



**QYOU MEDIA INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the years ended June 30, 2020 and 2019**

**October 28, 2020**

# **QYOU Media Inc.**

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

### **As at June 30, 2020 and 2019**

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The purpose of this Management's Discussion and Analysis ("MD&A") is to provide the reader with an overview of the consolidated financial position, operating results, and cash flows of QYOU Media Inc. ("QYOU" or the "Company") for the years ended June 30, 2020 and 2019. This MD&A was prepared as of October 28, 2020 and should be read in conjunction with the Corporation's audited consolidated financial statements for the years ended June 30, 2020 and 2019, and the notes related thereto (the "Financial Statements"). The Financial Statements were prepared in accordance with generally accepted accounting principles in Canada for publicly accountable enterprises, as set out in the CPA Canada Handbook – Accounting, which incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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

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](http://www.sedar.com).

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

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

#### **Company Overview**

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

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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.

QYOU Media operates primarily in India and the United States producing and distributing content created by social media stars and digital content creators. In India, we curate, produce and distribute premium content including television networks and VOD for cable and satellite television, OTT and mobile platforms. In the United States, we manage influencer marketing campaigns for major film studios and brands. Founded and created by industry veterans from Lionsgate, MTV, Disney and Sony, QYOU Media's millennial and Gen Z-focused content reaches more than 650 million consumers around the world.

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.

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 were 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. Effective June 1, 2020, the Company increased its ownership interest in QYOU Media India Private Limited ("QYOU Indian") to 88% (June 30, 2019 – 82%). The Company received the additional interest in exchange for funding the operations of QYOU India since its inception, resulting in a decrease of the ownership interest held by non-controlling shareholders 12% (June 30, 2019 – 18%).

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

QYOU Media operates in India and the United States producing and distributing content created by social media stars and digital content creators. In India, we curate, produce and distribute premium content including television networks and VOD for cable and satellite television, OTT and mobile platforms. In the United States, we manage influencer marketing campaigns for major film studios and brands. Founded and created by industry veterans from Lionsgate, MTV, Disney and Sony, QYOU Media's millennial and Gen Z-focused content reaches more than 650 million consumers around the world.

The Q India is an advertiser supported Hindi language channel and VOD provider delivering hit digital programming from social media stars and leading digital video creators targeting Young Indian audiences. With a growing library of over 800 programs, it now reaches an audience of over 610 million via 50 million television homes with partners including TATA Sky, Airtel DTH & SitiNetworks; 380 million OTT users via platforms including ShemarooMe, MX Player, ZEE5, and Dish Watcho; and 180 million users on mobile and digital platforms including JioTV, Airtel Xstream, and SNAP with its first move towards reaching connected TV's via Amazon Fire TV.

The Company's Influencer Marketing division utilizes digital and social media stars to promote third party brands and has primarily been engaged with major studios to promote their theatrical motion picture releases. Due to the closure of theaters as a result of Covid-19 the company has pivoted and expanded its Influencer Marketing campaigns in FY 2021 to include Premium Video On Demand (PVOD), Subscription Video On Demand (SVOD) and fashion apparel clients.

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#### **Impact of COVID-19**

During the year ended June 30, 2020, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19," has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The extent to which COVID-19 and any other pandemic or public health crisis impacts the Company's business, affairs, operations, financial condition, liquidity, availability of credit and results of operations will depend on future developments that are highly uncertain and cannot be predicted with any meaningful precision, including new information which may emerge concerning the severity of the COVID-19 virus and the actions required to contain the COVID-19 virus or remedy its impact, among others. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its operating subsidiaries in future periods.

Specific impact of COVID-19 on FY 2020 results include the following:

On March 1, 2020 the Company was poised for strong revenue growth in both India & its Influencer Marketing business units as indicated below:

India: In March 2020, QYOU Media India Pvt. Ltd. secured its first major advertising contract for approximately \$115,838 (US\$85,000) and was on the cusp of a second major order for approximately \$204,420 (US\$150,000) as ad sales momentum was building. Due to COVID-19, the first contract has been delayed relative to delivery of ads and the second contract has been put on hold for the reported fiscal year (FY 2020). Our initial expectations of significant growth in our ad supported business in the reported FY 2020 were significantly reduced.

Influencer Marketing (US): In February 2020, our pipeline of expected business for Q2 2020 was already over \$1,090,240 (US\$800,000) including four different theatrical motion pictures set for release in theaters. Three of these films were withdrawn from release due to the closure of movie theaters as a result of COVID-19. We successfully secured one contract for the film Trolls World Tour \$408,840 (US\$300,000) due to the studio decision to release this film direct to consumer via streaming on April 11, 2020. We are currently pursuing and securing business on new direct to consumer releases along with other new clients in Premium Video On Demand (PVOD), Subscription Video On Demand (SVOD) and Apparel.

The Company believes that our use of content from individual creators & social stars, coupled with the apparent recession-proof demand for digital media, places us in a strong position to rebound from the initial negative impact of COVID-19 in FY 2020

#### **Significant Events in the year ended June 30, 2020**

- a) The issuance of 36,000,000 units as part of a private placement (the "Offering") at a price of \$0.05 per Unit. The total gross proceeds from the issuance was \$1,800,000. 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 of the Company 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 of the Company at a price of \$0.10 (a "10 Cent Warrant").
- b) The issuance of 6,000,000 units as part of a private placement at a price of \$0.06 per Unit. The total gross proceeds from the issuance was \$360,000. Each Unit is comprised of one common share of the Company and one purchase warrant exercisable at a price of \$0.08 (an "8 Cent Warrant").
- c) The issuance of 4,315,832 common shares to certain directors and their holding corporations as compensation for services provided to the corporation.

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**Selected Annual Information**

	Year Ended June 30,		
	2020	2019	2018
	\$	\$	\$
Revenue	2,802,252	4,718,148	5,565,348
Net loss attributable to equity owners of the Company	(6,270,459)	(6,092,192)	(7,213,174)
Net loss per share attributable to equity owners of the Company	(0.04)	(0.06)	(0.09)
Total assets	1,670,203	3,745,131	5,301,128
Total current liabilities	2,789,807	1,744,251	2,269,914
Total non-current liabilities	620,795	—	—

**Selected Financial Highlights**

The following table presents selected interim financial information for the three months and years ended June 30, 2020 and 2019:

	Three months ended June 30,		Year Ended June 30,	
	2020	2019	2020	2019
	\$	\$	\$	\$
<b>Revenue</b>	<b>364,280</b>	<b>1,487,649</b>	<b>2,802,252</b>	<b>4,718,148</b>
Content and production costs	1,058,412	1,508,265	3,860,207	4,242,487
Other operating expenses	1,136,622	1,623,931	5,489,742	6,738,262
<b>Total expenses</b>	<b>2,195,034</b>	<b>3,132,196</b>	<b>9,349,949</b>	<b>10,980,749</b>
<b>Net loss</b>	<b>(1,830,754)</b>	<b>(1,644,547)</b>	<b>(6,547,697)</b>	<b>(6,262,601)</b>
Loss per share, basic and diluted	(0.01)	(0.02)	(0.04)	(0.06)

	As at June 30,	As at June 30,
	2020	2019
	\$	\$
Cash	63,504	305,095
Total assets	1,670,203	3,745,131
Total liabilities	3,410,602	1,744,251

**Overall Financial Performance**

For the three months and year ended June 30, 2020, revenue decreased by \$1,123,369 or 76% and \$1,915,896 or 41% compared to the equivalent periods in the prior year, respectively. The decrease in revenue over the three months and year ended June 30, 2020 compared to the equivalent periods in the prior year is primarily due to the loss of business due to COVID-19.

For the three months and year ended June 30, 2020, content and production costs decreased by \$449,853 or 30% and by \$382,280 or 9% compared to the three months and year ended June 30, 2019, respectively. The decrease for the three months ended and year ended June 30, 2020 compared to the equivalent periods in the prior year is primarily due to the loss of business due to COVID-19.

For the three months and year ended June 30, 2020, other operating expenses decreased by \$487,309 or 30% and \$1,248,520 or 19% compared to the three months and year ended June 30, 2019. The decrease is primarily due to the impact of COVID-19, resulting in the slowdown of all business operations.

For the three months and year ended June 30, 2020, net loss increased by \$186,207 or 11% and \$285,096 or 5% compared to the equivalent period in the prior year. The increase for the three months and year ended June 30, 2020 is due to a larger decrease in revenue due to the loss of business due to COVID-19.

The Company concluded the year ended June 30, 2020 with cash of \$63,504 (2019 – \$305,095).

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Cash used in operating activities for the year ended June 30, 2020 was \$2,587,629 compared to cash used for the year ended 2019 of \$3,960,765. The decrease in cash used in operating activities is primarily due to collection of trade and other receivables, reduction in prepaid expenses and increase in trade and other payables outstanding.

Cash used in investing activities for the year ended June 30, 2020 was \$38,814 compared to cash used in the year ended June 30, 2019 of \$1,014,330. Cash used in investing activities was higher for the year ended June 30, 2019 as a result of HUD production costs, which ended in 2019. As a result, the costs are not recurring in the year ended June 30, 2020.

Cash provided by financing activities for the year ended June 30, 2020 was \$2,426,721 compared to cash provided in the year ended June 30, 2019 of \$4,276,795. The decrease in cash provided by financing activities is due to the Company raising less funds through the issuance of shares and warrants in fiscal 2020 relative to fiscal 2019.

**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 production, marketing and distribution of content across broadcast and digital media. 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 four geographical areas, being Canada, United States of America, Ireland and India. Revenue and assets by geography are presented below:

	<b>As at and for the year ended June 30, 2020</b>					
	Canada	USA	Ireland	India	Intercompany	Total
Revenue	6,594	2,185,284	544,221	66,153	—	2,802,252
Current assets	21,509,404	7,535,339	19,020,683	34,500	(47,235,112)	864,814
Non-current assets	592,523	108,297	94,505	10,064	—	805,389

	<b>As at and for the year ended June 30, 2019</b>					
	Canada	USA	Ireland	India	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

For the year ended June 30, 2020, three (2019 – five) customers represented 10% or more of total revenue.

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**Review of Operations for the three months and years ended June 30, 2020 and 2019**

	Three months ended June 30,		Change	%	Year ended June 30,		Change	%
	2020	2019			2020	2019		
	\$	\$	\$		\$	\$	\$	
REVENUE	364,280	1,487,649	(1,123,369)	-76%	2,802,252	4,718,148	(1,915,896)	-41%
OPERATING EXPENSES								
Content and productions costs	1,058,412	1,508,265	(449,853)	-30%	3,860,207	4,242,487	(382,280)	-9%
Sales and marketing	245,024	583,736	(338,712)	-58%	1,501,674	2,031,921	(530,247)	-26%
Legal and consulting	125,045	102,008	23,037	23%	1,283,165	1,463,129	(179,964)	-12%
Salaries and benefits	32,488	229,320	(196,832)	-86%	639,132	1,032,504	(393,372)	-38%
Stock-based compensation	195,440	94,998	100,442	106%	862,675	892,198	(29,523)	-3%
Impairment loss	295,254	725,045	(429,791)	-59%	295,254	725,045	(429,791)	-59%
General and administrative	143,508	(217,109)	360,617	-166%	603,289	439,624	163,665	37%
Depreciation	100,572	32,894	67,678	206%	269,561	138,975	130,586	94%
Foreign exchange (gain)/loss	(24,837)	71,765	(96,602)	-135%	(10,674)	8,760	(19,434)	-222%
Interest and other expenses	24,128	1,274	22,854	1794%	45,666	6,106	39,560	648%
<b>Total operating expenses</b>	<b>2,195,034</b>	<b>3,132,196</b>	<b>(937,162)</b>	<b>-30%</b>	<b>9,349,949</b>	<b>10,980,749</b>	<b>(1,630,800)</b>	<b>-15%</b>
<b>Loss before income taxes</b>	<b>(1,830,754)</b>	<b>(1,644,547)</b>	<b>(186,207)</b>	<b>11%</b>	<b>(6,547,697)</b>	<b>(6,262,601)</b>	<b>(285,096)</b>	<b>5%</b>
Income tax (recovery) expense	—	184,455	(184,455)	—	—	(139,290)	139,290	—
<b>NET LOSS</b>	<b>(1,830,754)</b>	<b>(1,829,002)</b>	<b>(1,752)</b>	<b>0%</b>	<b>(6,547,697)</b>	<b>(6,123,311)</b>	<b>(424,386)</b>	<b>7%</b>

The following discussion includes an explanation of the primary factors in changes in operations for the three months and years ended June 30, 2020 and 2019. Additional, less significant changes are not articulated.

**Revenue**

For the three months ended June 30, 2020, total revenue decreased by \$1,123,369 or 76% compared to the three-months ended June 30, 2019 as a result of the loss of business due to the impact of COVID-19.

For the year ended June 30, 2020, total revenue decreased by \$1,915,896 or 41% compared to the equivalent period in 2019. The decrease in revenue is primarily a result of the loss of the linear channel revenue for QYou Limited, along with the discontinuation of daily production of the esports program HUD and the impact of COVID-19.

Three customers individually representing greater than 10% of the Company's revenue represented 51% of total revenue recognized for the year ended June 30, 2020, as compared to five customers representing 60% of revenue for the year ended June 30, 2019.

**Content and Production Costs**

Production costs represent the costs of sales of earning the Company's revenue and is comprised of content development, production expenses and channel delivery expenses. As of June 30, 2020, 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.

For the three months and year ended June 30, 2020, content and production costs decreased by \$449,853 and \$382,280 or 30% and 9% as compared to the three months and year ended June 30, 2019. The decrease is due to the Company refocusing its corporate growth strategy through international distribution and strategic partnerships, new production formats and influencer marketing business development. As a percentage of total operating expenses, content and production costs were 49% and 41% for the three months and year ended June 30, 2020 compared with 48% and 39% for the equivalent periods in 2019.

**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.

Selling, general and administrative costs represented 34% and 52% of the Company's total operating expenses for the three months and year ended June 30, 2020 compared to 25% and 53% for the three months and year ended June 30, 2019, respectively. For the three months and year ended June 30, 2020, selling, general and administrative costs decreased by \$51,448 or 6% and decreased \$969,441 or 17% over the three months and year ended June 30, 2019, respectively.

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During the three months and year ended June 30, 2020, sales and marketing costs decreased by \$338,712 or 58% and \$530,247 or 26% compared to three months and year ended June 30, 2019 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 and year ended June 30, 2020, salaries and benefit costs decreased by \$196,832 or 86% and \$393,372 or 38% compared to three months and year ended June 30, 2019 as a result of the impact of COVID-19 during the three months and year ended June 30, 2020, as compared to the three months and year ended June 30, 2019.

Legal and consulting costs increased by \$23,037 or 23% and decreased by \$179,964 or 12%, for the three months and year ended June 30, 2020 compared to the three months and year ended June 30, 2019. Legal and consulting costs will fluctuate from period to period based on the nature of the transactions the Company undertakes.

General and administrative costs for the three months and year ended June 30, 2020 increased by \$360,617 or 166% and \$163,665 or 37% compared to the three months and year ended June 30, 2019. During the three months ended June 30, 2019 the Company recognized a large HST Refund that offset other general and administrative expenses for the three months and year ended June 30, 2020.

#### **Impairment Loss**

Impairment loss for the three months and year ended June 30, 2020 was \$295,254, compared to impairment loss of \$725,045 recognized for the three months and year ended June 30, 2019. The impairment loss for the three months and year ended June 30, 2020 is primarily due to the impairment of programming asset and equipment. The impairment loss in the prior periods was due to the write off of application development costs during the three months ended June 30, 2019.

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

Foreign exchange (gain) loss during the three months and year ended June 30, 2020 was \$(24,837) and \$(10,674) compared to a foreign exchange loss of \$71,765 and \$8,760 for the three months and year ended June 30, 2019, 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.

#### **Stock Based Compensation**

Stock-based compensation increased by \$100,442 or 106% and decreased by \$29,523 or 3%, for the three months and year ended June 30, 2020 compared to the three months and year ended June 30, 2019, due to the vesting of granted options and share based compensation to certain directors and their holding corporations as compensation for services provided to the Company.

#### **Depreciation**

Depreciation increased by \$67,678 or 206% and \$130,586 or 94% for the three months and year ended June 30, 2020 compared to the three months and year ended June 30, 2019, due to the adoption of IFRS 16 and related depreciation of right-of-use assets.

#### **Review of Financial Condition as at June 30, 2020**

The following is a comparison of the financial position of the Company as at June 30, 2020 to the financial position of the Company as at June 30, 2019.

#### **Cash**

Cash as at June 30, 2020 was \$63,504 compared to \$305,095 as at June 30, 2019, representing a decrease of \$241,591. Refer to "Liquidity and capital resources" section for the detailed discussion provided.

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

Trade and other receivables decreased by \$1,012,960 or 57% as at June 30, 2020 over the balance as at June 30, 2019. The decrease is primarily due to receipt of HST refund.

#### **Property and Equipment**

Property and equipment decreased by \$130,196 or 65% as at June 30, 2020 over the balance as at June 30, 2019. The decrease can be attributed to depreciation expense of \$138,295, impairment of \$38,689, partially offset by additions of \$38,814.

#### **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 and productions costs.

As at June 30, 2020, there were indications that the programming intangible asset, resulting in the full net book value being recognized as impairment loss.

Capitalized programming asset decreased by \$939,979, for the year ended June 30, 2020 compared to June 30, 2019. The decrease can be attributed to amortization of \$683,414 and \$256,565 of impairment.

#### **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 \$803,337 or 49% as at June 30, 2020 over the balance as at June 30, 2019. The increase can be attributed primarily to the timing of payments to vendors.

#### **Deferred Revenue**

Deferred revenue decreased by \$98,089 or 89% as at June 30, 2020 over the balance as at June 30, 2019. The decrease in deferred revenue is the portion of the obligations fulfilled towards these contracts for the year ended June 30, 2020.

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**Share Capital and Warrants**

The increase in share capital of \$1,748,097 and warrants of \$340,239 during the year ended June 30, 2020 was due to:

[a] During the six months ended December 31, 2019, the Company completed the issuance of 36,000,000 units as part of a private placement at a price of \$0.05 per Unit. The total gross proceeds from the issuance was \$1,800,000. Each Unit is comprised of one common share of the Company, one-half of a purchase warrant exercisable at a price of \$0.06 (a "6 Cent Warrant") and one-half of a purchase warrant exercisable at a price of \$0.10 (a "10 Cent Warrant").

Each whole 6 Cent Warrant is exercisable to purchase one common share in the capital of the Company at a price of \$0.06 for a period of one year following the closing date. Each whole 10 Cent Warrant is exercisable to purchase one common share in the capital of the Company at a price of \$0.10 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 10 Cent Warrant; based on the relative fair value of the shares issued and the warrants, calculated using the Black-Scholes options 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%. The fair value of all the warrants is \$279,821 as calculated using the Black-Scholes options pricing model.

Transaction costs for the Offering consisted of \$140,468 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. Total fair value of the compensation options was determined to be \$41,283. 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%.

[b] During the three months ended March 31, 2020, the Company completed the issuance of 6,000,000 units as part of a private placement at a price of \$0.06 per Unit. The total gross proceeds from the issuance was \$360,000. Each Unit is comprised of one common share of the Company, one purchase warrant exercisable at a price of \$0.08 (an "8 Cent Warrant").

Each 8 Cent Warrant is exercisable to purchase one common share in the capital of the Company at a price of \$0.08 for a period of two year following the closing date. The fair value of each 8 Cent Warrant is \$0.015 per warrant; based on the relative fair value of the shares issued and the warrants, calculated using the Black-Scholes options pricing model with a market price per common share of \$0.055 on the date of grant, a risk-free interest rate of 1.51%, an expected annualized volatility of 68% and expected dividend yield of 0%. The fair value of the warrants is \$66,710 as calculated using the Black-Scholes options pricing model.

Transaction costs for the Offering consisted of \$49,388 in cash and issuance of 420,000 compensation options to the agents in connection with the Offering. Each compensation option is exercisable into one Unit until February 11, 2022 at a price of \$0.06. Total fair value of the compensation options was determined to be \$8,290. The fair value of the compensation units was determined using the Black-Scholes options pricing model with a market price per compensation unit of \$0.06, a risk-free interest rate of 1.51%, an expected annualized volatility of 68% and expected dividend yield of 0%.

[c] During the period ending June 30, 2020, 26,938,175 warrants and 2,046,753 compensation options expired in accordance with their terms.

[d] On January 14, 2020, 500,000 warrants were exercised at \$0.06 per warrant into 500,000 common shares.

[e] On March 23, 2020, the Company issued 4,315,832 common shares to certain directors and their holding corporations as compensation for services provided to the Company valued at \$129,475.

**Selected Unaudited Consolidated Quarterly Financial Information**

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

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	Jun. 30, 2020	Mar. 31, 2020	Dec. 31, 2019	Sept. 30, 2019	Jun. 30, 2019	Mar. 31, 2019	Dec. 31, 2018	Sept. 30, 2018
	\$	\$	\$	\$	\$	\$	\$	\$
Total Revenue	364,280	887,898	986,341	563,733	1,487,649	601,269	916,527	1,712,703
Operating Expenses	2,195,034	1,946,120	2,931,285	2,277,510	3,132,196	2,572,677	2,299,508	2,976,368
Net loss attributable to:								
Equity owners of the Company	(1,728,663)	(1,008,261)	(1,826,070)	(1,696,256)	(1,534,873)	(1,841,256)	(1,407,939)	(1,308,123)
Non-controlling interest	(102,091)	(49,961)	(118,874)	(17,521)	(15,549)	(10,574)	(4,997)	—
Net loss per share - basic and diluted	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)	(0.02)	(0.01)

**Liquidity and capital resources**

	As at June 30, 2020	As at June 30, 2019
	\$	\$
Current Assets	864,814	2,512,498
Current Liabilities	2,789,807	1,744,251
<b>Working Capital (deficiency)</b>	<b>(1,924,993)</b>	<b>768,247</b>
Total Assets	1,670,203	3,745,131
Total Liabilities	3,410,602	1,744,251
Total Shareholders' equity (deficiency)	(1,740,399)	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.

As of June 30, 2020, the Company had a working capital deficiency of \$1,924,993 compared to a working capital surplus of \$768,247 as at June 30, 2019. The decrease is primarily due to increase in trade and other payables, lease liability and borrowings, as well as a decrease in trade and other receivables.

*Cash Flow Activity*

For the year ended June 30, 2020, cash used in operations was \$2,587,629 compared to \$3,960,765 for the year ended June 30, 2019. The decrease in cash used in operating activities is primarily due to collection of trade and other receivables, reduction in prepaid expenses and increase in trade and other payables outstanding.

Cash used in investing activities for the year ended June 30, 2020 was \$38,814 compared to cash used in the year ended June 30, 2019 of \$1,014,330. Cash used in investing was higher for the year ended June 30, 2019 as a result of HUD production costs, which ended in 2019. As a result, the costs are not recurring in the year ended June 30, 2020.

Cash provided by financing activities for the year ended June 30, 2020 was \$2,426,721 primarily made up of cash received from the offering and proceeds from borrowings compared to \$4,276,795 provided by financing activities for the year ended June 30, 2019. The difference is primarily due to the quantity and value of shares and warrants issued by the Company and will fluctuate from period to period based on the Company's financing requirements.

*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

# QYOU Media Inc.

## Management's Discussion and Analysis

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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 June 30, 2020, the Company has not yet achieved profitable operations, and has an accumulated deficit of \$34,264,642, net loss of \$6,547,697 and working capital deficiency of \$1,924,993. 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 June 30, 2020, the Company did not have any commitments other than those reported in the financial statements.

#### **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 year ended June 30, 2020 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. The Company extended the term of the promissory note to January 31, 2021. As at June 30, 2020, the carrying value of the Officer Loan, inclusive of principle and interest was \$221,114 (US\$162,250) (June 30, 2019 – \$207,920 or US\$158,875).

Compensation expense for the Company's key management personnel for the year ended June 30, 2020 and 2019 is as follows:

	2020	2019
	\$	\$
Salaries, benefits and consulting fees	1,260,913	1,472,727
Share based payments	592,157	793,703
	<u>1,853,070</u>	<u>2,266,430</u>

Included in trade and other payables is \$27,089 (2019 - \$nil) owing to related parties.

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

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

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

##### **New standards, amendments and interpretations adopted by the Company**

###### *IFRS 16 – Leases ("IFRS 16")*

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

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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 the 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. The Company used an incremental borrowing rate to measure the lease liabilities in the opening balance sheet at July 1, 2019 of 10%.

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, unless it 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 or to leases of low value assets when applicable. 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 of July 1, 2019. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at July 1, 2019. 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 modified retrospective method with comparative periods not restated. The Company applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after July 1, 2019.

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 as at July 1, 2019:

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	Balance as at June 30, 2019	IFRS 16 adjustments	Balance as at July 1, 2019
<b>Assets</b>			
Non-current assets:			
Right-of-use-assets, net	—	49,263	<b>49,263</b>
<b>Liabilities</b>			
Current:			
Lease liabilities			
Non current:	—	44,661	<b>44,661</b>
Lease liabilities	—	4,602	<b>4,602</b>

**Financial Instruments and Risk Management**

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

In the year ended June 30, 2020, 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](http://www.sedar.com)). The risks and uncertainties described in the documents referred to in the preceding sentence and in other documents filed by us with Canadian securities regulatory authorities are not the only ones we may face. Those risks and uncertainties, together with additional risks and uncertainties not currently known to us or that we may deem immaterial, could impair our business, financial condition and results of operations. The market price of our securities could decline if one or more of these risks and uncertainties develop into actual events, and you may lose all or part of your investment.

**Currency Risk**

Currency risk is the risk to the Company's earnings that arises from fluctuations of foreign exchange rates. The Company is exposed to foreign currency exchange risk as it has sales and 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, Indian operations and European operations with US dollars, Indian Rupee and Euros as the functional currency, the Company is exposed to foreign currency fluctuations on its reported amounts of US, India and European assets and liabilities. As at June 30, 2020, the Company had net liabilities of €117,568 (excluding intercompany balances) (2019 – €495,962) denominated in Euros, net liabilities of \$682,118 (excluding intercompany balances) (2019 – \$70,340) denominated in US dollar and net liabilities of ₹16,097,042 (excluding intercompany balances) (2019 – nil) denominated in Indian Rupees. A 10% change in exchange rates between US dollars, Euros, Indian rupees and Canadian dollar would result in \$139,992 of additional net liabilities recorded on the consolidated statements of financial position (2019 – \$83,039). All such changes are recorded to other comprehensive income (loss).

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**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, 2020.

**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, 2020.

**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, 2020, two customers represented 76.5% (June 30, 2019 – 59.2%) 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, 2020 and 2019 that was recognized during the year.

The aging of trade receivables is as follows:

	June 30, 2020	June 30, 2019
	\$	\$
Current	94,502	575,554
1 to 30 days	106,977	208,963
31 to 60 days	5,955	35,530
> 60 days	329,566	175,496
<b>Total trade receivables</b>	<b>537,000</b>	<b>995,543</b>

**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	Contractual cash flows					
		Total contractual cash flows	Year 1	Year 2	Year 3	Year 4	Year 5 and beyond
	\$	\$	\$	\$	\$	\$	\$
Trade and other payables	2,436,951	2,436,951	2,436,951	—	—	—	—
Lease Liability	615,676	724,859	211,796	211,209	204,629	97,225	—
Borrowings	345,428	679,022	198,143	147,150	11,954	11,954	309,820

**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 244,301,291 Common Shares, nil First

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### As at June 30, 2020 and 2019

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Preferred Shares and nil Second Preferred Shares issued and outstanding. As of the date hereof, the Company also has issued and outstanding:

Share options	22,673,959
Compensation options	12,345,440
RSUs	17,275,000
Warrants	99,763,324

#### Subsequent Events

On July 24, 2020, the Company completed offering of 60,666,399 units for gross proceeds of \$1,819,992. Each unit is comprised of one common share in the capital of the Company and one-half of one common share purchase warrants exercisable at \$0.05 per common share until June 30, 2022. The Company issued 5,549,973 compensation options to the agents in connection with the offering.

On August 14, 2020, the Company approved incentive Stock Option and Restricted Share Unit grants to employees and advisors in connection with work being done on behalf of the company. The Company will issue a total of 5,150,000 RSUs, 600,000 vesting immediately and remaining vesting on a monthly basis over three years and a total of 7,350,000 Stock Options, with various vesting dates, a strike price of \$0.05 per share and an expire date of August 14, 2025.

On September 22, 2020, Company approved incentive Stock Option and Restricted Share Unit grants to employees and advisors in connection with work being done on behalf of the company. The Company has issued a total of 300,000 RSUs vesting immediately and a total of 3,750,000 Stock Options vesting monthly over two years with a strike price of \$0.05 per share and an expire date of September 23, 2023.

#### 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](http://www.theqyou.com) or contact: [shareholder@qyoutv.com](mailto:shareholder@qyoutv.com)