

**QYOU Media Inc.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
[expressed in Canadian dollars]

June 30, 2019 and 2018

# Independent Auditor's Report

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To the Shareholders of QYOU Media Inc.:

## Opinion

We have audited the consolidated financial statements of QYOU Media Inc. and its subsidiaries (the "Company"), which comprise the consolidated statement of financial position as at June 30, 2019, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at June 30, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

## Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that as at June 30, 2019 the Company had not achieved profitable operations and had an accumulated deficit of \$27.9 million. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## Other Matter

The consolidated financial statements of the Company for the year ended June 30, 2018 were audited by another auditor who expressed an unmodified opinion on those financial statements on October 29, 2018.

## Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Giacomo Angelini.

Burlington, Ontario

October 28, 2109

*MNP LLP*

Chartered Professional Accountants

Licensed Public Accountants

**MNP**

**QYOU Media Inc.**

**Consolidated statements of financial position**

[expressed in Canadian dollars]

[see going concern uncertainty - note 2]

As at June 30,	2019	2018
	\$	\$
<b>Assets</b>		
Current assets		
Cash	305,095	1,069,248
Trade receivables [note 15]	995,543	1,373,543
Other receivables [note 4]	788,151	241,228
Prepaid expenses	423,709	18,288
	<b>2,512,498</b>	<b>2,702,307</b>
Property and equipment, net [note 5]	200,730	324,502
Capitalized programming asset, net [note 6]	939,979	1,092,502
Application development costs, net [note 7]	—	997,542
Security deposit	3,921	93,476
Intangible assets, net [note 7]	88,003	90,799
	<b>3,745,131</b>	<b>5,301,128</b>
<b>Liabilities</b>		
Current liabilities		
Trade and other payables [note 15]	1,633,614	2,007,265
Deferred revenue [note 8]	110,637	262,649
	<b>1,744,251</b>	<b>2,269,914</b>
<b>Shareholders' equity</b>		
Share capital [note 9]	22,312,422	18,326,516
Warrants [note 9]	1,819,172	1,544,395
Contributed surplus	5,825,151	4,916,841
Foreign exchange translation reserve	(28,833)	47,183
Deficit	(27,895,913)	(21,803,721)
Equity attributable to shareholders of the Company	2,031,999	3,031,214
Non-controlling interest [note 11]	(31,119)	—
	<b>2,000,880</b>	<b>3,031,214</b>
	<b>3,745,131</b>	<b>5,301,128</b>

Commitments and contingencies [note 12]

Subsequent events [note 18]

*The accompanying notes are an integral part of these consolidated financial statements.*

On behalf of the Board:

"Signed"  
Director - Scott Paterson

"Signed"  
Director - Curt Marvis

**QYOU Media Inc.**

**Consolidated statements of loss and comprehensive loss**

[expressed in Canadian dollars]

For the years ended June 30,

	2019	2018
	\$	\$
REVENUE <i>[note 17]</i>	4,718,148	5,565,348
OPERATING EXPENSES		
Content and productions costs	4,242,487	3,354,452
Sales and marketing	2,031,921	2,463,915
Legal and consulting	1,463,129	2,033,764
Salaries and benefits	1,032,504	1,882,374
Stock-based compensation <i>[note 10]</i>	892,198	1,187,848
Impairment loss <i>[note 7]</i>	725,045	—
General and administrative	439,624	1,620,943
Depreciation <i>[note 5]</i>	138,975	78,410
Foreign exchange loss	8,760	6,012
Interest and other expenses	6,106	11,514
<b>Total operating expenses</b>	<b>10,980,749</b>	<b>12,639,232</b>
<b>Loss before income taxes</b>	<b>(6,262,601)</b>	<b>(7,073,884)</b>
Income tax (recovery) expense	(139,290)	139,290
<b>NET LOSS</b>	<b>(6,123,311)</b>	<b>(7,213,174)</b>
<b>Other comprehensive (loss) income</b>		
Item that may be reclassified subsequently to income:		
Exchange (loss) gain on translation of foreign operations	(76,016)	155,608
Total other comprehensive (loss) income	(76,016)	155,608
<b>COMPREHENSIVE LOSS</b>	<b>(6,199,327)</b>	<b>(7,057,566)</b>
<b>Net loss attributable to:</b>		
Equity owners of the Company	(6,092,192)	(7,213,174)
Non-controlling interest <i>[note 11]</i>	(31,119)	—
	<b>(6,123,311)</b>	<b>(7,213,174)</b>
Net loss per share - basic and diluted	(0.06)	(0.09)
Weighted average number of shares outstanding - basic and diluted	103,972,989	76,270,108

*The accompanying notes are an integral part of these consolidated financial statements.*

### Consolidated statements of changes in shareholders' equity

[expressed in Canadian dollars]

For the years ended June 30, 2019 and 2018

	Common shares #	Share capital \$	Warrants \$	Contributed surplus \$	Non-controlling interests \$	Foreign exchange transaction reserve \$	Deficit \$	Total \$
<b>Balance, June 30, 2017</b>	<b>65,939,959</b>	<b>13,689,547</b>	<b>3,710,968</b>	<b>981,714</b>	—	<b>(108,425)</b>	<b>(14,590,547)</b>	<b>3,683,257</b>
Broker compensation options exercised	1,002,750	763,421	—	(262,046)	—	—	—	501,375
Allocated to warrants	—	(61,580)	61,580	—	—	—	—	—
Allocated to employee options	—	—	—	(46,893)	—	—	—	(46,893)
Issued - Private Placement - November 2017	15,541,100	5,750,207	—	—	—	—	—	5,750,207
Finance cost	—	(987,014)	—	—	—	—	—	(987,014)
Broker options issued	—	(144,319)	—	144,319	—	—	—	—
Allocated to warrants	—	(683,746)	683,746	—	—	—	—	—
Warrants expired	—	—	(2,911,899)	2,911,899	—	—	—	—
Allocated to employee RSUs	—	—	—	1,187,848	—	—	—	1,187,848
Exchange difference on translating foreign operations	—	—	—	—	—	155,608	—	155,608
Net loss for the year	—	—	—	—	—	—	(7,213,174)	(7,213,174)
<b>Balance, June 30, 2018</b>	<b>82,483,809</b>	<b>18,326,516</b>	<b>1,544,395</b>	<b>4,916,841</b>	—	<b>47,183</b>	<b>(21,803,721)</b>	<b>3,031,214</b>
Issuance of common shares and warrants, net of issuance costs	53,835,250	3,798,906	274,777	203,112	—	—	—	4,276,795
RSUs exercised	500,001	187,000	—	(187,000)	—	—	—	—
Share-based compensation	—	—	—	892,198	—	—	—	892,198
Exchange difference on translating foreign operations	—	—	—	—	—	(76,016)	—	(76,016)
Net loss for the year	—	—	—	—	(31,119)	—	(6,092,192)	(6,123,311)
<b>Balance, June 30, 2019</b>	<b>136,819,060</b>	<b>22,312,422</b>	<b>1,819,172</b>	<b>5,825,151</b>	<b>(31,119)</b>	<b>(28,833)</b>	<b>(27,895,913)</b>	<b>2,000,880</b>

The accompanying notes are an integral part of these consolidated financial statements.

**QYOU Media Inc.****Consolidated statements of cash flows**

[expressed in Canadian dollars]

For the years ended June 30,

	2019	2018
	\$	\$
<b>Cash flows from operating activities</b>		
Net loss	(6,123,311)	(7,213,174)
Adjustments to reconcile net loss to net cash used in operating activities		
Unrealized foreign exchange loss	8,760	125,226
Impairment loss	725,045	—
Depreciation	138,975	78,410
Amortization	1,396,347	258,402
Share-based compensation	892,198	1,187,848
	<b>(2,961,986)</b>	<b>(5,563,288)</b>
Changes in non-cash working capital items		
Trade receivables	366,081	(388,298)
Other receivables	(549,432)	252,911
Prepaid expenses	(430,225)	(6,931)
Security deposit	89,375	(85,774)
Trade and other payables	(322,458)	817,059
Deferred revenue	(152,120)	262,649
<b>Cash used in operating activities</b>	<b>(3,960,765)</b>	<b>(4,711,672)</b>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(15,662)	(352,717)
Content and production costs	(998,668)	(1,350,904)
Application development costs	—	(313,397)
<b>Cash used in investing activities</b>	<b>(1,014,330)</b>	<b>(2,017,018)</b>
<b>Cash flows from financing activities</b>		
Issuance of shares and warrants, net of issuance costs	4,276,795	5,264,568
<b>Cash from financing activities</b>	<b>4,276,795</b>	<b>5,264,568</b>
<b>Net decrease in cash during the year</b>	<b>(698,300)</b>	<b>(1,464,122)</b>
Effect of foreign exchange on cash	(65,853)	(49,596)
Cash, beginning of year	1,069,248	2,582,966
<b>Cash, end of year</b>	<b>305,095</b>	<b>1,069,248</b>

*The accompanying notes are an integral part of these consolidated financial statements.*

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

[expressed in Canadian dollars, unless otherwise noted]

June 30, 2019 and 2018

**1. BUSINESS AND ORGANIZATION**

QYOU Media Inc. (“QYOU” or the “Company”) was incorporated pursuant to the Business Corporations Act (Alberta) on July 30, 1993 under the name “575161 Alberta Inc.”. The registered and head office of the Company is 441 King Street West, Suite 200, Toronto, ON M5V 1K4. 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.

The Company has the following subsidiaries:

Entity name	Country	Ownership	Ownership
		percentage June 30, 2019 %	percentage June 30, 2018 %
QYOU Media Holdings Inc.	Canada	100	100
QYOU Productions Inc.	Canada	100	100
QYOU Limited	Ireland	100	100
QYOUTV International Limited	Ireland	100	100
QYOU USA Inc.	USA	100	100
QYOU Media India Private Ltd.	India	82	n/a

**2. BASIS OF PRESENTATION**

**[a] Statement of compliance**

These consolidated financial statements [“financial statements”] have been prepared by management 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”]. The policies set out below have been consistently applied to all periods presented, unless otherwise noted.

These financial statements were approved and authorized for issuance by the Board of Directors of the Company on October 25, 2019.

**[b] Basis of measurement**

These financial statements have been prepared on a historical cost basis. Historical costs are generally based upon the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment* [“IFRS 2”] and measurements that have some similarities to fair value, but are not fair value, such as value in use in IAS 36 *Impairment of Assets*.

**[c] Basis of Presentation**

The accompanying financial statements include the accounts of QYOU Media Inc. and its subsidiaries, QYOU Productions Inc., QYOU Media Holdings Inc., QYOU Limited Ltd., QYOU USA Inc. and QYOU Media India Private Ltd. The financial statements incorporate the assets and liabilities of the Company and its subsidiaries as at June 30, 2019 and 2018 and the results of these subsidiaries for the years then ended.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

[expressed in Canadian dollars, unless otherwise noted]

June 30, 2019 and 2018

Subsidiaries are all those entities over which the Company has control. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. All intra-entity assets and liabilities, revenue, expenses and cash flows relating to transactions between subsidiaries of the Company are eliminated in full on consolidation.

**[d] Functional currency and presentation currency**

These financial statements are presented in Canadian dollars, which is the functional currency of QYOU Media Inc.

**[e] Use of estimates and judgements**

The preparation of these financial statements in conformity with IFRS requires management to make estimates, judgements and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from these estimates.

Estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements, apart from those involving estimations, that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements:

**[i] Going concern uncertainty**

These 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. These 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. Such adjustments could be material.

As at June 30, 2019, the Company has not yet achieved profitable operations, and has an accumulated deficit of \$27.9 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.

**[ii] Estimated useful lives, residual values and depreciation of property and equipment**

Depreciation of property and equipment is dependent upon estimates of useful lives and residual values, which are determined through the exercise of judgement. The assessment of any impairment of these assets' is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

**[iii] Capitalization of internally generated intangible assets, the estimated useful life and amortization of intangible assets**

The Company employs significant estimates to determine the estimated useful lives of intangible assets, considering industry trends, contractual rights, past experience, expected use and review of asset useful lives. The Company reviews amortization methods and useful lives annually or when circumstances change and adjusts its amortization methods and assumptions prospectively.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

[expressed in Canadian dollars, unless otherwise noted]

June 30, 2019 and 2018

Initial capitalization of development cost is based on management's judgement that economic and technological feasibility is confirmed. In determining the amounts to be capitalized, management makes assumptions using the expected future cash generation of the assets, discount rates to be applied and the expected period of benefit to determine the amount to be capitalized.

[iv] Valuation of share-based payments and warrants

Management measures the costs for share-based payments and warrants using market-based option valuation techniques. Assumptions are made and estimates are used in applying the valuation techniques. These include estimating the future volatility of the share price, expected dividend yield, expected risk-free interest rate and the rate of forfeiture. Such estimates and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates of share-based payments and warrants.

[v] Revenue recognition

Multi-element or bundled contracts require an estimate of the relative fair value of separate elements. The Company has a limited number of these arrangements, and assesses the criteria for the recognition of revenue related to arrangements that have multiple components. These assessments require judgement by management to determine if there are separately identifiable components as well as how to allocate the total price among the components. Deliverables are accounted for as separately identifiable components if they can be understood without reference to the series of transactions as a whole. In concluding whether components are separately identifiable, management considers the transaction from the customer's perspective. Among other factors, management assesses whether the service or product is sold separately by the Company in the normal course of business or whether the customer could purchase the service or product separately.

[vi] Income taxes

The Company computes an income tax provision in each of the tax jurisdictions in which it operates. Actual amounts of income tax expense only become final upon filing and acceptance of the tax return by the relevant tax authorities, which occurs subsequent to the issuance of the financial statements. Additionally, estimation of income taxes includes evaluating the recoverability of deferred tax assets against future taxable income based on an assessment of the ability to use the underlying future tax deductions before they expire. To the extent that estimates of future taxable income differ from the tax return, income would be affected in a subsequent period.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

[a] Cash

Cash consists of cash and cash held in trust accounts. As a result, the carrying amount of cash approximates fair value.

[b] Trade receivables

The Company's standard terms of credit on trade receivables are due in full in 30 days. These customers have specific contracts that detail the payments expected under their contract terms. Trade receivables are customer obligations due under these contract terms. Management reviews trade receivables on a regular basis, based on contracted terms and how recently payments have been received, to determine if any such amounts will potentially be uncollected.

[c] Property and Equipment

Property and equipment are stated at historical cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The costs of normal maintenance and repairs are charged to expense when incurred.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

[expressed in Canadian dollars, unless otherwise noted]

June 30, 2019 and 2018

The estimated useful lives of the assets are as follows:

Computer hardware and equipment	3 years
Furniture and fixtures	3 years

An item of property and equipment and any significant part initially recognized are derecognized upon disposal or when no future economic benefits are expected from their use or disposal. Any gain or loss arising on derecognition of the asset [calculated as the difference between the net disposal proceeds and the carrying amount of the asset] is included in the consolidated statements of loss and comprehensive loss when the asset is derecognized. The assets' residual values, useful lives and methods of depreciation and the depreciation charge are adjusted prospectively, if appropriate.

[d] Intangible Assets

Expenditures on research activities are recognized as an expense in the period in which they are incurred. Externally and internally generated intangibles are recognized only if they meet strict criteria, relating in particular to technical feasibility, probability that a future economic benefit associated with the asset will flow to the entity and the cost of the asset can be measured reliably.

Intangible assets with finite useful lives' are stated at cost and are amortized over their useful economic lives when the asset is ready for its intended use. Upon the commencement of amortization, the asset is carried at cost less accumulated amortization and impairment losses. Intangible assets are tested for impairment as required [see impairment, below].

Intangible assets acquired are measured on initial recognition at cost. Intangible assets acquired consist mainly of brand name with an indefinite useful life that is not amortized, but subject to an annual impairment test. The Company intends to use the brand name indefinitely.

*Indefinite useful lives* – The Company does not amortize intangible assets with indefinite useful lives because there is no foreseeable limit to the period that these assets are expected to generate net cash inflows for the Company. The Company uses judgement to determine the indefinite useful lives of these assets, analyzing all relevant factors, including the expected usage of the asset, the typical life cycle of the asset and anticipated changes in the market demand for the products and services that the asset helps generate.

*Finite useful lives* – The Company amortizes intangible assets with finite useful lives into depreciation and amortization in the consolidated statements of loss and comprehensive loss on an accelerated basis over three years. The Company reviews their useful lives, residual values and the amortization methods at least once a year.

An intangible asset that was initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset [calculated as the difference between the net disposal proceeds and the carrying amount of the asset] is included in the consolidated statements of loss and comprehensive loss when the asset is derecognized. The assets' residual values, useful lives, methods of amortization and the amortization charge is adjusted prospectively, if appropriate.

[e] Foreign Currency Translation

The Company's financial statements are presented in Canadian dollars, which is also the functional currency of QYOU Media Inc. Each subsidiary entity determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

The financial statements comprise the financial statements of the Company and the following wholly owned subsidiaries:

Name of subsidiary	Jurisdiction of incorporation	Functional currency
QYOU Media Holdings Inc.	Canada	Canadian dollar
QYOU Productions Inc.	Canada	Canadian dollar
QYOU Limited	Ireland	Euro
QYOUTV International Limited	Ireland	Euro

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

[expressed in Canadian dollars, unless otherwise noted]

June 30, 2019 and 2018

Name of subsidiary	Jurisdiction of incorporation	Functional currency
QYOU USA Inc.	USA	US dollar
QYOU India	India	US dollar

The financial statements of entities that have a functional currency different from that of QYOU Media Inc. [foreign operations] are translated into Canadian dollars as follows: assets and liabilities – at the closing rate as at the dates of the consolidated statements of financial position; income and expenses – at the average rate of the period [as this is considered a reasonable approximation of actual rates]. All resulting changes are recognized in other comprehensive income (loss) as currency translation adjustments.

Transactions and balances: Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation’s functional currency are recognized as other income in the consolidated statements of loss and comprehensive loss.

[f] Income Taxes

Income tax expense includes both current and deferred taxes. The Company uses judgement to interpret tax rules and regulations to calculate the expense recorded in each period. The Company recognizes income tax expense in net loss unless it relates to an item recognized directly in equity or other comprehensive income (loss).

Current tax expense is tax the Company expects to pay or receive based on its taxable income or loss during the year. The Company calculates the current tax expense using tax rates enacted or substantively enacted as at the reporting date, and including any adjustment to income taxes payable or recoverable related to previous years.

Deferred tax assets and liabilities arise from temporary differences between the carrying amounts of the assets and liabilities and are recorded in the consolidated statements of financial position. The Company calculates deferred tax assets and liabilities using enacted or substantively enacted tax rates that will apply in the years the temporary differences are expected to reverse.

The Company recognizes a deferred tax asset for unused losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable income will be available to use the asset. The Company uses judgement to evaluate whether the Company can recover a deferred tax asset based on its assessment of existing tax laws, estimates of future profitability and tax planning strategies.

The Company relies on estimates and assumptions when determining the amount of current and deferred taxes, and take into account the impact of uncertain tax positions and whether additional taxes and interest may be due. If new information becomes available and changes the Company’s judgement on the adequacy of existing tax liabilities, these changes would affect the income tax expense in the period that the Company makes this determination.

[g] Stock-based Compensation

Stock options and warrants awarded to non-employees are accounted for using the fair value of the instrument awarded or service provided, whichever is considered more reliable. Stock options and warrants awarded to employees are accounted for using the fair value method. The fair value of such stock options and warrants granted is recognized as an expense on a proportionate basis consistent with the vesting features of each tranche of the grant. The fair value is calculated using the Black-Scholes option pricing model with assumptions applicable at the date of grant.

[h] Net Loss per Share

Net loss per share is calculated based on the profit for the financial year and the weighted average number of common shares outstanding during the year. Diluted net loss per share is calculated using the profit for the financial year adjusted for the effect of any dilutive instruments and the weighted average diluted number of shares [ignoring any potential issue of common shares that would be anti-dilutive] during the year.

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**ADOPTION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS**

**(a) New IFRS standards that are effective for the current year**

**The Company has adopted the following new IFRS standards for the year end June 30, 2019.**

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

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

The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

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

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

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

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

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

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

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

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

An expected credit loss ("ECL") model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. The Company's financial assets measured at amortized cost and subject to the ECL model consist primarily of trade receivables.

The Corporation adopted the simplified approach to impairment for trade and other receivables by recognizing lifetime expected losses on initial recognition and on adoption of IFRS 9. The Corporation does not have any past history of impairment losses resulting from credit losses as the Corporation has a limited number of high profile customers and

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detailed customer financial analysis is performed prior to signing a customer. Therefore, the Corporation does not expect to incur any losses on trade and other receivables as a result of credit risk.

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

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

The following shows the change in classification of the Company's financial assets on adoption of IFRS 9:

<b>Financial assets</b>	<b>Classification under IAS 39</b>	<b>Classification under IFRS 9</b>
Cash	Loans and receivable	Amortized cost
Trade receivables	Loans and receivable	Amortized cost
Other receivables	Loans and receivable	Amortized cost

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

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

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

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

*Content and program revenue and influencer marketing revenue*

The Company contracts with its customers for the development and delivery of programs through fixed price agreements. Each episode of program is generally a performance obligation. The Company has concluded that revenue from content and program and influencer marketing should be recognized at the point in time when control of

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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the asset is transferred to the customer, generally on delivery of the episode. Therefore, the adoption of IFRS 15 did not have an impact on the timing or the amount of revenue recognition.

*Licensing revenue*

The Company also generates subscriber revenue from pay television distributors.

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

*Disclosure requirements*

As required for the consolidated financial statements, the Company disaggregated revenue recognized from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Company has determined that revenue by geography best depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Refer to segment note for the disclosure on disaggregated revenue by geography.

**(b) New and revised IFRS standards in issue but not yet effective:**

*[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. Effective July 1, 2019, the Company will be adopting IFRS 16 using the modified retrospective method and, based on the work performed to date expects that there will be an increase to assets of \$49,263 and a corresponding increase in liabilities of \$49,263 to record a right-of-use asset and a corresponding lease liability on its consolidated statements of financial position. Post adoption, the Company expects a decrease to operating costs and an increase to finance costs associated with the interest accretion on the lease liability and depreciation expense related to the right-of-use asset.

*[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 has evaluated the expected impact of IFRIC 23 on the Company’s financial statements and determined that there will be no material impact from the adoption of IFRIC 23.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## 4. OTHER RECEIVABLES

The Company's other receivables as at June 30, 2019 and 2018 include the following:

	2019	2018
	\$	\$
Input tax receivable	551,776	35,947
Officer loan [note 13]	207,920	203,281
Other	28,455	2,000
	<b>788,151</b>	<b>241,228</b>

## 5. PROPERTY AND EQUIPMENT

Property and equipment are composed of the following:

	Computer hardware and equipment	Furniture and fixtures	Total
Cost	\$	\$	\$
As at June 30, 2017	67,658	1,024	68,682
Additions	126,267	226,450	352,717
Foreign exchange	6,817	51	6,868
As at June 30, 2018	200,742	227,525	428,267
Additions	6,363	9,299	15,662
Foreign exchange	(2,165)	(138)	(2,303)
<b>As at June 30, 2019</b>	<b>204,940</b>	<b>236,686</b>	<b>441,626</b>

	Computer hardware and equipment	Furniture and fixtures	Total
Accumulated depreciation	\$	\$	\$
As at June 30, 2017	21,687	573	22,260
Depreciation	40,315	38,095	78,410
Foreign exchange	3,065	30	3,095
As at June 30, 2018	65,067	38,698	103,765
Depreciation	61,307	77,668	138,975
Foreign exchange	(1,788)	(56)	(1,844)
<b>As at June 30, 2019</b>	<b>124,586</b>	<b>116,310</b>	<b>240,896</b>

	Computer hardware and equipment	Furniture and fixtures	Total
Net book value	\$	\$	\$
As at June 30, 2018	135,675	188,827	324,502
<b>As at June 30, 2019</b>	<b>80,354</b>	<b>120,376</b>	<b>200,730</b>

## 6. PROGRAMMING INTANGIBLE 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 and productions costs.

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	<b>Programming Asset</b>
<b>Cost</b>	<b>\$</b>
As at June 2017	—
Additions	1,350,904
As at June 30, 2018	1,350,904
Additions	998,668
<b>As at June 30, 2019</b>	<b>2,349,572</b>

	<b>Programming Asset</b>
<b>Accumulated amortization</b>	<b>\$</b>
As at June 2017	—
Amortization	258,402
As at June 30, 2018	258,402
Amortization	1,151,191
<b>As at June 30, 2019</b>	<b>1,409,593</b>

	<b>Programming Asset</b>
<b>Net book value</b>	<b>\$</b>
As at June 30, 2018	1,092,502
<b>As at June 30, 2019</b>	<b>939,979</b>

**7. INTANGIBLE ASSETS**

Intangible assets consists of acquired intangible assets and capitalized application development costs.

*Intangible asset – Brand name*

On 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.

*Capitalized application development*

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.

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A summary of the Company's intangible assets are as follow:

	Brand name	Capitalized development costs	Total
<b>Cost</b>	\$	\$	\$
As at June 30, 2017	87,835	657,797	745,632
Additions	—	313,397	313,397
Foreign exchange	2,964	26,348	29,312
As at June 30, 2018	90,799	997,542	1,088,341
Additions	—	—	—
Foreign exchange	(2,796)	(30,816)	(33,612)
<b>As at June 30, 2019</b>	<b>88,003</b>	<b>966,726</b>	<b>1,054,729</b>

	Brand name	Capitalized development costs	Total
<b>Accumulated depreciation</b>	\$	\$	\$
As at June 30, 2017	—	—	—
Amortization	—	—	—
Foreign exchange	—	—	—
As at June 30, 2018	—	—	—
Amortization	—	245,156	245,156
Foreign exchange	—	(3,475)	(3,475)
Impairment loss	—	725,045	725,045
<b>As at June 30, 2019</b>	<b>—</b>	<b>966,726</b>	<b>966,726</b>

	Brand name	Capitalized development costs	Total
<b>Net book value</b>	\$	\$	\$
As at June 30, 2018	90,799	997,542	1,088,341
<b>As at June 30, 2019</b>	<b>88,003</b>	<b>-</b>	<b>88,003</b>

**8. DEFERRED REVENUE**

As at June 30, 2019, the Company has \$110,637 deferred revenue (2018: \$262,649). The full balance in 2019 is related to one customer and the Company expects to recognize the revenue as follows:

	Total	2020	2021
	\$	\$	\$
Deferred revenue	<b>110,637</b>	98,586	12,051

During the fiscal year the entity recognized increases to deferred revenue of \$122,186 [2018 - \$262,649] for amounts received and decreases from revenue recognized of \$274,198 [2018 – nil].

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June 30, 2019 and 2018

## 9. SHARE CAPITAL

	Common shares #	Share capital \$	Warrants #	Warrants \$	Compensation options #	Compensation options amount within contributed surplus \$
<b>Balance, June 30, 2017</b>	<b>65,939,959</b>	<b>13,689,547</b>	<b>21,397,794</b>	<b>3,710,968</b>	<b>2,141,065</b>	<b>480,839</b>
Broker compensation options exercised [a]	1,002,750	763,421	—	—	(1,002,750)	(262,046)
Allocated to warrants [a]	—	(61,580)	501,375	61,580	—	—
Broker compensation options expired	—	—	—	—	(179,440)	(46,893)
Offering in November 2017 [b]	15,541,100	5,750,207	—	—	—	—
Allocated to warrants	—	(683,746)	7,770,550	683,746	—	—
Offering costs [b]	—	(987,014)	—	—	—	—
Warrants expired [c]	—	—	(14,583,668)	(2,911,899)	—	—
Broker options issued [b]	—	(144,319)	—	—	1,087,877	144,319
<b>Balance, June 30, 2018</b>	<b>82,483,809</b>	<b>18,326,516</b>	<b>15,086,051</b>	<b>1,544,395</b>	<b>2,046,752</b>	<b>316,219</b>
<b>Balance, June 30, 2018</b>	<b>82,483,809</b>	<b>18,326,516</b>	<b>15,086,051</b>	<b>1,544,395</b>	<b>2,046,752</b>	<b>316,219</b>
Issuance of common shares and warrants, net of issuance costs [d] [e]	53,835,250	3,798,906	47,097,750	274,777	4,109,468	203,111
RSUs exercised [f]	500,001	187,000	(1)	—	—	—
Warrants expired [g]	—	—	(7,315,500)	—	—	—
<b>Balance, June 30, 2019</b>	<b>136,819,060</b>	<b>22,312,422</b>	<b>54,868,300</b>	<b>1,819,172</b>	<b>6,156,220</b>	<b>519,330</b>

[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 composed of one common share of the Company and one half of one common share purchase warrant, each such 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 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 an offering of 15,541,100 units of the Company [the "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 [the "Offering"]. Each Unit consists 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 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 [i] a cash commission of \$402,514, equal to 7% of the gross proceeds derived from the Offering [the "Underwriting Fee"]; and [ii] 1,087,877 options of the Company [the "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. 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.

[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.

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

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

Transaction costs of the Offering consisted of \$596,953 in cash and the issuance of 1,426,000 compensation units to the underwriters in the Offering. Each compensation unit is exercisable to acquire one Common Share and one-half of one Common Share purchase warrant at an exercise price of \$0.20 per compensation unit for a period of two years from the date of issuance. Total fair value of the compensation units was \$104,555 and was determined using the Black-Scholes option pricing model with a market price per compensation unit of \$0.20, a risk-free interest rate of 1.93%, an expected annualized volatility of 65% and expected dividend yield of 0%.

The Offering also included a subscription by director of the Company for 1,000,000 for \$200,000.

- [e] On April 30, 2019, the Company completed a short form prospectus offering (the "Offering") on a best-efforts basis and issued 38,335,250 units of the Company at a price of \$0.06 per unit, for aggregate gross proceeds of \$2,300,115. Each Unit is comprised of one common share of the Company, one-half of one common share purchase warrant (a "10 Cent Warrant") and a second one-half of one common share purchase warrant (a "12 Cent Warrant").

In connection with the Offering, the Company also granted the agents 2,683,468 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 \$98,556 based on the Black Scholes options pricing model and has been recorded as a reduction of share capital.

The fair value of the warrants was determined using closing price of the Common Shares of the date of grant (April 30, 2019). Each 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 six months following the closing of the offering. Each 12 Cent Warrant is exercisable to purchase one common share in the capital of the Company at a price of \$0.12 per 12 Cent Warrant Share for a period of two years following the closing date. Their fair value is determined using the Black Scholes model and the fair value of each 10 Cent Warrant is \$0.01 per warrant, \$0.02 per 12 Cent Warrant; determined using the closing price of the Common Shares on the date of grant (April 30, 2019).

Transaction costs of the Offering consisted of \$530,418 in cash and issuance of compensation units with a fair value of \$98,556 to the underwriters in the Offering, with a fair value of \$0.037 determined using Black Scholes model.

The Offering also included a subscription by a director of the Company for 1,000,000 Units for \$60,000.

- [f] For the year ended June 30, 2019, 500,000 restricted stock units ("RSUs") were redeemed for 500,000 Common Shares and accordingly, \$187,000 was transferred from contributed surplus to share capital.

For the year ended June 30, 2019, there was an adjustment of 1 share between common shares and warrants.

- [g] In March 2019, 7,315,500 warrants expired in accordance with their terms.

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**10. SHARE-BASED COMPENSATION**

The Company has established a stock option ["Stock Option"] plan and restricted share unit ["RSU"] plan for directors, officers, employees and consultants of the Company. The Company's Board of Directors determines, among other things, the eligibility of individuals to participate in these plans and the term, vesting periods, and the exercise price of Stock Options granted to individuals under the Option Plan.

Each Stock Option converts into one common share of the Company on exercise and on receipt of exercise price. Each RSU converts into one common share of the Company on vesting date at nil exercise price. Stock Options may be exercised at any time from the date of vesting to the date of their expiry.

*[i] Stock Options*

The changes in the number of Stock Options during the years were as follows:

	Number of options #	Weighted average exercise price \$
Outstanding as at June 30, 2017	6,593,996	0.50
Granted	450,000	0.50
Expired	(497,225)	0.50
Outstanding as at June 30, 2018	6,546,771	0.50
Granted	6,275,000	0.08
Forfeited	(357,920)	0.50
Expired	(1,084,789)	0.41
<b>Outstanding as at June 30, 2019</b>	<b>11,379,062</b>	<b>0.27</b>

The fair value of share options granted during the years ended June 30, 2019 and 2018 was \$0.04 to \$0.05 and \$0.21, respectively, determined at the date of grant using the Black Scholes option pricing model using the following inputs:

	2019	2018
Grant date share price	<b>\$0.075 – \$0.08</b>	\$ 0.42
Exercise price	<b>\$0.06 – \$0.10</b>	\$ 0.50
Expected dividend yield	—	—
Risk free interest rate	<b>1.80%</b>	0.67%
Expected life	<b>5 years</b>	5 years
Expected volatility	<b>65%</b>	65%

Expected volatility was estimated by using a combination of the historical volatility of the Company and volatilities of companies with longer trading histories that the Company considers comparable. The expected option life represents the period of time that options granted are expected to be outstanding. The risk-free interest rate is based on government bonds with a remaining term equal to the expected life of the options.

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The following table is a summary of the Company's Stock Options outstanding as at June 30, 2019:

Options outstanding			Weighted average remaining contractual life #	Options exercisable	
Exercise price \$	Number outstanding #	Exercise price \$		Number exercisable #	
0.500	5,336,562	2.49	0.500	3,891,682	
0.060	2,000,000	4.96	0.060	1,500,000	
0.075	2,800,000	4.67	0.075	233,333	
0.080	250,000	4.67	0.080	20,833	
0.100	992,500	4.41	0.100	144,583	
0.27	11,379,062	3.68	0.357	5,790,432	

*[ii] RSUs*

The changes in the number of RSUs during the years and a summary of these RSUs as at June 30, 2019 is as follows:

	Number of RSUs #	Number exercisable #	Weighted average remaining contractual life [years] #
Outstanding as at June 30, 2017	—	—	—
Granted	4,475,000	790,000	4.26
Outstanding as at June 30, 2018	4,475,000	790,000	4.26
Granted	5,350,000	2,681,667	4.66
Exercised	(500,000)	(500,000)	0.34
Forfeited	(50,000)	—	0.34
<b>Outstanding as at June 30, 2019</b>	<b>9,275,000</b>	<b>2,971,667</b>	<b>4.73</b>

The fair value of RSUs granted during the year ended June 30, 2019 was \$0.08 [2018 - \$0.34 for 4,275,000 RSUs and \$0.24 for 200,000 RSUs], determined share price on the date of the grant.

*[iii] Share-based compensation expense*

The Company recognized \$892,198 of share-based compensation expense related to Stock Options and RSUs during the year ended June 30, 2019 [2018 – \$1,187,848] with a corresponding amount recognized as a contributed surplus.

**11. NON-CONTROLLING INTEREST**

As at June 30, 2019 the Company has 82% ownership interest in QYOU Media India Private Limited ["QYOU India"] (June 30, 2018 – 0%), resulting in 18% ownership interest held by non-controlling shareholders. QYOU India was incorporated on September 20, 2018.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

[expressed in Canadian dollars, unless otherwise noted]

June 30, 2019 and 2018

Reconciliation of non-controlling interest is as follows:

	\$
Balance — June 30, 2018	-
Share of net loss	(31,119)
<b>Balance — June 30, 2019</b>	<b>(31,119)</b>

**12. COMMITMENTS AND CONTINGENCIES**

*Commitments*

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

	\$
2019	155,199
2020	7,444
Thereafter	-
	<u>162,643</u>

*Contingencies*

In the ordinary course of business, from time to time the Company is involved in various claims related to operations, rights, commercial, employment or other claims. Although such matters cannot be predicted with certainty, management does not consider the Company's exposure to these claims to be material to these financial statements.

**13. RELATED PARTY TRANSACTIONS**

Key management personnel and directors include the Company's CEO and CFO and members of the Board of Directors. The compensation paid or payable to key management and directors comprised 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, 2019, the carrying value of the Officer Loan, inclusive of principle and interest was US\$158,875 [June 30, 2018 – US\$154,375] or C\$207,920 [June 30, 2018 – C\$203,281].
- The Company paid consulting fees of \$258,004 to a director for services rendered for the year ended June 30, 2019 [2018 – \$217,696], included in the consolidated statement of loss and comprehensive loss under legal and consulting expenses.
- Black Forest Production Services, USA, ("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. On January 2018 BFPS ceased to exist and all employees and payroll was moved to QYOU USA Inc.
- BFPS provided 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, 2019 was Nil [2018 – \$323,645].
- As at June 30, 2019, the total amount due to BFPS was Nil [2018 – \$58,837] and was included in "Trade and other payables". The Company's payment terms to BFPS was 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 [2019 –nil]. These amounts were reimbursed by the Company.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

[expressed in Canadian dollars, unless otherwise noted]

June 30, 2019 and 2018

- Compensation expense for the Company's key management personnel for the year ended June 30, 2019 and June 30, 2018 is as follows:

	2019	2018
	\$	\$
Salaries, benefits and consulting fee	1,472,727	1,504,611
Share based payments	244,154	398,032
	<b>1,716,881</b>	<b>1,902,643</b>

**14. INCOME TAXES**

The reconciliation of income tax expense for the years ended June 30, 2019 and 2018 consists of the following:

	June 30, 2019	June 30, 2018
	\$	\$
Loss before income taxes	(6,262,601)	(7,073,884)
Statutory Rate	27%	27%
Expected income tax recovery at combined basis federal and provincial tax rates	(1,690,902)	(1,909,949)
Effect on income taxes of:		
Non-deductible expenses	208,168	397,072
Losses not recognized	646,235	1,214,992
Change in temporary differences not recognized	143,285	298,370
Rate differential between jurisdictions	531,413	143,896
Other	22,512	(5,091)
<b>Income Tax Expense (Recovery)</b>	<b>(139,289)</b>	<b>139,290</b>
	2019	2018
Current	(139,290)	139,290
Deferred	-	-
	<b>(139,290)</b>	<b>139,290</b>

The tax effects of temporary differences and loss carry forwards that give rise to significant portions of the deferred tax asset, which have not been recognized, are approximately as follows:

	June 30, 2019	June 30, 2018
	\$	\$
Fixed Assets	1,853,478	133,322
Share Issue Costs	2,610,750	2,086,185
Non-capital losses	27,218,658	22,807,795
<b>Total</b>	<b>31,682,886</b>	<b>25,027,302</b>

The company has the following non-capital losses available to reduce future years' federal and provincial taxable income, which expire as follows:

	Canada	Ireland	United States
	\$	\$	\$
2038 and prior	10,579,550	5,391,440	6,836,805
2039	1,186,889	2,228,913	995,061
	<b>11,766,439</b>	<b>7,620,353</b>	<b>7,831,866</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

[expressed in Canadian dollars, unless otherwise noted]

June 30, 2019 and 2018

**15. FINANCIAL INSTRUMENTS****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, 2019, two customers represented 59.2% [June 30, 2018 – 70.8%] 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 as at June 30, 2019 and 2018 that was recognized during the year.

The aging of trade receivables is as follows:

	2019	2018
	\$	\$
Current	575,554	475,603
1 to 30 days	208,963	548,866
31 to 60 days	35,530	54,270
> 60 days	175,496	294,804
Total trade receivables	995,543	1,373,543

**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.

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	1,633,614	1,633,614	1,633,614	-	-

**Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

*Currency risk*

Currency risk is the risk to the Company's income 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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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June 30, 2019 and 2018

fluctuations on its reported amounts of US and European assets and liabilities. As at June 30, 2019, the Company had net liabilities [excluding intercompany balances] of €495,962 [2018 – €660,189] denominated in Euros and net liabilities of \$70,340 [2018 – \$79,274] denominated in US dollars. A 10% change in exchange rates between US dollars, Euros and Canadian dollar would result in \$83,039 [2018 – \$111,844] 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 June 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 June 30, 2019.

**Fair values**

The carrying values of cash, trade receivables, other receivables and trade and other payables approximate the fair values due to the short-term nature of these items. The risk of material change in fair value is not considered to be significant due to a relatively short-term nature. The Company does not use derivative financial instruments to manage this risk.

Financial instruments recorded at fair value on the consolidated statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The Company categorizes its fair value measurements according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest-level input significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined as follows:

- Level 1 – Unadjusted quoted prices as at the measurement date for identical assets or liabilities in active markets.
- Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Significant unobservable inputs, which are supported by little or no market activity. The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

**16. CAPITAL MANAGEMENT**

The Company defines its capital as shareholders' equity. The Company's objectives when managing capital are to build liquidity and shareholders' equity to ensure that strategic objectives are met. The Company makes every attempt to manage its liquidity to minimize shareholder dilution when possible.

The Company policy on dividends is to retain cash to keep funds available to finance operations and growth.

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June 30, 2019 and 2018

Capital structure is managed within guidelines approved by the Board of Directors. The Company makes adjustments to its capital structure based on changes in economic conditions and planned requirements. The Company has the ability to adjust its capital structure by issuing new equity or debt.

**17. SEGMENT INFORMATION**

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. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the financial statements.

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

<b>As at June 30, 2019 and for the year then ended</b>					
	Canada	USA	Ireland	Intercompany	Total
Revenue	900,000	3,005,455	812,693	-	4,718,148
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

<b>As at June 30, 2018 and for the year then ended</b>					
	Canada	USA	Ireland	Intercompany	Total
Revenue	900,000	1,951,033	2,714,315	-	5,565,348
Current assets	16,889,430	7,069,989	19,166,670	(40,423,782)	2,702,307
Non-current assets	1,378,185	116,589	1,104,047	-	2,598,821

As at June 30, 2019, five [2018 – two] customers represented 10% or more of total revenue.

**18. SUBSEQUENT EVENTS**

In October 2019, the Company completed a private placement for aggregate gross proceeds of \$1,700,000. The Company issued a total of 34,000,000 units at a price of \$0.05 per Unit. Each Unit is comprised of one common share in the capital of the Company, one-half of common share purchase warrant exercisable at \$0.06 per share until September 30, 2020 and an additional one-half of one common share purchase warrant exercisable at \$0.10 per share unit September 30, 2021.

On October 15, 2019 the Company announced that it intends to extend the term of warrants that are due to expire on October 30, 2019 until March 31, 2020. These warrants were issued in connection with the Company's short form prospectus offering completed on April 30, 2019. Under the offering, the Company issued units comprised of one common share of the Company, one-half of one common share purchase warrant (each such whole common share purchase warrant, a "10 Cent Warrant") and a second one-half of one common share purchase warrant (each such whole common share purchase warrant, a "12 Cent Warrant"). Each 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 until October 30, 2019. The Company intends to extend the expiry date of the 10 Cent Warrants until March 31, 2020. At this time, the Company does not intend to amend the terms of the 12 Cent Warrants.