



MANAGEMENT'S DISCUSSION & ANALYSIS

Wow Unlimited Media Inc.

December 31, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") is dated April 28, 2020, and is intended to assist in understanding the results of operations and financial condition of Wow Unlimited Media Inc. (the "Company" or "Wow Unlimited") as at and for the three and twelve months ended December 31, 2019, and should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2019 and other public disclosure documents of Wow Unlimited.

Past performance may not be indicative of future performance. Unless otherwise noted, all amounts are reported in Canadian dollars, the Company's functional currency, and have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Throughout the MD&A reference to "Wow Unlimited" or the "Company" refers to Wow Unlimited Media Inc. and its subsidiary entities.

Additional information, including the Company's annual information form (the "AIF") and other publicly filed documents relating to the Company are available through the internet on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR"), which can be accessed at www.sedar.com.

FORWARD LOOKING STATEMENTS

Certain statements contained in this MD&A, and in certain documents incorporated by reference in this MD&A, constitute "forward looking information" within the meaning of applicable Canadian securities laws. The words "anticipate", "achieve", "could", "believe", "plan", "intend", "continuous", "ongoing", "estimate", "outlook", "expect", "may", "will", "project", "should", and similar expressions are often used to identify forward looking statements. These statements relate to future events or future performance and reflect management's expectations or beliefs regarding future events, and include, but are not limited to statements relating to the Company's objectives, priorities, strategies, actions, targets, expectations and outlook. In particular, this MD&A contains forward-looking statements relating to: (i) WOW Unlimited's business strategy; (ii) the market in which the Company operates and the demand for children's entertainment content; (iii) the ability of the Company to successfully integrate its component businesses and to realize on perceived synergies; (iv) the Company's potential future revenue and long-term vision; (v) the ability of the Company to identify suitable acquisition/partnership targets and to acquire/partner with such targets on reasonable terms and in a timely fashion; (vi) the ability of the Company to expand into potential markets and to capitalize on such expansion; (vii) future operational and financial performance, including production capacity; (viii) expectations regarding the ability of the Company to raise capital and to increase its business; (ix) the Company's proposed strategies for global rollout and platform growth; (x) the Company's proposed operations for 2020; and (xi) the continued access to and stability of distribution channels. The reader is cautioned that such forward-looking statements may prove to be incorrect. By their very nature, forward looking statements involve inherent risks and uncertainties, both general and specific, and a number of factors could cause actual events or results to differ materially from the results discussed in the forward-looking statements. In evaluating these statements, a reader should specifically consider various factors; including the risks outlined in this MD&A under the heading "*Risks and Uncertainties*" which may cause actual results to differ materially from any forward-looking statement.

The forward-looking statements contained herein reflect management's current expectations and beliefs and are based upon certain assumptions that management believes to be reasonable based on the information currently available. Such assumptions include, but are not limited to: (i) the performance of the Company's business, including current business and economic trends; (ii) capital expenditure programs and other expenditures by the Company and its customers; (iii) the ability of the Company to retain and hire qualified personnel; (iv) the ability of the Company to market its content successfully to existing and new customers; (v) the ability of the Company to retain customers; (vi) the ability of the Company to obtain timely financing on

acceptable terms; (vii) a stable competitive environment; (viii) the Company's ability to anticipate and adapt to changes in technology and product consumption patterns; and (ix) a stable industry regulatory environment. Should one or more of the risks or uncertainties identified herein materialize, or should the assumptions underlying the forward-looking statements prove to be incorrect, then actual results may vary materially from those described herein.

Unless otherwise indicated, all forward-looking statements are made as of the date hereof and, except as required by applicable securities laws, the Company does not intend, and does not assume any obligation, to update the forward-looking statements contained herein. Certain information contained herein is based on, or derived from, information provided by independent third-party sources. The Company believes that such information is accurate and that the sources from which it has been obtained are reliable. The Company cannot guarantee the accuracy of such information, however, and has not independently verified the assumptions on which such information is based. The Company does not assume any responsibility for the accuracy or completeness of such information. Readers are cautioned not to place undue reliance on forward-looking statements.

COMPANY PROFILE

Wow Unlimited Media Inc. is creating a leading animation-focused entertainment company by producing top-end content and building brands and audiences on the most engaging media platforms. The Company produces animation in its two established studios: Frederator Studios in Los Angeles, which has a 20-year track record; and one of Canada's largest, multi-faceted animation production studios, Mainframe Studios in Vancouver, which has a 25-year track record. The Company's media assets include Channel Frederator Network which is a Multi-Channel Network ("MCN") on YouTube, as well as WOW! branded programming on Crave, Canada's leading streaming entertainment platform, owned by Bell Media. The Company operates out of offices in Toronto, New York, Vancouver and Los Angeles. The common voting shares of the Company (the "Common Voting Shares") and variable voting shares of the Company (the "Variable Voting Shares") are listed on the TSX Venture Exchange (the "TSX-V") (TSX-V: WOW) and the OTCQX Best Market (OTCQX: WOWMF).

The Company's business is managed in two operating segments:

Animation Production

Through its production studio operations in both Canada and the United States, the Company provides animation services on a work-for-hire basis as well as financing and producing its own intellectual property for licensing and distribution. The Company's principal customers are traditional film and television studios, distributors, toy companies, toy brand owners, broadcasters and other streaming service providers.

Networks and Platforms

The Company operates a diverse animated multi-channel network on the *YouTube* platform from which it generates advertising revenue. In addition, the Company owns various proprietary channels on the same platform generating additional advertising revenues. The Company has partnered with Bell Media to be the principal curator of kids programming for Crave TV, Canada's leading streaming service.

In conjunction with the strategic partnership with Bell Media, the Company acquired a Category B Canadian specialty service and the related Canadian Radio-television and Telecommunications ("CRTC") broadcasting license (the "Broadcasting License") on August 30, 2019. Given the existing dynamics of the cable and satellite industry in Canada and the United States, the Company intends to secure financial partnerships prior to launching a WOW! branded linear channel and, to that end, the Company continues to seek investment and strategic candidates across multiple regions. Due to challenges and uncertainty in the broader television industry and the Company's ability to launch its own linear channel in the near term, the Company recorded a \$5.5 million non-cash impairment loss for the Broadcasting License for the year ended December 31, 2019. See *Financial and Operational Highlights* for further details.

NON-IFRS FINANCIAL MEASURES

In addition to results reported in accordance with IFRS, the Company reports using certain non-IFRS financial measures as supplemental indicators of the Company's financial and operating performance. These non-IFRS financial measures include *operating profit or loss*, *operating profit or loss per share* and *operating EBITDA*. The Company believes these supplemental financial measures reflect the Company's on-going business in a manner that allows for meaningful period-to-period comparisons and analysis of trends in its business. These non-IFRS measures have been consistently calculated in all periods presented.

The Company defines *operating profit or loss* as net profit or loss excluding the impact of specified items affecting comparability, including, where applicable, share of gain or loss of equity accounted investees, impairment of other intangible assets and goodwill, other non-operational income and expenses, deferred taxes and other gains or losses. The use of the term "non-operational income and expenses" is defined by the Company as those that do not impact operating decisions taken by the Company's management and is based upon the way the Company's management evaluates the performance of the Company's business for use in the Company's internal management reports. *Operating profit or loss per share* is calculated using diluted weighted average shares outstanding and does not represent actual profit or loss per share attributable to shareholders. The Company believes that the disclosure of operating profit or loss and operating profit or loss per share allows investors to evaluate the operational and financial performance of the Company's ongoing business using the same evaluation measures that management uses, and is therefore a useful indicator of the Company's performance or expected performance of recurring operations.

The Company defines *operating EBITDA* as profit or loss net of amortization of investment in film and television programming, but before interest, taxes, depreciation and amortization, adjusted for certain items affecting comparability as specified in the calculation of operating profit or loss. Operating EBITDA is presented on a basis consistent with the Company's internal management reports. The Company discloses operating EBITDA to capture the profitability of its business before the impact of items not considered in management's evaluation of operating performance. Unless otherwise stated, the Company includes the amortization of investment in film and television programming in the calculation of operating EBITDA.

The Company defines *backlog* as the undiscounted value of signed agreements for production services and intellectual property in relation to licensing and distribution agreements for work that has not yet been performed, but for which the Company expects to recognize revenue in future periods. Backlog excludes estimates of variable consideration for transactions involving sales or usage-based royalties in exchange for licences of intellectual property. The extent of eventual revenue recognized in future periods may be materially higher or lower than this amount, depending upon factors which include, but are not limited to the following: (i) contract modifications, (ii) fluctuations in foreign exchange rates for contracts not denominated in Canadian dollars, (iii) changes to production and delivery schedules, or (iv) valuation issues in connection with the collectability of fees.

Operating profit or loss, operating profit or loss per share, operating EBITDA, and backlog do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies. The Company cautions readers to consider these non-IFRS financial measures in addition to, and not as an alternative for, measures calculated in accordance with IFRS.

OVERVIEW OF RESULTS

On January 1, 2019, the Company adopted IFRS 16 – *Leases* (“IFRS 16”) which supersedes IAS 17 - *Leases* (“IAS 17”) and IFRIC 4 – *Determining Whether an Agreement Contains a Lease* (“IFRIC 4”). Under IFRS 16, most leases are recognized on the statement of financial position as right-of-use assets within property, plant and equipment and other intangible assets, with a corresponding lease liability. Under IFRS 16, expenses related to these leases have been recorded in the statement of comprehensive loss as depreciation expense and finance costs whereas under IAS 17, operating lease expenses were recorded in operating costs.

The Company adopted IFRS 16 using a modified retrospective approach whereby the standard has been applied from January 1, 2019 and comparative historical information from prior periods has not been restated and continues to be reported under IAS 17. The cumulative effect of the initial adoption of IFRS 16 did not have an impact on accumulated deficit. The adoption of IFRS 16 resulted in an increase to operating EBITDA of approximately \$0.4m and \$1.6m, respectively for the three and 12 months ended December 31, 2019. Refer to the table in the *Adoption of New Accounting Policies* section for a summary of the transitional impacts as at January 1, 2019.

Cumulative prior period information for 2017 in the following tables have been restated for purchase price allocation adjustments relating to the acquisition of Frederator.

Results of operations

<i>\$000's, except per share amounts</i>	2019		2018		2017	
Revenue	\$	103,872	\$	78,628	\$	44,660
Operating EBITDA ¹		1,432		(2,831)		(2,474)
Operating loss ¹		(4,581)		(7,137)		(7,795)
Operating loss per share						
- basic and diluted	\$	(0.15)	\$	(0.26)	\$	(0.31)
Net loss	\$	(19,583)	\$	(6,723)	\$	(5,086)
Net loss per share						
- basic and diluted	\$	(0.62)	\$	(0.25)	\$	(0.20)
Weighted average number of shares outstanding:						
- basic and diluted		31,555,814		27,215,079		25,241,171

¹Operating EBITDA and operating loss include amortization of investment in film and television programming. Refer to discussion under Consolidated Results for a reconciliation of Operating EBITDA and Operating loss to Net loss.

Financial position

<i>\$000's</i>	2019		2018		2017	
Financial position						
Total assets	\$	65,437	\$	70,187	\$	59,032
Total current assets		35,683		30,570		32,889
Total non-current assets		29,754		39,616		26,144
Convertible debentures		4,161		3,988		3,815
Total liabilities		57,602		44,917		35,094
Shareholders' equity		7,835		25,270		23,938

FINANCIAL AND OPERATIONAL HIGHLIGHTS

Strategic partnership with Bell Media

On August 31, 2018, the Company executed an amended and restated asset purchase agreement (the "Bell Agreement") in connection with the acquisition of the Broadcasting License from Bell Media by Wow Unlimited Networks Inc. ("Wow Networks"), a wholly-owned subsidiary of the Company. Pursuant to the terms of the Bell Agreement, in exchange for the issuance of an aggregate of 3,433,446 common voting shares in the capital of the Company, the Company acquired the exclusive option to receive the Broadcasting License. On May 31, 2019, the Company exercised its exclusive option to acquire the Broadcasting License and the License was conveyed to the Company on August 30, 2019, in accordance with the agreement.

Pursuant to the CRTC's approval of the license conveyance, and as an additional cost to acquire the Broadcasting License, the Company is required to invest \$687,000 over a seven-year period in equal annual payments on initiatives that will provide tangible benefits to the Canadian broadcasting system. The present value of the tangible benefits obligation, \$558,745, has been capitalized as part of the Broadcasting License intangible asset, as a directly attributable cost of bringing the asset to its working condition.

In the opinion of Management, the ownership of this Broadcasting License, together with the terms of the services agreements with its strategic investor, Bell Media, represents an asset to the Company. The Broadcasting License is accounted for as an indefinite life intangible asset and the Company performs an impairment test annually on December 31, and whenever there is an indication of impairment. As described earlier, given the existing dynamics of the cable and satellite industry in Canada and the United States, management feels that it is prudent to defer the launch of a linear channel unless and until significant financial partnerships are in place. As a result, and in conjunction with the annual impairment test of the indefinite life intangible asset, Management recognized a non-cash impairment charge of \$5.5 million in the consolidated statement of comprehensive loss for the year ended December 31, 2019. The impairment charge was recognized due to challenges and uncertainty in the broader television industry and the Company's ability to launch its own linear channel in the near term. Despite this impairment, the Company continues to seek partnerships prior to launching a WOW! branded linear channel and, to that end, the Company continues to explore investment and strategic candidates across multiple regions. However, the success of finding a suitable partnership cannot be assured.

Pursuant to the Bell Agreement, the Company and Bell Media have entered into a lock-up agreement pursuant to which, among other things, Bell Media will agree not to transfer or assign the shares received as consideration for a period of up to twenty-four months following the closing of the transaction.

Bell Media has further agreed to provide certain services to effect the transition of the broadcasting license and as partial consideration for such services, the Company issued 900,000 non-transferable Common Share purchase warrants (the "Bell Warrants"), which entitle Bell Media to acquire one Common Share per warrant for a period of three years from the date of issuance at an exercise price of \$2.00. The Bell Warrants are subject to vesting, such that a pro rata portion of the warrants shall vest and become exercisable on the last day of each calendar quarter beginning on September 30, 2018.

Also, as a benefit of the strategic partnership, the Company has entered into an agreement with Bell Media to provide Video-On-Demand (VOD) programming for Bell Media's Crave platform, Canada's leading Over-The-Top (OTT) streaming service. The Company currently provides over 350 hours of kids programming to Crave, Canada's leading streaming service, in three collections: WOW! Preschool Playdate (targeted at kids aged 0-5), WOW! World Kids (ages 6-11) and WOW! High School Hall Pass (ages 11 - 13) and WOW! MiniTOONS (short-form cartoons).

April 2019 private placement

The Company completed a non-brokered private placement of its common voting shares and variable voting shares on April 4, 2019. The Company issued 1,838,737 common voting and variable voting shares for gross proceeds of \$2,022,611 at an issuance price of \$1.10 per share. In connection with the share offering, the Company incurred share issuance costs of \$59,781.

Paycheck Protection Program loan

On April 28, 2020, Frederator Networks Inc., a subsidiary of the Company, received an unsecured advance of \$625,000 USD (\$817,000 CAD) under the Paycheck Protection Program, which is guaranteed by the US Small Business Administration, pursuant to the Coronavirus Aid, Relief and Economic Security Act. The loan bears interest at 1% per annum and is repayable, in blended payments, commencing from the 7th month through the 24th month after the initial advance. Subject to the satisfaction of certain conditions, the loan may be forgiven during the 24-month term.

OPERATIONAL HIGHLIGHTS

Animation Production

- During Q1 2019, the Company began production of a major animated series in partnership with DreamWorks Animation. The series is set to commence delivery in the first half of 2020 and will consist of 52 episodes of 22 minutes each.
- During Q4 2019, the Company began production on a new internally developed animated series of 44 episodes of 11 minutes each with a leading US based studio. The delivery date of the series is yet to be determined.
- Season 3 of the series *Castlevania* completed production and was delivered in Q4 2019. Season 3 debuted on Netflix on March 5, 2020 and received critical acclaim through various media outlets. In addition, the Company announced the renewal of the *Castlevania* series for a fourth season on Netflix with an expected delivery in Q4 2020.
- The animated series *Costume Quest* and a *Costume Quest* Christmas Special completed production and were delivered in Q1 2019 and Q4 2019, respectively.
- Production of season 2 of the series *Bee & Puppy Cat* was completed with delivery of the final episodes in Q4 2019.
- Further to the long-standing relationship between Mattel and Mainframe Studios, the studio continued production on season 2 of *Barbie Dreamhouse Adventures*. The season comprises 26-episodes and the final episodes were delivered in Q1 2020. During the second quarter of 2019, the Company also began production of an animated *Barbie* film. The film will be 70 minutes in length and is expected to be delivered in the summer of 2020. During the fourth quarter of 2019, the Company also began production of a 60-minute animated *Barbie* movie with an expected delivery of Q4 2020.
- Season 5 of the series *Octonauts*, comprising 28 episodes of 11 minutes each, for Silvergate Media, continues in production. In addition, during the third quarter of 2018 the Company began production on a 3-episode special (70 minutes, 70 minutes, and 44 minutes) for *Octonauts* with full delivery expected in the second quarter of 2020. During Q4 2019, the Company also began production on additional episodes of the series totalling 156 episodes of 11 minutes each. Delivery of the final episodes are expected to be completed at the end of 2023.
- The Company continues production on the animated series *Made by Maddie*, comprising 80 episodes of 11 minutes each, for Silvergate Media, with final delivery expected in the first half of 2021.

Networks and Platforms

- Statistics from YouTube's Content Management System show that Channel Frederator Network had approximately 3,000 channels as at December 31, 2019.
- The Company's Owned and Operated (O&O) YouTube channels enjoyed growing popularity during the year. The Leaderboard, a channel for video game fans and creators, had over 1.1 million subscribers as at December 31, 2019. Two other O&O channels, Cartoon Hangover and Channel Frederator, also currently have over 1 million subscribers.
- On June 8, 2019, the Company announced that a key channel affiliate, ADME (CY), Ltd. ("ADME"), would repatriate certain of its YouTube channels from Frederator; Frederator would continue to distribute and manage certain other ADME channels and it will have the opportunity to distribute and manage certain new ADME YouTube channels as they are developed. Under the terms of the new distribution agreement, the ADME channels being retained by Frederator will be subject to cancellation by ADME on 30-days advance notice for each such channel. The ADME group of channels constituted the largest distribution agreement for Frederator. Pursuant to the agreement, on July 31, 2019, Frederator transferred to ADME channels representing approximately 40% of the viewership of the ADME owned channels. On December 30, 2019, the Company announced that Frederator and ADME had agreed to terminate their agreement, with the remaining channels transferring back to ADME during Q1 2020. For the year-ended December 31, 2019, ADME channels represented approximately 82% of overall viewership on the Channel Frederator Network. While the ADME-owned channels contributed a significant portion of the Networks and Platforms revenues, they do not represent a significant portion of the Company's overall profitability. Further, given the nature of their content i.e. crafts and hobbies, the loss of ADME channels do not affect the Company's core objectives on YouTube - those of finding great animation talent and IP, and using the platform to build audiences for its animated shorts and series.

CONSOLIDATED RESULTS

Cumulative prior period information for 2017 in the following table has been restated for purchase price allocation adjustments relating to the acquisition of Frederator.

\$000's	2019	2018	2017
Revenue	\$ 103,872	\$ 78,628	\$ 44,660
Amortization of investment in film and television programming	\$ 10,976	\$ 7,141	\$ 7,455
Operating EBITDA	\$ 1,432	\$ (2,831)	\$ (2,474)
Finance costs	1,875	1,177	443
Depreciation and amortization ¹	4,138	3,129	4,878
Operating loss	(4,581)	(7,137)	(7,795)
<i>Items affecting comparability:</i>			
Share-based compensation expense	1,117	799	1,342
Impairment of other intangible assets and goodwill	13,811	-	-
Deferred income tax expense (recovery)	74	(1,213)	(4,051)
	15,002	(414)	(2,709)
Net loss	\$ (19,583)	\$ (6,723)	\$ (5,086)

¹ Excludes amortization of investment in film and television programming

Revenue and Operating EBITDA

Revenue for the year ended December 31, 2019, increased by \$25.2 million, compared to 2018, as a result of an increase in revenues for the Networks and Platforms segment of \$18.6 million which was driven by increased views and revenues generated by Channel Frederator Network. Revenues for the Animation Production segment in 2019 increased by \$6.6 million compared to 2018, primarily resulting from the delivery of *Castlevania* season 3 and *Bee & Puppy Cat* season 2 during the year.

Operating EBITDA increased by \$4.3 million for the year ended December 31, 2019 compared to 2018. The increase in operating EBITDA for the year ended December 31, 2019, was primarily as a result of the revenue recognized on the delivery of *Castlevania* season 3 and *Bee & Puppy Cat* season 2 during the year net of amortization of capitalized production costs. Other factors increasing EBITDA for 2019 compared to 2018 included the Company earning higher refundable tax credits on animation productions in 2019 compared to 2018, as well as a decrease in rent and occupancy costs from the adoption of IFRS 16 as previously discussed.

Amortization of investment in film and television programming

Amortization of investment in film and television programming during 2019 primarily relates to the initial amortization of *Castlevania* season 3 and *Bee & Puppy Cat* season 2 which were delivered during the year in addition to continued amortization on productions previously completed in prior years.

Amortization of investment in film and television programming during 2018 relates to the amortization of productions previously delivered during 2017 and 2018 including *Reboot: The Guardian Code*, *Castlevania*, seasons 1 and 2, and the amortization of the US distribution rights of *Bravest Warriors*, season 4.

Finance costs

<i>\$000's</i>		2019		2018
Finance expense:				
Interest expense on interim production financing	\$	1,110	\$	825
Interest expense on bank indebtedness		50		26
Interest and accretion on convertible debentures		519		519
Interest accretion on lease obligations		845		69
Interest accretion on tangible benefits obligation		30		10
Interest capitalized to investments in film and television programming		(679)		(272)
	\$	1,875	\$	1,177

The increase in overall finance costs from 2019 to 2018 of \$0.7 million for the year ended December 31, 2019, is largely due to the interest accretion on lease obligations which increased as a result of the adoption of IFRS 16. In addition, for the year ended December 31, 2019, there was an increase in interest expense on interim production financing driven by incremental borrowings on new productions. These increases were slightly offset by an increase to interest capitalized to investments in film and television programming.

Depreciation and amortization

<i>\$000's</i>		December 31, 2019		December 31, 2018
Property, plant and equipment	\$	2,557	\$	707
Other intangible assets		1,581		2,460
Amounts capitalized to Investment in film and television		—		(38)
	\$	4,138	\$	3,129

Depreciation on property plant and equipment increased for the year ended December 31, 2019, compared to 2018, primarily due to the adoption of IFRS 16 which resulted in an additional \$1.2 million in depreciation expense for the year ended December 31, 2019. The decline in amortization of other intangible assets is attributable to a decrease in the amortization of the animation network, which is amortized on a 50% declining basis each year.

Net loss and items affecting comparability

The comparison of financial results under IFRS between periods is hindered by the inclusion and variability of specified items that may not be indicative of the operational performance of the Company's ongoing business. For the year ended December 31, 2019, the net loss after adjusting for items affecting comparability was \$19.6 million compared to \$6.7 million for the year ended December 31, 2018. The most significant of these specified items are discussed below.

Share-based compensation expense

Share-based compensation expense for the year ended December 31, 2018, was \$1.1 million, compared to \$0.8 million in 2018. The increase in 2019 is primarily a result of the previously deferred share-based compensation expense related to Bell Warrants which has been recorded as share-based compensation expense beginning on August 30, 2019, the date that the Broadcasting License conveyed to the Company.

Impairment of other Intangibles assets and goodwill

Impairment of other intangible assets and goodwill for the year ended December 31, 2019, of \$13.8 million relates to the impairment of the Broadcasting License and goodwill. The Broadcasting License is tested annually on December 31 for impairment and whenever there is an indication of impairment. During the year ended December 31, 2019, an impairment charge to the Broadcasting License of \$5.5 million was recorded as previously discussed above. In addition, Goodwill related to the acquisition of Frederator is also tested for impairment annually on December 31 and whenever there is an indication of impairment. The impairment test for goodwill is at a group of cash-generating units (“CGU”) level, encompassing both of the CGUs which make up Frederator. As part of its annual test, it was determined that the recoverable amount of the group of CGUs representing Frederator was lower than the carrying amount of the CGUs and as a result an \$8.3 million impairment charge for goodwill was recorded in the statement of comprehensive loss for the year ended December 31, 2019.

OUR BUSINESS MODEL

Animation Production

The Company’s primary sources of revenue are: (a) Animation production service contracts where revenues are earned over the term of the contract as the Company provides services; and (b) licensing of series and feature film based intellectual property (“IP”) and content produced and owned or licensed by the Company.

The Company’s production service business continues to provide a significant source of revenue and cash flow to the Company over the term of each contract.

The licensing model does not provide an immediate source of revenue, unlike the Company’s production service business, as revenue is recognized upon the completion and delivery of the content. Further, this model requires sources of capital to be identified initially in order to fund projects, as cash from exploitation is generally not received until delivery or during the subsequent exploitation of the content. Management has implemented a policy to secure 100% of the financing necessary to fund the direct costs of production prior to commencing production.

The Company’s objective is to expand its licensing business such that it selectively invests and builds ownership interests in certain films and television shows produced by the Company. Examples of this include projects such as *ReBoot: The Guardian Code*, which was financed by a production loan secured by various licensing and distribution contracts and government incentives, and the *Castlevania* seasons, which are financed largely through production loans secured against licensing contracts with Netflix. These investments in intellectual property reflect management’s view that one of the largest opportunities for growth of the Company lies in the ownership and exploitation of intellectual property across multiple viewing platforms.

With the strong growth of subscription and advertising based streaming platforms worldwide, the demand for quality animation content is higher than ever before. The Company aims to be a beneficiary of this demand by providing top-end animation services to its partners worldwide, and by creating and licensing profitable animation series and features. Since the formation of the Company, it has added multiple marquee partners and clients and has been working to develop an extensive slate of animation content. As of December 2019, the Company is in active discussions on approximately 15 projects from that development slate.

The Company also has access to a strong creator network by virtue of its ownership of the Frederator Network. Frederator discovers top content creators and concepts both from its unique short films (“Shorts”) development program as well as the Channel Frederator Network. It then works closely with those creators to develop, produce and distribute top-end content

across multiple platforms worldwide – this represents one example of potential synergies across the Company's two operating divisions.

Networks and Platforms

The primary source of revenue within Networks and Platforms is the Channel Frederator Network, which derives its revenues from advertising revenue collected mainly from YouTube.

As described earlier, management continues to seek investment and strategic candidates for a financial partnership prior to launching a WOW! branded linear channel. However, the success of finding a suitable partnership cannot be assured.

OUTLOOK

The Company continues to pursue and secure new opportunities in several key segments of the animation production and distribution industry. These include production service contracts in both the feature film and television markets. In addition, the Company remains focused on selectively acquiring and investing in various intellectual properties that allow the Company to retain an ownership interest and share in future revenues, in a capital and risk efficient manner. In particular, the Company continues to pursue investment opportunities for theatrical films and TV programs that have strategic characteristics, such as committed distribution, key talent attachments, and successful brand awareness.

As at December 31, 2019, the Company's backlog was \$43.9 million. The Company's backlog at December 31, 2019 did not include additional contracts signed subsequent to year-end which represented \$29.6 million in additional animation work to be completed over the next 30 months. Backlog represents the undiscounted value of signed agreements for production services contracts and intellectual property in relation to licensing and distribution agreements for work that has not yet been performed, but for which the Company expects to recognize revenue in future periods. Backlog excludes estimates of refundable tax credits as well as variable consideration for transactions involving sales or usage-based royalties in exchange for licences of intellectual property. The Company expects to recognize the majority of backlog as revenue over the next 30 months.

Channel Frederator Network is viewed primarily across digital devices, providing the Company with a global marketing platform for its animation content, as well as a strong understanding of these 'digital-first' consumers. The Company's goal is to leverage this understanding of digital consumers as well as the viewership analytics obtained from YouTube to create more compelling content.

The consolidated financial statements for the year ended December 31, 2019 and 2018 have been prepared using the going concern assumption, which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and settle its liabilities in the normal course of business. For the year ended December 31, 2019, the Company had used \$0.5 million in cash flows from operating activities (2018 – generated \$1.7 million).

The Company's future operations are dependent upon many factors, including the ability to generate earnings and obtaining additional equity and/or debt financing in order to meet its planned business objectives. To that end, on April 4, 2019, the Company completed a non-brokered private placement of its common voting and variable voting shares for gross proceeds of \$2,022,611.

The Company will need to raise funds in the future through public or private equity and/or debt financings. This funding may not be available on acceptable terms, or at all, and may be dilutive to shareholder interests. If the Company is unable to generate positive cash flows or obtain adequate financing, the Company may need to curtail operations. These factors cast significant doubt on the Company's ability to continue as a going concern. Should the Company be unable to realize its assets

and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the carrying amounts on the condensed interim consolidated statement of financial position. Management continues to explore options to raise equity and debt financing.

The Company has convertible subordinated debentures with a face value of \$4.3 million which will mature in December 2020. The Company is actively reviewing its options for the repayment or refinancing of that obligation.

Animation Production - Production services business

The Company continues to pursue and secure production service contracts as a significant component of its revenues and workflow. This includes contracts for theatrical films, as well as television series.

During the first quarter of 2019, the Company began production of a major animated series in partnership with a leading US based studio. The series will consist of 52 episodes of 22 minutes in length and is set to commence deliveries in the first half of 2022.

During the first quarter of 2020, Mainframe studios completed production on the second season of *Barbie Dreamhouse Adventures*, consisting of 26 episodes. In addition, the Company remains in production of two animated *Barbie* films (70 minutes and 60 minutes in length). The films are set to be delivered in the summer of 2020 and the fourth quarter of 2020, respectively.

In a deal with Amazon Studios, the Company began production of *Costume Quest* in February 2017, based on the video game series by Double Fine productions and the world originally created by Tasha Sounart. Aimed at the kids market (6-11 year olds), *Costume Quest* is set in the fictional town of Auburn Pines where dark forces lurk in the shadows. The production of 26 x 11-minute episodes was fully delivered in the first quarter of 2019, and in addition a *Costume Quest Christmas Special* was also delivered in Q4 2019.

The Company began working with Silvergate Media in May 2017 on the production of season 5 of the series *Octonauts*, which consists of 28 episodes, each 11 minutes in duration. In addition, during the third quarter of 2018, the Company also began production of a 3-episode special of *Octonauts* (70 minutes, 70 minutes, and 44 minutes) and an 80 x 11-minute episodic series called *Made by Maddie*. During the fourth quarter of 2019, the Company also began production on additional episodes of the series *Octonauts*, totalling 156 episodes of 11 minutes each.

Animation Production - Intellectual properties

Castlevania

Castlevania is based on the hit Konami video game and written by best-selling author and comic book icon Warren Ellis. *Castlevania* was the first proprietary production of Frederator Studios after the corporate reorganization and the four episodes of Season 1 debuted on Netflix in July 2017 to wide critical acclaim. The eight episodes of Season 2 were delivered to Netflix in October 2018, and Season 3 of the popular series was delivered in the fourth quarter of 2019.

Castlevania Season 3 was released on Netflix on March 5, 2020. The Show received rave reviews and extensive coverage from numerous media outlets and entertainment publications. In addition to “Top 10” designations from Netflix across multiple territories, the animated hit series has achieved a “Masterpiece” and “Editor’s Choice” rating from IGN and a 100% critic’s rating on Rotten Tomatoes. Season 4 of *Castlevania* remains in production with an estimated delivery date of Q4 2020.

Bravest Warriors – Season 4

Bravest Warriors was created by Pendleton Ward, the creator of *Adventure Time*, one of the most successful shows on Cartoon Network. Season 4 consists of fifty-two 11-minute episodes and was produced in a partnership with a third-party

producer. Although a third-party distributor will distribute the production globally, the Company controls the United States distribution rights, and Season 4 had its initial episode debut on Frederator's subscription video on demand ("SVOD") channel, Cartoon Hangover, via Ellation Inc.'s VRV platform, in late 2017. The distribution rights have been capitalized as investment in film and television programming and amortized by the Company in accordance with its accounting policies.

The existing seasons of *Bravest Warriors* have almost 200 million views on Cartoon Hangover across the 24 episodes. *Bravest Warriors* won a Shorty Award and is a Webby Award Honoree.

Bee & Puppy Cat – Season 2

Bee & Puppy Cat is a 2D animated television show which originally debuted on YouTube and created significant audience appeal. The first 13-episode season of the series was produced by Frederator Studios with funding from a kick-starter campaign. The second season consists of 13 x 22-minute episodes and was produced in Los Angeles and Japan. Ellation, Inc. has acquired the worldwide rights to exclusively distribute the second season, which was fully delivered in Q4 2019. *Bee & Puppy Cat* won the Animated Series Competition Award at the Ottawa International Animation Festival in September 2019.

In addition to the above noted projects, the Company also began production of a new internally developed animated series in the fourth quarter of 2019 in partnership with a leading US based studio. This series will consist of 44 episodes of 11 minutes in length and the delivery date is yet to be determined.

Networks and Platforms

Channel Frederator Network continues to build its unique appeal to affiliate members with video tools, music rights and member programs targeting the animation and gaming communities.

In its most recent annual report, Alphabet, the parent Company of YouTube, disclosed its revenues. According to the filings, YouTube generated US\$15.15 billion of advertising revenue for 2019, and US\$11.16 billion for 2018, marking a year over year increase of around 36%. These revenues and growth rate reflect the popularity of YouTube as a global content consumption platform and Management believes that the Channel Frederator Network's, as one of the MCNs within YouTube is well-positioned to benefit from YouTube's growth in the years ahead.

As described earlier, on June 7, 2019, the Company announced that a key channel affiliate, ADME, would repatriate certain of its YouTube channels from Frederator; Frederator would continue to distribute and manage certain other ADME channels and it will have the opportunity to distribute and manage certain new ADME YouTube channels as they are developed. Under the terms of the new distribution agreement, the ADME channels being retained by Frederator will be subject to cancellation by ADME on 30-days advance notice for each such channel. The ADME group of channels constituted the largest distribution agreement for Frederator. Pursuant to the agreement, on July 31, 2019, Frederator transferred to ADME channels representing approximately 40% of the viewership of the ADME owned channels. On December 30, 2019, the Company announced that Frederator and ADME had agreed to terminate their agreement, with the remaining channels transferring back to ADME in Q1 2020. For the year-ended December 31, 2019, ADME channels represented approximately 82% of overall viewership on the Channel Frederator Network. While the ADME-owned channels contribute a significant portion of the Networks and Platforms revenues, they do not represent a significant portion of the Company's overall profitability. Further, given the nature of their content i.e. crafts and hobbies, the loss of ADME channels do not affect the Company's core objectives on YouTube - those of finding great animation talent and IP, and using the platform to build audiences for its animated shorts and series.

Under an agreement with Bell Media, a Broadcasting License was conveyed to Wow Networks on August 30, 2019. As described earlier, given the existing dynamics of the cable and satellite industry in Canada and the United States,

management feels that it will be prudent to defer the launch of a linear channel unless and until significant financial partnerships are in place. Despite this uncertainty and subsequent impairment loss of \$5.5 million, the Company has not surrendered its rights to the Broadcasting License to the CRTC and will continue to seek financial partners.

Impact of COVID-19

In December 2019, a novel coronavirus disease (“COVID-19”) was reported and on March 11, 2020, the World Health Organization (“WHO”) characterized COVID-19 as a global pandemic. Since the WHO characterized COVID-19 as a pandemic, several measures have been implemented globally including in the United States and Canada. In response to the impact of COVID-19, the Company has temporarily closed its offices and studios while our staff and employees continue working remotely from their homes. We have instituted the practice of daily communications amongst our team members via conference calls and are in regular phone and e-mail contact with our key service providers, subcontractors, clients, and partners. In addition, the Company has suspended all non-essential business-related travel in order to ensure the safety of our staff. Currently, we do not believe these disruptions cause a substantial impact on the Company’s ability to meet production quotas or delivery deadlines, however, the circumstances are dynamic and the extent to which COVID-19 impacts our business operations, including the duration and impact on our future operations cannot be reasonably estimated. Management continues to evaluate potential operational and financial risks as a result of the pandemic, as well as additional steps that may be required to ensure continuity in production and the company’s overall growth. See *Risk Factors* for further discussion of the possible impact of the COVID-19 pandemic on our business.

RESULTS BY SEGMENT

<i>\$000's</i>	2019		2018	
Revenue				
Animation Production	\$	40,353	\$	33,722
Networks and Platforms		63,519		44,906
Total revenue	\$	103,872	\$	78,628
Amortization of investment in film and television programming				
Animation Production	\$	10,502	\$	7,065
Networks and Platforms		474		76
Total amortization of investment in film and television programming	\$	10,976	\$	7,141
Segment profit (loss)				
Animation Production	\$	897	\$	1,744
Networks and Platforms		(779)		(3,233)
Total segment profit (loss)	\$	118	\$	(1,490)

Animation Production

Revenue for the Animation Production segment was \$40.4 million for the year ended December 31, 2019, compared to \$33.7 million for the year ended December 31, 2018. The increase in revenue 2019 compared to 2018 was driven primary by the revenue recognized on the delivery of *Castlevania* season 3 and *Bee & Puppy Cat* season 2 during the year.

Amortization of investment in film and television programming for the year ended December 31, 2019 was \$10.5 million compared to \$7.1 million for the year ended December 31, 2018. The increase in amortization of investment in film and television programming in 2019 was a result of the initial amortization recognized upon delivery of *Castlevania* season 3 and *Bee & Puppy Cat* season 2 during the year in addition to ongoing amortization of investment in film for IP delivered in previous years.

Segment profit was \$0.9 million for the year ended December 31, 2019 compared to \$1.7 million for the year ended December 31, 2018. The decrease in segment profit was primarily due to the new deliveries of IP as discussed above.

Networks and Platforms

Revenue earned in the Networks and Platforms segment was \$63.5 million for the year ended December 31, 2019, compared to \$44.9 million for the year ended December 31, 2018. In addition, the segment loss for the Networks and Platforms segment was \$0.8 million for the year ended December 31, 2019 compared to a \$3.2 million loss for the year ended December 31, 2018. The increase in revenue and improvement in segment profit for the year ended December 31, 2019, was primarily a result of increased advertising revenue driven by a higher number of views on the channels within Channel Frederator.

FOURTH QUARTER 2019

Selected financial information for the three months ended December 31, 2019, and 2018 is as follows:

`000's	Q4 2019		Q4 2018	
Revenue	\$	34,413	\$	28,984
Amortization of investment in film and television programming	\$	8,209	\$	4,676
Operating EBITDA		3,038		(920)
Finance costs		390		165
Depreciation and amortization ¹		1,026		790
Operating profit (loss)		1,622		(1,875)
<i>Items affecting comparability:</i>				
Share-based compensation expense		210		138
Impairment of other intangible assets and goodwill		13,811		-
Deferred income tax expense (recovery)		74		(584)
		14,095		(446)
Net profit (loss)	\$	(12,473)	\$	(1,429)

¹ Excludes amortization of investment in film and television properties

Operating EBITDA increased by \$4.0 million for the three months ended December 31, 2019, compared to the three months ended December 31, 2018. The increase in operating EBITDA for the three months ended December 31, 2019 was primarily a result of revenue recognized on the delivery of *Castlevania* season 3 and *Bee & Puppy Cat* season 2 during the 3 months ended December 31, 2019, as well as the adoption of IFRS 16 which resulted in lower rent and occupancy costs for the quarter.

Revenue for the three months ended December 31, 2019, was \$34.4 million compared to \$29.0 million for the three months ended December 31, 2018. The increase of \$5.4 million was driven primarily by the delivery of IP during the quarter as discussed above slightly offset by a decrease in revenue generated through the Networks and Platforms segment by Channel Frederator during the three months ended December 31, 2019, compared to the same period in 2018.

Amortization of investment in film and television programming during the three months ended December 31, 2019, primarily relates to the initial amortization of IP shows delivered during the quarter as noted above in addition to continued amortization on productions previously completed in prior years. Amortization of investment in film and television programming during the three months ended December 31, 2018 relates to the amortization of productions previously delivered during 2017 and 2018

including *Reboot: The Guardian Code*, *Castlevania*, season 1 and 2, and the amortization of the US distribution rights of *Bravest Warriors*, season 4.

Finance costs for the three months ended December 31, 2019 was \$0.4 million compared to \$0.2 million for the same period in 2018. The increase is a result of increased interest accretion on lease obligations as a result of the adoption of IFRS 16 in addition to increased interest costs on interim production financing driven by additional production service work during the quarter.

Depreciation and amortization expense was \$1.0 million for the three months ended December 31, 2019, compared to \$0.8 million for the same period in 2018. The increase of \$0.2 million was primarily driven by an increase in the amortization of property plant and equipment as a result of the adoption of IFRS 16. This increase was slightly offset by a decline in the amortization of the animation network, which is amortized on a 50% declining basis each year.

QUARTERLY FINANCIAL DATA (UNAUDITED)

\$000's	For the three months ended			
	Dec 31, 2019	Sep 30, 2019	Jun 30, 2019	Mar 31, 2019
Revenue	\$ 34,413	\$ 23,349	\$ 26,614	\$ 19,496
Operating EBITDA ⁽¹⁾	3,038	831	(625)	(1,814)
Operating profit (loss)	1,622	(723)	(2,214)	(3,267)
Net profit (loss)	\$ (12,473)	\$ (1,356)	\$ (2,361)	\$ (3,392)
Basic net profit (loss) per share	\$ (0.39)	\$ (0.04)	\$ (0.07)	\$ (0.11)
Diluted net profit (loss) per share	\$ (0.39)	\$ (0.04)	\$ (0.07)	\$ (0.11)

	For the three months ended			
	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018
Revenue	\$ 28,984	\$ 17,711	\$ 16,270	\$ 15,663
Operating EBITDA ⁽¹⁾	(920)	(1,502)	(1,230)	821
Operating profit (loss)	(1,875)	(2,659)	(2,311)	(292)
Net profit (loss)	\$ (1,429)	\$ (3,051)	\$ (2,080)	\$ (162)
Basic net profit (loss) per share	\$ (0.05)	\$ (0.11)	\$ (0.08)	\$ (0.01)
Diluted net profit (loss) per share	\$ (0.05)	\$ (0.11)	\$ (0.08)	\$ (0.01)

⁽¹⁾ Refer to *Reconciliations* for a reconciliation of operating EBITDA and operating profit (loss) to net profit (loss).

The decrease in operating EBITDA in the second and third quarters of 2018 was primarily as a result of higher corporate costs and professional fees in addition to higher affiliate costs and lower margins in the Networks and Platforms segment as a result of the Company's strategy to grow this segment.

The increase in operating EBITDA in the fourth quarter of 2018 was a result of increased EBITDA in the Animation Production segment as a result of the delivery of *Castlevania*, season 2, during the quarter.

The decrease in operating EBITDA during the first quarter of 2019 was a result of higher legal and accounting fees incurred during the quarter compared to previous quarters slightly offset by a decrease in operating costs as a result of adopting IFRS 16.

The increase in operating EBITDA during the second quarter of 2019 was primarily a result of increased animation production service work during the quarter as a result of beginning work on new projects signed during the year.

The increase in operating EBITDA during the third quarter of 2019 was primarily a result of the revenue recognition from the delivery of a number of episodes of *Bee & Puppy Cat*, season 2, net of the associated amortization of capitalized production costs on the series during the quarter.

The increase in operating EBITDA during the fourth quarter of 2019 was primarily a result of the revenue recognition from the delivery of IP during the quarter as previously discussed.

RECONCILIATIONS

The following tables reconcile operating EBITDA and operating loss to net (loss) profit for the last eight quarters.

\$000's	For the three months ended			
	Dec 31, 2019	Sep 30, 2019	Jun 30, 2019	Mar 31, 2019
Operating EBITDA	\$ 3,038	\$ 831	\$ (625)	\$ (1,814)
Finance costs	390	505	530	449
Depreciation and amortization ¹	1,026	1,049	1,059	1,004
Operating profit (loss)	1,622	(723)	(2,214)	(3,267)
<i>Items affecting comparability:</i>				
Share-based compensation expense	210	633	147	125
Impairment of other intangible assets and goodwill	13,811	–	–	–
Deferred income tax expense (recovery)	74	–	–	–
	14,095	633	147	125
Net profit (loss)	\$ (12,473)	\$ (1,356)	\$ (2,361)	\$ (3,392)

¹ Excludes amortization of investment in film and television programming which has been included in operating EBITDA above.

\$000's	For the three months ended			
	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018
Operating EBITDA	\$ (921)	\$ (1,502)	\$ (1,230)	\$ 821
Finance costs	165	359	300	353
Depreciation and amortization ¹	790	798	781	760
Operating profit (loss)	(1,876)	(2,659)	(2,311)	(292)
<i>Items affecting comparability:</i>				
Share-based compensation expense	138	183	217	261
Deferred income tax (recovery) expense	(584)	209	(448)	(391)
	(446)	392	(231)	(130)
Net profit (loss)	\$ (1,430)	\$ (3,051)	\$ (2,080)	\$ (162)

¹ Excludes amortization of investment in film and television programming which has been included in operating EBITDA above.

LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity requirements can be met through a variety of sources. Borrowings against tax credits earned and contracts from both service productions and the production of our own content are a key source of operational financing. Other sources include generating cash from operations, entering into leases, borrowings under a line of credit, issuance of convertible debentures, or the issuance of common shares or common share purchase warrants. Sources of funding for IP include production financing facilities secured by licensing agreements. The Company's policy is to identify sources of funding for 100% of the direct costs of proprietary productions prior to the commencement of production. The exploitation of the Broadcasting License as discussed above would require an investment in programming and operating costs and accordingly, the Company is deferring the launch of a linear channel unless and until significant financial partnerships are in place. The Company manages liquidity risk by continuously monitoring actual and forecast cash flows, drawing upon available facilities and using lease financing.

The consolidated financial statements for the year ended December 31, 2019 and 2018 have been prepared using the going concern assumption, which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and settle its liabilities in the normal course of business.

See *Outlook* section for factors which cast significant doubt on the Company's ability to continue as a going concern. For the year-ended December 31, 2019, the Company had negative cash flows from operating activities of \$0.5 million (December 31, 2018 – generated \$1.7 million). As at December 31, 2019, the Company had a cash balance of \$3.2 million and \$17.9 million in additional unutilized credit facilities available by way of interim production loans secured against refundable tax credits and sales contracts. In June 2019, the Company entered into a credit facility (the "Facility") with a Canadian bank. The Facility is comprised of: (i) a \$1.5 million CAD revolving demand facility, (ii) a \$6.0 million CAD equipment lease line, and (iii) a treasury risk management facility of up to \$0.5 million CAD for foreign exchange forward contracts. As at December 31, 2019, the Company had drawn \$1.4 million out of the \$1.5 million revolving demand facility and utilized \$2.5 million out of the \$6.0 million equipment lease line.

A summary of the Company's cash flows for the year ended December 31, 2019 and 2018 are as follows:

<u>\$000's</u>	2019	2018
Cash generated by (used in) operating activities	\$ (543)	\$ 1,699
Cash generated by (used in) financing activities	(45)	(5,360)
Cash generated by (used in) investing activities	(98)	(254)
Net change in cash and cash equivalents	(686)	(3,915)
Effect of foreign exchange on cash and cash equivalents	(44)	87
Cash and cash equivalents, beginning balance	2,526	6,354
Cash and cash equivalents, ending balance	\$ 1,796	\$ 2,526

Cash generated by (used in) operating activities

<u>\$000's</u>	2019	2018
Cash provided by (used in) operating activities before		
changes in non-cash working capital	\$ 12,912	\$ 3,944
Investment in film and television programming	(10,424)	(13,203)
Funding received for investment in film and television programming	116	524
Changes in non-cash working capital:		
Trade and other accounts receivable	(3,382)	(1,859)
Other assets ¹	(148)	(19)
Accounts payable and accrued liabilities	(2,196)	7,845
Deferred revenue	2,437	2,973
Other liabilities ²	142	1,492
Cash generated by (used in) operating activities	\$ (543)	\$ 1,699

¹ Other assets include prepaid expenses, other financial assets, and deposits and other assets.

² Other liabilities include other current liabilities, other financial liabilities, and other non-current liabilities.

Cash flows used by operating activities for the year ended December 31, 2019, were \$0.5 million compared to \$1.7 million generated in 2018.

Investment in film and television decreased cash by \$10.4 million for the year ended December 31, 2019, compared to a decrease of \$13.2 million for 2018. Expenditures for the year ended December 31, 2019, primarily relate to the costs incurred on *Castlevania*, season 3, and *Bee & Puppy Cat*, season 2, while the expenditures for the year ended December 31, 2018, relate to costs incurred on *Castlevania*, seasons 2 and 3, and *Bee & Puppy Cat*, season 2.

Significant changes in the components of non-cash working capital are discussed below:

The Company recognizes the benefit of refundable tax credits earned from eligible labour expenditures on its productions in Canada as the labour expenditures are incurred as an increase to tax credits receivable and a decrease to operating expenses. This results in a decrease in cash flows from operating activities during the production of a film and before the tax return is filed and the refundable tax credits claimed. The filing of a tax return and subsequent receipt of the refundable tax credits results in an increase in cash flows from operating activities. Refundable tax credits earned are significant and therefore can have a large impact on our working capital balances.

During the year ended December 31, 2019, \$15.6 million in tax credit refunds were received compared to \$17.3 million for the year ended December 31, 2018. Tax credits earned for the year ended December 31, 2019 was \$13.1 million compared to \$9.3 million for 2018. As the refundable tax credits are a significant component of our non-cash working capital balances, we finance them through production tax credit loans as discussed below under “Cash generated by (used in) financing activities”. The changes in trade and other receivables decreased cash by \$6.2 million compared to \$9.9 million in 2018 primarily as a result of timing of invoices received and paid.

The changes in accounts payable and accrued liabilities and other liabilities primarily relate to the timing of invoices received and paid.

Deferred revenue represents cash received from customers in excess of revenues earned to date on a production. The balance of deferred revenue generally increases during periods where there are more active productions and decreases when there are fewer productions. The change in deferred revenue for the year ended December 31, 2019, increased operating cash flows by \$2.7 million, compared to \$3.0 million for 2018, as a result of the timing of cash receipts. This reflects the stage of productions at year end. Generally, the earlier in a production, the higher the deferred revenue as invoices are issued in advance of work performed to ensure that cash is received before it is required to be paid.

Cash generated by (used in) financing activities

<u>\$000's</u>	2019	2018
Proceeds from interim production financing, net of repayment	\$ 2,394	\$ (6,022)
Interest paid	(1,862)	(939)
Repayment of lease obligations	(2,540)	(689)
Share issuance costs related to asset purchase agreement	–	(35)
Proceeds from private placement, net of share issuance costs	1,963	2,325
Cash generated by (used in) financing activities	\$ (45)	\$ (5,360)

As discussed under “Cash flow from operating activities”, the Company uses interim production financing to finance tax credit receivables. Proceeds from interim production financing, less repayments for the year ended December 31, 2019, resulted in a net cash inflow of \$2.4 million compared to a net outflow of \$6.0 million in 2018. The repayment of interim production financing is dependent on the timing and collection of refundable tax credits, and as a result, periods where the net proceeds from

interim production financing are lower typically represent periods in which the Company has applied the receipt of refundable tax credits to the applicable interim production financing loans.

Interest paid on interim production loans, finance leases and convertible debentures during the year ended December 31, 2019 was \$1.9 million compared to \$0.9 million for 2018. The increase for the year ended December 31, 2019 compared to 2018 is a result of the adoption of IFRS 16 as previously discussed.

Principal repayments on finance leases for the year ended December 31, 2019, was \$2.5 million compared to \$0.7 million for 2018. The increase was primarily a result of the adoption of IFRS 16 as previously discussed.

As noted previously, the Company raised \$1.9 million net of share issuance costs through the completion of a non-brokered private placement of its common voting shares and variable voting shares on April 4, 2019.

CONTRACTUAL OBLIGATIONS

The following is a summary of the Company's contractual obligations as at December 31, 2019.

<i>\$000's</i>	Less than 1 year	1 to 5 years	Greater than 5 years	Total
Accounts payable and accrued liabilities	\$ 10,717	\$ –	\$ –	\$ 10,717
Bank indebtedness	1,410	–	–	1,410
Lease obligations ¹	2,718	6,652	10,369	19,739
Interim production financing	16,960	–	–	16,960
Convertible debentures ¹	4,658	–	–	4,658
Other liabilities ¹	552	1,151	98	1,802
	\$ 37,015	\$ 7,803	\$ 10,467	\$ 55,285

¹ Includes the estimated interest that will be paid to the end of their respective terms.

CAPITAL EXPENDITURES

During the year ended December 31, 2019, the Company incurred capital expenditures of \$0.1 million compared to \$0.3 million for 2018. The additions in 2019 primarily consisted of computer equipment purchases. The Company endeavours to fund IT purchases through finance leases where possible.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, unbilled accounts receivable, deposits, trade and other payables, bank indebtedness, lease obligations, interim production financing, tangible benefits obligation, and convertible debentures.

The Company periodically enters into foreign exchange forward contracts to manage its foreign exchange risk on contracts denominated in the USD with various counterparties, principally financial institutions with investment grade credit ratings. Such contracts are classified as derivative financial instruments, included as other financial assets or liabilities in the statement of financial position, and measured at fair value through profit and loss.

During the year ended December 31, 2019, the Company entered into five USD forward contracts with a total notional value of \$2,219,363 USD (2018 - \$383,000 USD) which were fully exercised in the year at an average exchange rate of 1.3341, realizing a net gain of \$8,886 (2018 – loss of \$13,903) in the consolidated statements of comprehensive loss. As at December

31, 2019, there are no remaining outstanding USD forward contracts. Subsequent to the acquisition of Frederator, the Company has seen an increase in cash outflows denominated in USD which has lowered our need for foreign exchange forward contracts in order to manage our exposure to foreign exchange risk.

SEASONALITY

Results of operations generated by the Animation Production segment for any period are dependent on the number and timing of film and television programs delivered which cannot be predicted with certainty. Consequently, the Company's results from operations may fluctuate materially from period-to-period and the results of any one period are not necessarily indicative of results for future periods. Cash flows may also fluctuate and are not necessarily closely correlated with the timing and amount of revenue recognised. The Company's Networks and Platforms revenues are driven by advertising preferences, which experiences seasonal fluctuations that are somewhat aligned to the retail industry.

RISKS AND UNCERTAINTIES

The following describes certain risks, events and uncertainties that could affect the Company and that each reader should carefully consider.

Business disruption as a result of COVID-19

The extent to which COVID-19 impacts the Company's business will depend on future developments, which are highly uncertain and cannot be predicted at this time. These developments include the duration, severity and scope of the outbreak and the actions taken to contain or treat COVID-19. Potential impacts of COVID-19 include but are not limited to the Company's access to financing, employee health, employee productivity, limitations on travel, the Company's ability to meet production deadlines and quotas, the impact on the Company's advertising revenues, and the impact on our suppliers, customers, sub-contractors and partners. At this time, it is unclear as to whether COVID-19 represents a material disruption to the Company's business.

Fluctuation of the market price for the Company's shares

Securities markets have a high level of price and volume volatility, and the market price of shares of many companies have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. The market price of the Common Voting Shares and Variable Voting Shares may be subject to significant fluctuation in response to numerous factors, many of which are beyond the Company's control, including variations in its annual or quarterly financial results or those of its competitors, conditions in the economy in general or in the broadcasting, film or television sectors in particular and unfavourable changes in applicable laws and regulations.

As a result of numerous factors, the market price of the Common Voting Shares and Variable Voting Shares may be volatile and, at any given point in time, may not accurately reflect the long-term value of the Company. This volatility may affect the ability of holders of shares to sell their shares at an advantageous price. In addition, the Company's Common Voting Shares and Variable Voting Shares structure is unusual in the United States. As a result, brokers, dealers and other market participants may not understand the conversion features of the Common Voting Shares and Variable Voting Shares, which may negatively impact liquidity in the trading market for each class of shares and may result in differences between the trading prices of each class of shares that do not reflect differences in the underlying economic or voting interests represented by each class of shares.

Currency fluctuations and dependence on foreign currency and revenue from outside Canada

Many of the Company's customers have historically found Canada particularly attractive because of the exchange rate of the Canadian dollar in relation to the USD. The CAD to USD exchange rate has historically provided certain cost savings to U.S. based film producers obtaining production services in Canada. Fluctuations in currency exchange rates could decrease the production activity of the Company's customers and adversely affect the results of operations and financial condition of the Company. The Company cannot predict the effect of exchange rate fluctuations upon its future operating results. Subsequent to the acquisition of Frederator, the Company has seen an increase in operating expenses denominated in USD which has reduced our need to manage our foreign exchange risk through uses of foreign exchange forward contracts and other hedging instruments.

Dependence on key personnel

There are a number of employees who are key to the operations of the Company and their continued employment is important in order to maintain current relationships with customers and suppliers. The future success of the Company depends critically upon the continued service of current senior management, key creative artists, skilled technicians and other key personnel. If the Company does not attract and retain such personnel, the business may not be maintained or grown. Competition for highly qualified employees is intense and the process of locating key technical, creative and management personnel with the required combination of skills and attributes is often times consuming and difficult. Failure to attract and retain key personnel could have a material adverse effect on the Company's business and results of operations.

Access to financing

The Company may require capital in the future in order to meet additional working capital requirements, to make capital expenditures, to take advantage of investment and/or acquisition opportunities or for other reasons. Accordingly, the Company may need to raise additional capital in the future. The Company's ability to obtain additional financing will be subject to a number of factors including market conditions and its operating performance. These factors may make the timing, amount, terms and conditions of additional financing unattractive or unavailable for the Company.

In order to raise such capital, the Company may sell additional equity securities in subsequent offerings and may issue additional equity securities. Sales or issuances of a substantial number of equity securities, or the perception that such sales could occur, may adversely affect the prevailing market price for the securities. With any additional sale or issuance of equity securities, investors will suffer dilution of their voting power and the Company may experience dilution in its earnings per share. Capital raised through debt financing would require the Company to make periodic interest payments and may impose restrictive covenants on the conduct of the Company's business. Furthermore, additional financings may not be available on terms favourable to the Company, or at all. The Company's failure to obtain additional funding could prevent the Company from making expenditures that may be required to grow its business or maintain its operations.

The Company may issue additional Common Voting Shares and/or Variable Voting Shares, including upon the exercise of its currently outstanding stock options. Accordingly, holders of Common Voting Shares and Variable Voting Shares may suffer dilution.

History of operating losses

The Company has incurred operating losses in each of the past five years and may not be able to achieve or sustain profitable operations in the future or generate positive cash flows from operations. Although the Company has cash and cash equivalents less bank indebtedness of \$1.8 million as at December 31, 2019, to the extent that the Company continues to

incur operating losses, it may not have sufficient working capital to fund its operations in the future and as such may need to raise additional capital.

Government incentives

Currently, the Federal and Provincial governments provide grants and incentives to attract foreign producers and support domestic film and television production. There can be no assurances that the government grants and incentive programs presently being offered to participants in the film and television production industry will continue at their present levels. If such grants or incentives are reduced or discontinued, the level of activity in the industry may be reduced and the Company's results of operations and financial condition might be adversely affected. Many of the major studios and other key customers of the Company finance a portion of their production budgets through Canadian government incentive programs, including Federal and Provincial tax credits. The ultimate collection of previously recorded estimates is subject to ordinary course audits from the Canada Revenue Agency ("CRA"). Any changes in administrative policies by the CRA or the applicable government program or subsequent review of eligibility documentation may impact the collectability of these estimates and could have a material impact on previously recorded estimates.

Dependence on key customers

For the year ended December 31, 2019, three customers accounted for 79% of the Company's revenues. There can be no assurance that the revenues generated from key customers, individually or in the aggregate, will reach or exceed historical levels in any future period. A substantial decrease in the services provided to one or more key customers could have a serious adverse effect on the Company's results of operation and financial condition.

Control over streaming content

The Company has limited control over the extent, timing, and availability of streaming content provided by our network partner affiliates and our business may be adversely affected if our access to content is reduced.

YouTube advertising revenue

A change in the methodologies, policies, or contractual terms and laws and regulations applicable to YouTube, or a governmental or third-party claim against YouTube could have a material adverse effect on the growth and revenues of the Networks and Platforms segment of the Company. The primary source of revenue within Networks and Platforms is the Channel Frederator Network, which derives its revenues from advertising revenue collected mainly from YouTube. As a result, a material change in the ability of YouTube to generate advertising revenue could have an adverse impact on the revenue growth and earnings derived from Channel Frederator Network.

Co-productions

The Company enters into co-investments and co-production agreements and will continue to pursue these types of contractual agreements. The Company may encounter difficulties in working through joint ventures and joint arrangements and may not realize the benefits anticipated when the transactions are entered into. In addition, the negotiation of these arrangements can be costly and time consuming. There can be no assurance that joint ventures, co-productions or similar arrangements can be successfully integrated into or with the Company's business.

Performance risk

The Company has begun investing and producing its own content. There is a risk that the Company will be unable to secure distribution or licensing contracts for the content that it produces. The ultimate profitability of the project and the Company is subject to the successful sales of these projects.

Market acceptance

Each intellectual property produced has an inherent risk that it will not be accepted by the market despite large scale advertising and distribution. There can be no assurances that a property will be accepted by the market regardless of production or distribution strategies.

Potential for budget overruns and other production risks

Actual television program, video/DVD, and feature film costs may exceed their budgets, sometimes significantly in the case of feature films, although television program and video/DVD costs typically do not. Risks such as labour disputes, death or disability of a star performer, rapid technological changes, shortage of necessary equipment, and damage to master tapes and recordings may cause cost overruns and delay or frustrate completion of a production. There can be no assurance that the Company will complete its productions within budget. In the event of substantial budget overruns, the Company may have to seek additional financing from outside sources in order to complete production of a television program, video/DVD, or feature film. No assurance can be given as to the availability of such financing on terms acceptable to the Company. In addition, in the event of substantial budget overruns, there can be no assurance that such costs will be recouped, which could have a significant impact on the Company's results of operations.

Regulatory risk

The film and television production and broadcasting industries in Canada are highly regulated. Any changes to these regulations could materially impact the Company's ability to operate.

Dependence on entertainment industry

The Company is dependent on the success of the film and television industries. The success of these industries in turn is dependent on a number of factors, including the availability of alternative forms of entertainment and leisure activities, general economic conditions and international demand for content originating in North America.

Government incentives in locations outside of Canada or British Columbia and other influences

Canada's successful tax credit model has been copied by other countries around the world and by many states in the United States of America. Some producers may select locations other than Canada to take advantage of tax credit programs they may conclude to be as attractive as those Canada offers. Other factors such as director or star preference may also have the effect of productions being shot in a location other than Canada.

Fixed costs

Fixed costs, including costs associated with leases, labour and capital equipment, account for a significant portion of the Company's expenses. If the level of production activity is not sufficient to cover fixed costs, the financial stability of the Company may be adversely affected.

Capital reinvestment and new technology

The equipment and software utilized by the Company in providing certain services to customers are subject to rapid technological change, as well as evolving customer needs and industry standards. As necessary, the Company may be required to undertake significant capital expenditures to maintain its technological and competitive position within the industry. There can be no assurance that the Company will have sufficient capital or be able to obtain sufficient financing to fund such capital expenditures, or that subsequent technological change will not make acquired infrastructure obsolete before the Company recovers its investment.

Competition

The Company operates in a competitive environment for animation production studios. Competitors are well-established companies and may have greater financial, marketing, technical, creative and other resources. In addition, the emergence of low-cost competitors in markets overseas, such as India and China, offers alternative low-cost solutions that could impact the Company. Increased competition could result in price reductions, reduced profit margins or loss of market share, all of which would have a material adverse effect on the Company's results of operations, and in turn, the value of the Common Voting Shares and Variable Voting Shares

General economic conditions

The Company's financial performance will be influenced by the general economic conditions in areas where the Company operates. General economic conditions impact the volume of film and television production work available in Canada and the United States. There can be no assurances that growth in film and television production activity will continue. The Company cannot predict the impact of the current global economic conditions on its continuing operations.

Labour relations

The Company's operations are dependent on the services of skilled artists and individuals in the technology sector. The Company operates in a competitive market for these individuals. Increased competition in the local and/or international labour market, as well as regulations imposed by Government, could affect the Company's financial operations.

In addition, many individuals associated with the Company's projects are members of guilds or unions which bargain collectively with producers on an industry-wide basis from time to time. While the Company has positive relationships with the guilds and unions in the industry, a strike or other form of labour protest affecting those guilds or unions could, to some extent, disrupt production schedules which could result in delays and additional expenses.

The Company's expanding operations have placed significant demands on the managerial, operational and financial personnel and systems of the Company

As a result of acquisitions completed by the Company, significant demands have been placed on the managerial, operational and financial personnel and systems of the Company. No assurance can be given that the Company's systems, procedures and controls will be adequate to support the expansion of operations of the Company. The future operating results of the Company will be affected by the ability of its officers and key employees to manage changing business conditions and to implement and improve its operational and financial controls and reporting systems. If the Company is unsuccessful in managing such demands and changing business conditions, its financial condition and results of operations could be materially adversely affected.

The Company faces risks inherent in doing business internationally

The Company offers production services and conducts other business outside Canada and derives revenues from these sources. As a result, the Company's business is subject to certain risks inherent in international business, many of which are beyond its control. These risks include: changes in local regulatory requirements, including restrictions on content; changes in the laws and policies affecting trade, investment and taxes (including laws and policies relating to the repatriation of funds and to withholding taxes); differing degrees of protection for intellectual property; instability of foreign economies and governments; cultural barriers; wars and acts of terrorism; and the spread of viruses, diseases or other widespread health hazards.

Any of these factors could have a material adverse effect on the Company's business, results of operations or financial condition.

Management estimates for revenues and expenses for a production may not be accurate

The Company makes numerous estimates as to its revenues and matching production expenses on a project by project basis. As a result of this accounting policy, earnings can widely fluctuate if the Company's management has not accurately forecast the revenue potential of a production.

Technological changes may diminish the value of the Company's existing equipment and programs if the Company is unable to adapt to these changes on a timely basis

Technological change may have a material adverse effect on the Company's business, results of operations and financial condition if the Company is unable to adapt to these changes on a timely basis. The emergence of, among other things, new production or computer-generated imagery technologies may diminish the value of the Company's existing equipment and programs. Although the Company is committed to leading production technologies, there can be no assurance that it will be able to incorporate future production and post-production technologies which may become de facto industry standards.

Fluctuation of quarterly operating results

The Company's quarterly operating results are not predictable with any significant degree of certainty and future results may differ from historical patterns. The Company relies on sales to a limited number of customers, impacting the ability to forecast timing and amount of revenue in a particular quarter. Longer term, the revenues, rate of revenue growth and earnings or losses will be affected by such factors as the introduction of new services, market acceptance of its services, competition, technological change, and the ability to control the mix and gross margins of its various revenue streams.

Voting rights of holders of Variable Voting Shares may be automatically decreased if votes attached to the Variable Voting Shares exceed certain limits under the Articles

The terms of the Variable Voting Shares pursuant to the Articles provide for the voting rights attached to the Variable Voting Shares to decrease automatically and without further act or formality on the part of the Company or the holder if the total number of votes that may be exercised in respect of all issued and outstanding Variable Voting Shares exceed certain limits. As a result, holders of Variable Voting Shares may have less influence on a per share basis than holders of Common Voting Shares on matters requiring a vote of the Company's shareholders. An automatic decrease of voting rights attaching to the Variable Voting Shares, or the risk that such a decrease of voting rights attaching to the Variable Voting Shares may occur, could affect the ability of holders of Variable Voting Shares to sell their Shares at an advantageous price.

The public announcement of potential future corporate developments may significantly affect the market price of the shares

Management of the Company, in the ordinary course of the Company's business, regularly explores potential strategic opportunities and transactions. These opportunities and transactions may include strategic joint venture relationships, significant debt or equity investments in the Company by third parties, the acquisition or disposition of material assets, the licencing, acquisition or disposition of material intellectual property, the development of new product lines or new applications for its existing intellectual property, significant distribution arrangements and other similar opportunities and transactions. The public announcement of any of these or similar strategic opportunities or transactions might have a significant effect on the price of the shares. The Company's policy is to not publicly disclose the pursuit of a potential strategic opportunity or transaction unless it is required to do so by applicable law, including applicable securities laws relating to continuous disclosure obligations. There can be no assurance that investors who buy or sell shares of the Company are doing so at a time when the Company is not pursuing a particular strategic opportunity or transaction that, when announced, would have a significant effect on the price of the shares.

In addition, any such future corporate development may be accompanied by certain risks, including exposure to unknown liabilities of the strategic opportunities and transactions, higher than anticipated transaction costs and expenses, the difficulty and expense of integrating operations and personnel of any acquired companies, disruption of the Company's ongoing business, diversion of management's time and attention, possible dilution to the Company's shareholders and other factors as discussed below in more detail. The Company may not be able to successfully overcome these risks and other problems associated with any future acquisitions and this may adversely affect the Company's business and financial condition.

JUDGEMENTS AND CRITICAL ACCOUNTING ESTIMATES

The audited consolidated financial statements have been prepared in accordance with IFRS. The measurement of certain assets and liabilities is dependent upon future events whose outcome will not be fully known until future periods. Therefore, the preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results will vary from those estimated. The areas of estimation and judgement that management considers to be most significant are:

Impairment of assets and investments

An impairment loss is recognized for the amount by which an asset or CGU carrying amount exceeds its recoverable amount. Impairment losses on CGUs are allocated first to goodwill, and to the underlying assets thereafter. To determine the recoverable amount, management estimates either the fair value less costs to sell, or the value-in-use based on the present value of the expected future cash flows from each asset or CGU. In estimating the value-in-use, management must determine the appropriate discount rate in order to calculate the present value of those cash flows, as well as make certain assumptions about future income which relate to future events and circumstances. There are inherent uncertainties in projecting future cash flows and actual results may vary from those estimates. In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors. Where there are different possible outcomes, management must determine appropriate probability weightings to attach to the present values of those cash flows in order to calculate an appropriate value-in-use.

Business combinations

The Company allocates the consideration paid in the acquisition of a business to the tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values at the transaction date in accordance with *IFRS 3 - Business Combinations*, with any excess recognised as goodwill.

The process of allocating the purchase price requires that management exercises their best estimates and assumptions to accurately value assets acquired and liabilities assumed as part of the business combination. These estimates and assumptions are inherently uncertain and subject to refinement.

Goodwill

Goodwill resulting from the acquisition of a business is carried at cost at the date of the acquisition less impairment losses, if any. For impairment testing purposes, goodwill is allocated to each of the Company's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indicator that the cash-generating unit may be impaired. Management will evaluate goodwill for impairment annually as of December 31. While management uses their best estimate and assumptions to assess goodwill for impairment, there are inherent uncertainties in projecting future cash flows.

Capitalizing of costs to productions in progress

Development costs incurred in the internal generation of productions in which the Company has an ownership stake are capitalized from the point from which the requirements of IAS 38 Intangible assets have been met. This assessment requires management to exercise judgement with regards to their intention to complete the production as well as those estimates and judgements required in determining whether or not a production will result in a future economic benefit for the Company.

Revenue recognition

Revenue from animation production services provided is recognized on a percentage-of-completion basis when the following criteria are met: there is agreement with a customer confirming the amount of total contract revenue so that the revenue can be measured reliably, the stage of completion can be measured reliably, the receipt of payment is probable, and costs incurred and to be incurred can be measured reliably. Management estimates the percentage-of-completion based upon the proportion of costs incurred cumulatively to the end of the current period to total expected costs. Changes in revenue recognized as a result of adjustments to total expected costs are recognized in the statements of comprehensive loss on a prospective basis. When the outcome of an arrangement cannot be estimated reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable.

Amortization of completed productions

Completed productions with pre-sale license commitments are amortized at 50% - 90% immediately on the delivery of the performance obligation to the licensor, with the balance amortized on a straight-line basis over the remaining useful life of the production. The determination of the appropriate rate for the initial amortization on delivery is dependent on the degree of exclusivity afforded the licensor and the limitations on the Company's ability to utilize the asset to generate economic benefits in other ways during the initial license period. This assessment requires management to estimate the total economic benefits and the manner in which they will be generated by utilising the asset.

Tax credits receivable

The Federal and certain Provincial governments in Canada provide programs that are designed to assist film and television production in the form of refundable tax credits. Estimated amounts receivable in respect of refundable tax credits are recorded as a reduction to the related production operating cost, or to investment in film and television when the conditions for eligibility of production assistance based on the government's criteria have been met, the qualifying expenditures are made and there is reasonable assurance of realization. Determination of when and if the conditions of eligibility have been met is based on management's judgement and the amount recognized is based on management estimates of qualifying expenditures. The ultimate collection of previously recorded estimates is subject to ordinary course audits from the Canada Revenue Agency ("CRA"). Changes in administrative policies by the CRA or subsequent review of eligibility documentation may impact the collectability of these estimates. The Company continuously reviews the results of these audits to determine if any circumstances arise that in managements' judgement would result in a previously recognized amount to be considered no longer collectible.

Accounting for joint arrangements

The Company has a 63% membership interest in Ratchet Productions, LLC, a special purpose entity formed in October 2012 solely for the purpose of producing and distributing the feature film Ratchet & Clank. The Company has joint control over the arrangement as the contractual agreements have been structured in a way that requires the Company and one of the other members to be in agreement in all decisions made over relevant activities.

The arrangement is held in a structured entity that confers legal separation between the investors and the investee. In management's judgement, the contractual arrangements initially gave the parties the rights to the assets and obligations for the liabilities of the arrangement. Therefore, this joint arrangement was classified as a joint operation of the Company at its inception.

On October 25, 2015, Ratchet Productions, LLC concluded a financing and loan arrangement with a syndicate of lenders for the purposes of financing the Prints and Advertising ("P&A") expenditures required to market and distribute Ratchet & Clank theatrically in the United States. Recourse for the loan is limited to the United States distribution rights of the film, subject to limited guarantees provided by the Company under specific limited circumstances. The conclusion of the financing and loan arrangement led management to reassess the classification of the joint arrangement. In management's judgement, the structure of the financing and loan arrangement, in particular, the limited recourse to the United States distribution rights of the film altered the nature of the Company's interest, from rights to the assets and obligations for the liabilities, to the rights to the net assets of the arrangement. As such, the Company's interest in Ratchet Productions, LLC changed from a joint operation to a joint venture and is recognized as an investment in a joint venture from October 25, 2015.

ADOPTION OF NEW ACCOUNTING POLICIES

IFRS 16 – Leases

On January 1, 2019, the Company adopted IFRS 16 which supersedes IAS 17 and IFRIC 4. This standard introduces a single lessee balance sheet accounting model. Unless certain exception criteria are met, a lessee is required to recognize a right-of-use asset representing its right to use the underlying asset of a lease and a lease obligation representing its obligation to make lease payments. Other than requiring enhanced disclosures, this standard substantially carries forward the lessor accounting policies under IAS 17.

The Company's lease contracts are comprised of property leases for studio and office space and operating equipment rentals. Premises lease terms range from short-term periods of less than one year to up to 13 years and may include renewal options. Lease terms for operating equipment leases are generally from one to five years and may also contain renewal options.

The Company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings as at January 1, 2019, if applicable. As a result, comparative information has not been restated for 2018 and is presented under the previous IAS 17 and IFRIC 4 standards.

On transition to IFRS 16 as at January 1, 2019, the Company recognized additional right-of-use assets and additional lease obligations and adjusted certain balance sheet items that are no longer permitted to be recognized separately under IFRS 16. There was no impact on retained earnings at January 1, 2019. The impact on transition to the consolidated statement of financial position is summarized in the following table:

	December 31, 2018	IFRS 16 adoption	January 1, 2019
Property, plant and equipment and other intangible assets - finance lease assets	\$ 2,792	\$ (2,792)	\$ –
Property, plant and equipment and other intangible assets - right-of-use assets	–	12,893	12,893
Finance lease obligations	2,884	(2,884)	–
Lease obligations	–	13,537	13,537
Other current and non-current liabilities	2,334	(552)	1,782

IFRIC 23 – Uncertainty Over Income Tax Treatments

IFRIC 23 - *Uncertainty Over Income Tax Treatments* is required to be applied for years beginning on or after January 1, 2019. The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. There was no impact on the Company's consolidated financial statements upon the application of this interpretation.

CONTROLS AND PROCEDURES

Disclosure controls and procedures

The Chief Executive Officer and the Chief Financial Officer are responsible for designing and monitoring the effectiveness of the disclosure controls and procedures ("DC&P"). Effective disclosure controls provide reasonable assurance that external financial reporting and statements are reliable. The Company is not required to certify the design and evaluation of DC&P and internal controls over financial reporting ("ICFR") and has not completed such an evaluation. Inherent limitations on the ability of the certifying officers to design and implement on a cost effective basis DC&P and ICFR for the Company may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation. Management is responsible for the preparation and integrity of the financial statements, including the maintenance of appropriate information systems, procedures and internal controls and to ensure that information used internally or disclosed externally, including the financial statements and MD&A, is complete and reliable. The Company's board of directors follows recommended corporate governance guidelines for public companies to ensure transparency and accountability to shareholders. The board's audit committee meets with management annually to review the financial statements including the MD&A and to discuss other financial, operating and internal control matters.

CAPITAL STRUCTURE AND OUTSTANDING SHARE DATA

Stock options and warrants

We maintain a rolling stock option plan that enables us to grant options to directors, officers, employees and consultants of the Company. The stock option plan permits the granting of options up to an aggregate maximum of 10% of issued and outstanding common shares from time to time on a non-diluted basis.

As at December 31, 2019, the Company had 2,613,828 stock options outstanding and stock options exercisable for 2,096,021 additional common shares.

As at April 29, 2020, the Company had 2,312,042 stock options outstanding and stock options exercisable for 1,940,889 additional common shares.

As at December 31, 2019 and April 29, 2020, the Company had 900,000 warrants outstanding and warrants exercisable for 600,000 and 700,000 additional common shares, respectively.

Outstanding Shares

As at December 31, 2019, the Company had 32,024,314 common shares issued and outstanding. On April 29, 2020, the Company had 32,024,314 common shares issued and outstanding. The total shares outstanding as at December 31, 2019 were comprised of the following balances:

- Common Voting Shares 21,993,968
- Variable Voting Shares 7,448,589
- Common Non-Voting Shares 2,581,757

OFF-BALANCE SHEET ARRANGEMENTS

There are no off-balance sheet obligations that are not disclosed in the audited consolidated financial statements.

RELATED PARTIES

Remuneration of key management personnel

The remuneration of key management personnel and directors was as follows:

	For the twelve months ended	
	2019	2018
Remuneration	\$ 1,476,961	\$ 1,626,935
Share-based compensation expense	245,031	569,101
	<u>\$ 1,721,992</u>	<u>\$ 2,196,036</u>

Rental of office space

Office space in Toronto has been rented from a company that is related to an officer of the Company. For the year ended December 31, 2019, rent was paid in the amount of \$189,533 (2018 – \$197,017).

Share appreciation rights granted

During the year ended December 31, 2017, an officer of the Company issued 438,678 share appreciation rights (“SARs”) to employees of the Company. The officer contributed shares owned personally to be held in a company in which certain employees were awarded units. The units vest over a three-year period. Once vested, the holders of the units are able to

benefit from the increase in the share price over \$1.91 per share. The vesting of the SARs is conditional upon the individuals' employment with the Company.

As at December 31, 2019, there are 260,363 (2018 - 400,531) SARs outstanding. During the year ended December 31, 2019, 140,168 SARs (2018 – 38,147) were forfeited. The fair value the SARs granted was \$1.50; estimated on the date of grant using the Black-Scholes option-pricing model. For the year ended December 31, 2019, an expense of \$114,206 (2018 – \$151,226) related to the vesting of SARs was recorded. The remaining expense of \$6,731 will be recorded over the remaining vesting period which is three years.

Agreement with a service provider in which an officer of the Company holds a minority interest

An officer of the Company is a minority shareholder of a service provider that entered into a production services agreement with the Company in July 2019. The agreement is for \$5,000 USD and is in connection with the development and production of short-form content for the Networks and Platforms segment of the business.

Option and purchase agreement with a director

In April 2019, the Company entered into an option and purchase agreement for a development property, with parties who include an individual who was a director of the Company at December 31, 2019. The initial option payment was \$10,000 USD and any further payments will be dependent upon the exercise of additional option periods or the exercise of a purchase option to purchase the property and proceed with series production.

Rights and services agreement with a director

In the third quarter of 2018, the Company entered into an option agreement with an individual who was a director of the Company as at December 31, 2019. The option was for the exclusive rights to develop and produce a children's television property over a two-year period. The Company paid \$1,000 to the director for the option. If the option is exercised, the Company will pay an additional \$4,000 to the director and the director will be entitled to a percentage of any future royalties and the first right of refusal for certain executive producer rights.

COMMITMENTS AND CONTINGENCIES

The Company and its subsidiaries may, from time to time, be a party to certain legal disputes and claims arising from employment, environmental or commercial issues in the normal course of business.

DIVIDENDS

The Company has no present intention to pay dividends. Any decision to pay dividends will be made in by the board of directors of the Company in their sole discretion, and will depend on numerous factors including profitability, fluctuations in working capital, the sustainability of margins, capital expenditures and other conditions existing at such future time.