



QYOU MEDIA INC.

INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended September 30, 2019 and 2018

November 26, 2019

QYOU Media Inc.

Management's Discussion and Analysis

For the three months ended September 30, 2019 and 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 three months ended September 30, 2019 and 2018. This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended June 30, 2019 and 2018, and the notes related thereto [the "**Annual Financial Statements**"], the unaudited condensed consolidated interim financial statements for the three months ended September 30, 2019 and 2018 [the "**Interim Financial Statements**"] and with the annual management discussion and analysis for the year ended June 30, 2019.

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.

This MD&A is dated as of November 26, 2019.

This MD&A includes forward looking statements and assumptions ["see Forward-looking Statements"]. The Company's continuous disclosure documents are available on SEDAR at 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] 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

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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 is a global media company that, through its subsidiaries, carries on the business of curating, licensing, programming, and packaging the "best-of-web" short form internet video for multiscreen distribution to video content providers including traditional cable and satellite to Internet Protocol television, over-the-top providers and mobile carriers.

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 partners for the series are Super Channel's Ginx ESports TV Canada and Sony Pictures Television AXN Spin.

On September 20, 2018, QYOU Media India Private Ltd. ["**QYOU India**"] was incorporated to serve the rapidly growing Indian market focusing on mobile offerings targeted at the youth of India. The Company has 82% ownership interest in QYOU India resulting in 18% ownership interest held by non-controlling shareholders.

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 influencer marketing services.

Significant Events in the Quarter

During the three months ended September 30, 2019, the Company completed the issuance of 26,050,000 units as part of a private placement [the “Offering”] of 36,000,000 units of the Company [the “Units”] at a price of \$0.05 per Unit. The total gross proceeds from the issuance was \$1,302,500. Each Unit is comprised of one common share of the Company, one-half of one common share purchase warrant exercisable to purchase one common share at a price of \$0.06 [a “6 Cent Warrant”] and a second one-half of one common share purchase warrant exercisable to purchase one common share at a price of \$0.10 [a “new 10 Cent Warrant”].

Selected Quarterly Financial Highlights

The following table presents selected interim financial information for the three months ended September 30, 2019 and 2018:

| | Three months ended September 30 | |
|------------------------------|--|--------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Revenue | 563,733 | 1,712,703 |
| Content and production costs | 802,400 | 939,496 |
| Other operating expenses | 1,475,110 | 2,036,872 |
| Income tax expense | — | 44,458 |
| Total Expenses | 2,277,510 | 3,020,826 |
| Net loss | (1,713,777) | (1,308,123) |

| | As at September 30, 2019 | As at June 30, 2019 |
|-------------------|-------------------------------------|--------------------------------|
| | \$ | \$ |
| Cash | 539,512 | 305,095 |
| Total assets | 3,635,291 | 3,745,131 |
| Total liabilities | 1,966,473 | 1,744,251 |

Overall Financial Performance

Three months ended September 30, 2019

- For the three months ended September 30, 2019, revenue was \$563,733 as compared to \$1,712,703 for the three months ended September 30, 2018, a decrease of \$1,148,970 or [67%]. The decrease in revenue is primarily due to loss of linear channel revenue for QYOU Limited for the cancelled Sinclair business and decline in linear programming revenue.
- For the three months ended September 30, 2019, content and production costs decreased by \$137,096 or [15%] compared to the three months ended September 30, 2018, primarily due to amortization of programming costs.
- For the three months ended September 30, 2019, other operating expenses decreased by \$561,762 or [28%] compared to the three months ended September 30, 2018, primarily due to decrease in legal and consulting expenses as the Company is focusing its efforts to minimize outside legal costs.
- For the three months ended September 30, 2019 net loss increased by \$405,654 or [31%], directly impacted by the decrease in revenue.

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- The Company concluded the three months ended September 30, 2019 with cash of \$539,512 [June 30, 2019 – \$305,095 and September 30, 2018 – \$1,069,248].
 - Cash used in operating activities for the three months ended September 30, 2019 was \$718,091 compared to cash used for the three months ending ended September 30, 2018 of \$603,382. The increase is primarily due to net loss.
 - Cash used from investing activities for the three months ended September 30, 2019 was \$0 compared to cash acquired for the three months ended September 30, 2018 of \$521,842. The decrease is due to no investing activities for the three months ended September 30, 2019.
 - Cash from financing activities for the three months ended September 30, 2019 was \$968,355 compared to cash from three months ended September 30, 2018 of \$2,660,326. Cash from financing arose due to financing from private placement for the three months ended September 30, 2019 and financing from short term prospectus for three months ended September 30, 2018.

Operating Segments

Reportable segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker, with appropriate aggregation. The chief operating decision maker is the CEO who is responsible for allocating resources, assessing performance of the reportable segment and making key strategic decisions. The Company operates in a single segment, being the distribution of curated media content on pay television platforms. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the financial statements.

The Company primarily operates in three geographical areas, being Canada, United States of America and Ireland. Revenue and assets by geography are presented below:

| Revenue | Canada | USA | Ireland | Total | |
|---------------------------------------|------------|-----------|------------|--------------|-----------|
| Three months ended September 30, 2019 | — | 379,712 | 184,021 | 563,733 | |
| Three months ended September 30, 2018 | 450,000 | 1,069,362 | 193,341 | 1,712,703 | |
| As at September 30, 2019 | | | | | |
| | Canada | USA | Ireland | Intercompany | Total |
| Current assets | 21,525,053 | 6,841,179 | 17,906,678 | (43,647,960) | 2,624,950 |
| Non-current assets | 852,310 | 68,879 | 89,152 | — | 1,010,341 |
| As at June 30, 2019 | | | | | |
| | Canada | USA | Ireland | Intercompany | Total |
| Current assets | 20,675,935 | 6,851,244 | 18,380,583 | (43,395,264) | 2,512,498 |
| Non-current assets | 1,059,684 | 81,025 | 91,924 | — | 1,232,633 |

As at September 30, 2019, four [2018 – four] customers represented 10% or more of total revenue.

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Review of Operations for the three months ended September 30, 2019 and 2018

| | Three months ended Sept 30, | | Change | |
|---------------------------------|-----------------------------|--------------------|------------------|-------------|
| | 2019 | 2018 | | |
| | \$ | \$ | \$ | % |
| REVENUE | 563,733 | 1,712,703 | (1,148,970) | -67% |
| OPERATING EXPENSES | | | | |
| Content and productions costs | 802,400 | 939,496 | (137,096) | -15% |
| Sales and marketing | 467,617 | 569,721 | (102,104) | -18% |
| Legal and consulting | 298,164 | 756,384 | (458,220) | -61% |
| Salaries and benefits | 311,698 | 348,005 | (36,307) | -10% |
| Stock-based compensation | 188,516 | 187,333 | 1,183 | 1% |
| General and administrative | 156,730 | 199,976 | (43,246) | -22% |
| Depreciation | 43,085 | 35,458 | 7,627 | 22% |
| Foreign exchange loss | (31) | (61,244) | 61,213 | -100% |
| Interest and other expenses | 9,331 | 1,239 | 8,092 | 653% |
| Total operating expenses | 2,277,510 | 2,976,368 | (698,858) | -23% |
| Loss before income taxes | (1,713,777) | (1,263,665) | (450,112) | 36% |
| Income tax (recovery) expense | — | 44,458 | (44,458) | |
| NET LOSS | (1,713,777) | (1,308,123) | (405,654) | 31% |

The following discussion includes an explanation of the primary factors in changes in operations for the three months ended September 30, 2019 and 2018. Additional, less significant changes are not articulated.

Revenue

For the three months ended September 30, 2019, revenue was \$563,733 as compared to \$1,712,703 for the three months ended September 30, 2018, a decrease of \$1,148,970 or [67%]. The decrease in revenue is primarily due to loss of linear channel revenue for QYOU Limited for the cancelled Sinclair business and general decline in linear programming revenue.

Four customers individually represent greater than 10% of the Company's revenue, representing 75% of total revenue recognized for the three months ended September 30, 2019, as compared to four customers representing 83% of total revenue for three months ended September 30, 2018.

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, 2019, 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).

For the three months ended September 30, 2019, content and production decreased by \$137,096 or [15%] compared to the three months ended September 30, 2018, primarily due to amortization of programming costs. As a percentage of total operating expenses, content and production costs were 35% for the three months September 30, 2019 compared with 32% for the three months ended September 30, 2018.

Selling, General and Administrative Costs

Selling, general and administrative expenses are comprised of sales and marketing, salaries and benefits, legal and consulting, stock-based compensation and general and administrative.

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Selling, general and administrative costs represented 62% of the Company's total operating expenses for the three months ended September 30, 2019 compared to 69% for the three months September 30, 2018. For the three months ended September 30, 2019, selling, general and administrative costs decreased by \$638,694 or [31%] over the three months ended September 30, 2018.

During the three months ended September 30, 2019, sales and marketing costs decreased by \$102,104 or [18%] compared to the three months ended September 30, 2018 primarily due to lower spending as the Company refocuses its corporate growth strategy through international distribution and strategic partnerships, new production formats and influencer marketing business development.

During the three months ended September 30, 2019, salaries and benefit costs decreased by \$36,307 [10%] compared to the three months ended September 30, 2018 primarily due to lower headcount during the three months ended September 30, 2019, as compared to the three months ended September 30, 2018.

Legal and consulting costs decreased by \$458,220 or [61%] for the three months ended September 30, 2019 compared to the three months ended September 30, 2018, primarily due to a focused effort to minimize outside legal costs.

Stock-based compensation decreased by \$1,183 or [1%] for the three months ended September 30, 2019 compared to the three months ended September 30, 2018.

General and administrative costs for the three months ended September 30, 2019 decreased by \$43,246 or [22%] compared to the three months ended September 30, 2018, primarily due to decrease in rent expense.

Foreign Exchange Gain/Loss

Foreign exchange (gain) loss during the three months ended September 30, 2019 was \$(31) compared to a foreign exchange (gain) loss of \$(61,244) for the three months ended September 30, 2018, respectively. 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.

Review of Financial Condition as at September 30, 2019

The following is a comparison of the financial position of the Company as at September 30, 2019 to the financial position of the Company as at June 30, 2019.

Cash

Cash as at September 30, 2019 was \$539,512 compared to \$305,095 as at June 30, 2019, representing an increase of \$234,417 or [77%]. Refer to "Liquidity and capital resources" section for the detailed discussion provided.

Trade and Other Receivables

Trade and other receivables decreased by \$186,176 or [19%] as at September 30, 2019 over the balance as at June 30, 2019. The decrease is primarily due to timing of payments received from customers.

Property and Equipment

Property and equipment decreased by \$32,097 or [16%] as at September 30, 2019 over the balance as at June 30, 2019. The decrease can be attributed to depreciation expense of \$33,025, offset by foreign exchange translation adjustment of (\$112).

Capitalized Programming Asset

The Company produces its own films. Current productions are considered 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 of 60% in year 1, 30% in year 2 and 10% in year 3. Amortization is included in the consolidated statement of loss and comprehensive loss under content

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and productions costs.

Capitalized programming asset decreased by \$226,625 or [24%], for the three months ended September 30, 2019 compared to June 30, 2019. The decrease can be attributed to amortization.

Right-of-Use Asset

Right-of-use asset increased to \$39,202 as at September 30, 2019 due to the adoption of IFRS 16 during Fiscal Year 2020.

Application Development Costs and Intangible assets

Pursuant to the Asset Purchase, July 15, 2015, the Company acquired certain assets from Black Forest Production Services, USA, ["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 [€59,114 euros] was 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.

Capitalized application development costs were costs incurred for the development of a customized mobile application for the Company's curated videos. The mobile application was launched in January 2019 and amortization of the capitalized application development commenced upon launch of the mobile application. As at June 30, 2019, there were indications that the mobile application was impaired due to nominal revenues generated from the application to date resulting in the full net book value being recognized as impairment loss.

Trade and Other Payables

Trade and other payables increased by \$65,440 or [4%] as at September 30, 2019 over the balance as at June 30, 2019. The increase can be attributed primarily to timing of the payments to vendors.

Deferred Revenue

Deferred revenue increased by \$117,468 or [106%] as at September 30, 2019 over the balance as at June 30, 2019. The increase in deferred revenue is related to a new contract for which services have not been provided as at the three months ended September 30, 2019.

Lease Liability

Lease liability increased to \$39,314 as at September 30, 2019 due to the adoption of IFRS 16 during Fiscal Year 2020.

Share Capital and Warrants

The increase in share capital of \$968,501 and in warrants of \$202,481 during the three months ended September 30, 2019 was due to:

- [a] During the three months ended September 30, 2019, the Company completed the issuance of 26,050,000 units as part of a private placement [the "Offering"] of 36,000,000 units of the Company [the "Units"] at a price of \$0.05 per Unit. The total gross proceeds from the issuance was \$1,302,500. Each Unit is comprised of one common share of the Company, one-half of one common share purchase warrant exercisable to purchase one common share at a price of \$0.06 [a "6 Cent Warrant"] and a second one-half of one common share purchase warrant exercisable to purchase one common share at a price of \$0.10 [a "10 Cent Warrant"].

Each 6 Cent Warrant is exercisable to purchase one common share in the capital of the Company at a price of \$0.06 per 6 Cent Warrant Share for a period of one year following the closing date. Each new 10 Cent Warrant is exercisable to purchase one common share in the capital of the Company at a price of \$0.10 per 10 Cent Warrant Share for a period of two years following the closing date. The fair value of each 6 Cent Warrant is \$0.013 per warrant and \$0.01 per new 10 Cent Warrant; calculated using the Black-Scholes options

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pricing model with a market price per common share of \$0.055 on the date of grant, a risk-free interest rate of 1.58%, an expected annualized volatility of 65% and expected dividend yield of 0%.

Total transaction costs for the Offering consisted of \$113,069 in cash and issuance of 2,266,000 compensation options to the agents in connection with the Offering. Each compensation option is exercisable into one Unit until September 30, 2021 at a price of \$0.05. Transaction costs were allocated proportionally to 26,050,000 Units issued during the three months ended September 30, 2019 and 9,950,000 Units issued subsequent to September 30, 2019. Total fair value of the compensation options was determined to be \$41,283 of which \$29,873 was allocated to the Units issued during the three months ended September 30, 2019. The fair value of the compensation units was determined using the Black-Scholes options pricing model with a market price per compensation unit of \$0.05, a risk-free interest rate of 1.58%, an expected annualized volatility of 65% and expected dividend yield of 0%.

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, 2019 | Jun. 30, 2019 | Mar. 31, 2019 | Dec. 31, 2018 | Sept. 30, 2018 | Jun. 30, 2018 | Mar. 31, 2018 | Dec. 31, 2017 |
|--|----------------|---------------|---------------|---------------|----------------|---------------|---------------|---------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Total Revenue | 563,733 | 1,487,649 | 601,269 | 916,527 | 1,712,703 | 730,279 | 1,745,738 | 1,574,393 |
| Operating Expenses | 2,277,510 | 3,132,196 | 2,572,677 | 2,299,508 | 2,976,368 | 3,130,070 | 3,852,444 | 3,291,726 |
| Net loss attributable to: | | | | | | | | |
| Equity owners of the Company | (1,696,256) | (1,534,873) | (1,841,256) | (1,407,939) | (1,308,123) | (2,539,082) | (2,106,706) | (1,717,333) |
| Non-controlling interest | (17,521) | (15,549) | (10,574) | (4,997) | — | — | — | — |
| Net loss per share - basic and diluted | (0.01) | (0.01) | (0.02) | (0.02) | (0.01) | (0.01) | (0.03) | (0.03) |

Liquidity and Capital Resources

| | As at September 30, 2019 | As at June 30, 2019 |
|----------------------------|--------------------------|---------------------|
| | \$ | \$ |
| Current Assets | 2,624,950 | 2,512,498 |
| Current Liabilities | 1,966,473 | 1,744,251 |
| Working Capital | 658,477 | 768,247 |
| Total Assets | 3,635,291 | 3,745,131 |
| Total Liabilities | 1,966,473 | 1,744,251 |
| Total Shareholders' Equity | 1,668,818 | 2,000,880 |

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, 2019, the Company had a working capital balance of \$658,477 compared to a working capital balance of \$768,247 as at June 30, 2019. The decrease is primarily due to increase in deferred revenue.

Cash Flow Activity

For the three months ended September 30, 2019, cash used in operations was \$718,091 compared to \$603,382 for the three months ended September 30, 2018. The increase in cash used was primarily related to higher net loss.

For the three months ended September 30, 2019, cash used in investing activity was nil as the Company did not purchase any property and equipment and has no content and production costs.

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Cash from financing activities for the three months ended September 30, 2019 was \$968,355, which represents net cash received from the private placement.

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, 2019, the Company has not yet achieved profitable operations, and has an accumulated deficit of \$29.6 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. The Company will need to raise capital in order to fund its operations. This need may be adversely impacted by uncertain market conditions, approval by regulatory bodies, and adverse results from operations. The outcome of these matters cannot be predicted at this time.

Commitments

As at September 30, 2019, the Company is committed under operating leases, primarily relating to office and studio space, for the following minimum annual rentals:

| | \$ |
|------------|---------------|
| 2020 | 96,181 |
| Thereafter | — |
| | <u>96,181</u> |

Off-Balance Sheet Arrangements

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

Transactions between Related Parties

The related party transactions entered into by the Company during the three months ended September 30, 2019 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"], and was originally intended to become due on June 5, 2019. Subject to TSX Venture Exchange approval, the Company proposes to extend the term of the promissory note to January 31, 2021. As at September 30, 2019, the carrying value of the Officer Loan, inclusive of principle and interest was US\$160,000 [June 30, 2019 – US\$158,875] or C\$211,888 [June 30, 2019 – C\$207,920].
- The Company paid consulting fees of \$66,215 to a Curt Marvis for services rendered for the three months ended September 30, 2019 [2018 – \$59,328], included in the consolidated statement of loss and comprehensive loss under legal and consulting expenses.

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Compensation expense for the Company’s key management personnel for the three months ended September 30, 2019 and 2018 is as follows:

| | 2019 | 2018 |
|--|----------------|-----------|
| | \$ | \$ |
| Salaries, benefits and consulting fees | 375,724 | 372,102 |
| Share-based payments | 160,735 | 657,866 |
| | 536,459 | 1,029,968 |

Significant Accounting Policies and Critical Accounting Estimates

We describe our significant accounting policies and critical accounting estimates in Note 3 to the Financial Statements.

Changes in Accounting Policy

The following new accounting standards were applied or adopted during the period ended September 30, 2019:

IFRS 16 – Leases [“IFRS 16”]

The Company has adopted IFRS 16 with an initial adoption date of July 1, 2019.

IFRS 16 specifies how leases will be recognized, measured, presented and disclosed and it provides a single lessee model requiring lessees to recognize right-of-use assets and lease liabilities for all major leases. The Company’s accounting policy under IFRS 16 is as follows.

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right of control the use of identified asset for a period of time in exchange for consideration. The Company recognized a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of the costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of the consumption of the future economic benefits. The lease term includes periods covered by an option to extend if they Company is reasonably certain to exercise that option. In addition, the right-of-use asset can be periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company’s incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. Company used an incremental borrowing rate to the lease liabilities in the opening balance sheet at July 1, 2019 of 7.5%.

The lease liability is measured at the amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from change in an index or rate, if there is a change in the Company’s estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use has been reduced to zero. The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less leases of low value assets. The lease payments associated with those leases is recognized as an expense on a straight-line basis over the lease term.

On initial application, the Company has elected to record right-of-use assets at the amount of the corresponding lease liability. Right-of-use assets and lease obligation of \$49,263 were recorded as at July 1, 2019. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at July 1, 2019. The Company has applied the practical expedient to account for leases for which the lease term ends within 12 months of the date of initial adoption. The company has elected to apply the practical expedient to grandfather the assessment of which transactions are leases on the date of initial application, as previously assessed under IAS 17 and IFRIC 4. The company applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after July 1, 2019.

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The following table reconciles the Company's operating lease obligations at June 30, 2019, as previously disclosed in the Company's consolidated financial statements, to the lease obligations recognized on initial application of IFRS 16 at July 1, 2019.

| | \$ |
|--|---------|
| Operating lease obligation as at June 30, 2019 | 162,596 |
| Less: Recognition exemption short-term leases | 110,492 |
| Adjusted lease commitments | 52,104 |
| Less: Impact of present value | 2,841 |
| Opening IFRS 16 lease liability as at July 1, 2019 | 49,263 |

Impact on statement of financial position on July 1, 2019:

| | Balance as at June 30, 2019 | IFRS 16 adjustments | Balance as at July 1, 2019 |
|--------------------------|--------------------------------|------------------------|-------------------------------|
| Assets | | | |
| Non-current assets: | | | |
| Right-of-use-assets, net | — | 49,263 | 49,263 |
| Liabilities | | | |
| Lease liabilities | — | 49,263 | 49,263 |

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 three months ended September 30, 2019. In the three months ended September 30, 2019, 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 and in other publicly available disclosure documents filed by the Company on SEDAR (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 not exposed to foreign currency exchange risk as it has minimal 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 and European assets and liabilities. As at September 30, 2019, the Company

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had net liabilities (assets) [excluding intercompany balances] of €(38,212) [June 30, 2019 – €495,962] denominated in Euros and net liabilities of \$70,741 [June 30, 2019 – \$70,340] denominated in US dollars. A 10% change in exchange rates between US dollars, Euros and Canadian dollar would result in \$8,851 [June 30, 2019 – \$\$83,039] of additional net liabilities recorded on the consolidated statements of financial position. All such changes are recorded to other comprehensive income (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 September 30, 2019.

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 September 30, 2019.

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 September 30, 2019, two customers represented 53% [June 30, 2019 – 59%] of the outstanding trade receivable balance.

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

The Company has nil provision for expected credit losses for the three months ended September 30, 2019 and for the year ended June 30, 2019.

The aging of trade receivables is as follows:

| | September 30, 2019 | June 30, 2019 |
|--------------------------------|---------------------------|----------------------|
| | \$ | \$ |
| Current | 103,353 | 575,554 |
| 1 to 30 days | 467,294 | 208,963 |
| 31 to 60 days | 32,976 | 35,530 |
| > 60 days | 205,744 | 175,496 |
| Total trade receivables | 809,367 | 995,543 |

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.

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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 | 1,699,054 | 1,699,054 | 1,699,054 | — | — |

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 172,819,060 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 83,097,750 Common Shares; (ii) compensation options to acquire an aggregate of up to 6,375,467 Common Shares; (iii) stock options to acquire an aggregate of up to 10,862,189 Common Shares; and (iv) 9,125,000 RSUs, each redeemable for one Common Share on the vesting thereof.

Subsequent Events

In October, 2019 the Company extended the term of warrants that were originally due to expire on October 30, 2019 to March 31, 2020. These warrants were issued in connection with the Company's short form prospectus offering completed on April 30, 2019, and are each exercisable to purchase one Common Share at a price of \$0.10.

On October 30, 2019, the Company completed the remaining issuance of 9,950,000 Units for total gross proceeds of \$497,500 in relation to the Offering.

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

MNP LLP

Investor Relations

If you have inquiries, please visit our website at www.theQYOU.com or contact:

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