792.

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**Off-Balance Sheet Arrangements**

The Company did not enter into any off-balance sheet arrangements during the year ended June 30, 2018, nor were any off balance sheet arrangements entered into during to the year ended June 30, 2017.

**Transactions Between Related Parties**

The related party transactions entered into by the Company during the year ended June 30, 2018 were comprised of the following:

- 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 June 30, 2018, the carrying value of the loan, inclusive of principle and interest was US\$ 154,375 or C\$203,281 as determined using the Bank of Canada exchange rate on June 30, 2018 of US\$1=C\$1.3168.
- The Company paid consulting fees of \$217,696 to Curt Marvis for services rendered for the year ended June 30, 2018 (2017 – \$237,088).
- 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. Total production costs incurred by the Company that were provided by BFPS for the year ended June 30, 2018 was \$323,645 (2017 – \$1,208,102).
- As at June 30, 2018, the total amount due to BFPS was \$58,837 (2017 – \$64,637) and is included in "Trade and other payables" in the Financial Statements. The Company's payment terms to BFPS is due upon receipt and non-interest bearing.
- During the year ended June 30, 2018, BFPS paid certain operating expenses of the Company, which include salaries for certain employees as well as related expenses in the amount of \$1,112,263 (2017 – \$1,223,638). These amounts were reimbursed by the Company.

**Significant Accounting Policies and Critical Accounting Estimates**

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

**Future Accounting Policy Changes**

The following accounting pronouncements issued by the IASB were not effective as of June 30, 2018. Management is currently evaluating the potential impact the adoption of these accounting pronouncements will have on the Company's consolidated financial statements.

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

In July 2014, the IASB issued the final version of IFRS 9, which reflects all phases of the financial instruments project and replaces IAS 39 - Financial Instruments: Recognition and

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Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but restatement of comparative information is not compulsory. The Company is in the process of evaluating the impact of IFRS 9 on the Company's financial statements.

*[ii] IFRS 15 - Revenue from Contracts with Customers ("IFRS 15")*

In May 2014, the IASB issued IFRS 15, which covers principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The core principle of the new standard is that an entity recognizes revenue to represent the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard also provides a model for the recognition and measurement of gains or losses of non-financial assets. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The standard permits the use of either full or modified retrospective application. This new accounting guidance will also result in enhanced disclosures about revenue. The Company is in the process of evaluating the impact of IFRS 15 on the Company's financial statements.

*[iii] 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. Early adoption is permitted if IFRS 15 has also been adopted. The Company is in the process of evaluating the impact of IFRS 16 on the Company's financial statements.

*[iv] 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 financial statements.

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**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.

**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 publically 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.

**Currency Risk**

Currency risk is the risk to the Company's earnings that arises from fluctuations of foreign exchange rates. The Company is exposed to foreign currency exchange risk as it has sales and purchase contracts denominated in currencies other than the functional currency of the Company and its subsidiaries.

Since the Company's reporting currency is Canadian dollars and the Company has significant US operations and European operations with US dollars and Euros as the functional currency, the Company is exposed to foreign currency fluctuations on its reported amounts of US assets and liabilities. As at June 30, 2018, the Company had net liabilities (excluding intercompany balances) of \$660,189 denominated in Euros and net liabilities of 79,274 denominated in US dollars. A 10% change in exchange rates between US dollars, Euros and Canadian dollar would result in \$111,844 of additional net liabilities recorded on the consolidated statements of financial position. All such changes are recorded to other comprehensive loss.

**Interest Rate Risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to interest rate risk as at June 30, 2018.

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**Other Price Risk**

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company is not exposed to other price risks as at June 30, 2018.

**Credit Risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from deposits with banks and outstanding receivables. The Company trades only with recognized, creditworthy third parties. The Company performs credit checks for all customers who wish to trade on credit terms. As at June 30, 2018, two customers represented 70.8% (June 30, 2017 – 73.2%) of the outstanding trade receivable balance.

The Company does not hold any collateral as security but mitigates this risk by dealing only with those parties whom management believes to be financially sound counterparties and, accordingly, does not anticipate significant loss for non-performance.

The Company has nil allowance for doubtful accounts as at June 30, 2018 and 2017.

**Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's exposure to liquidity risk is dependent on the Company's ability to raise additional financing to meet its commitments and sustain operations. The Company mitigates liquidity risk by management of working capital, cash flows and the issuance of share capital.

The Company is obligated to the following contractual maturities of undiscounted cash flows:

Carrying amount	Total contractual cash flows	Contractual cash flows		
		Year 1	Year 2	Year 3 and beyond
	\$	\$	\$	\$
Trade and other payables	2,007,265	2,007,265	-	-

**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 98,183,810 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

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Shares; (ii) compensation options to acquire an aggregate of up to 3,472,752 Common Shares; (iii) stock options to acquire an aggregate of up to 6,546,771 Common Shares; and (iv) 4,275,000 restricted share units.

**Subsequent Events**

On July 19, 2018, the Company completed a short form prospectus 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.

**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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