MANAGEMENT’S DISCUSSION & ANALYSIS

Wow Unlimited Media Inc.

December 31, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") is dated April 28, 2021, 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, 2020, and should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2020 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 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 2021; 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 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 the USA, which has a 20-year track record; and one of Canada's largest, multi-faceted animation production studios, Mainframe Studios, which has a 25-year track record. The Company also operates Channel Frederator Network on YouTube. 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 multi-channel network, Channel Frederator 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, Canada's leading Over-The-Top (OTT) streaming service. The Company currently provides over 370 hours of kids programming to Crave in three collections: WOW! Preschool Playdate (targeted at kids aged 0-5), WOW! World Kids (ages 6-11), and WOW! MiniTOONS (short-form cartoons).

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 challenges in the cable and satellite industry in Canada and the United States and uncertainty in the broader television industry, Management recognized a non-cash impairment charge of $5.5 million for the Broadcasting License in the consolidated statement of comprehensive loss for the year ended December 31, 2019. Subsequent to December 31, 2020, the CRTC announced in a broadcasting decision that it had approved the Company's application to revoke its Broadcast License. The revocation of the Broadcasting License nullifies the Company's requirement to invest $0.7 million of tangible benefits into the Canadian broadcasting system. In the first quarter of 2021, the Company will recognize a recovery associated with the reversal of the tangible benefits obligation into the consolidated statement of comprehensive income or loss.

Strategic Review

On April 28, 2021, the Board of Directors, working closely with management, approved a process to explore potential strategic alternatives focused on maximizing shareholder value – these alternatives could include, among other things, an acquisition, a merger or other business combination, a financing, a sale of assets, a sale of the Company or other strategic transactions that may be available to the Company.

In conjunction with the strategic review, the Company's Board has formed a Special Committee of independent directors to oversee the strategic review process. The Board is committed to fully evaluating appropriate strategic alternatives while concurrently supporting management and employees in their delivery of services to customers and partners. The Board believes that this course of action is in the best interests of the Company and its stakeholders.

The Board has not yet made any decisions related to any strategic alternatives at this time. There can be no assurance that the exploration and review of strategic alternatives will result in a transaction. The Company does not intend to provide announcements or updates unless, or until, it determines that further disclosure is required by law.

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

Results of operations

$000's, except per share amounts	2020	2019	2018
Revenue	**$ 61,123**	**$ 103,872**	**$ 78,628**
Operating EBITDA[1]	2,082	1,432	(2,831)
Operating loss[1]	(3,599)	(4,581)	(7,137)
Operating loss per share			
- basic and diluted	$ (0.11)	$ (0.15)	$ (0.26)
Net loss	**$ (4,966)**	**$ (19,583)**	**$ (6,723)**
Net loss per share			
- basic and diluted	$ (0.16)	$ (0.62)	$ (0.25)
Weighted average number of shares outstanding:			
- basic and diluted	32,024,314	31,555,814	27,215,079

[1]Operating 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

$000's	December 31, 2020	December 31, 2019	December 31, 2018
Financial position			
Total assets	$ 71,663	$ 65,437	$ 70,187
Total current assets	39,915	35,683	30,570
Total non-current assets	31,748	29,754	39,616
Convertible debentures	4,308	4,161	3,988
Total liabilities	68,291	57,602	44,917
Shareholders' equity	3,371	7,835	25,270

FINANCIAL AND OPERATIONAL HIGHLIGHTS

Convertible Debentures

On November 17, 2020, the Company completed the first tranche ("First Tranche") of a non-brokered private placement offering (the "Offering") of unsecured subordinated convertible debentures ("Debentures") for gross proceeds of $2.6 million. On December 14, 2020, the Company completed the second and final tranche ("Second Tranche") of the Offering of the Debentures for gross proceeds of $2.1 million. In total, the Company issued Debentures in the amount of $4.7 million on closing the First Tranche and Second Tranche of the Offering. The Debentures accrue interest at a rate of 9.5% per annum payable quarterly in arrears and are convertible into common shares of the Company at a price of $0.55 per share. The closing of the offering was completed in two tranches. The Debentures mature on November 17, 2023, and are governed by the terms of an indenture between the Company and Computershare Trust Company of Canada. The investors who participated in the Second Tranche are fully comprised of holders of the Company's existing convertible debentures which matured on December 14, 2020 (the "Existing Debentures"). Holders of Existing Debentures that participated in the Second Tranche were entitled to set off the amount to which they were entitled on the maturity date of the Existing Debentures on December 14, 2020, against amounts otherwise payable in connection with their subscription for Debentures in the Second Tranche Offering that closed on the same date. On December 14, 2020, $4.3 million was due on maturity of the Company's Existing Debentures. After deducting the set off amounts of $2.1 million for investors participating in the Second Tranche, a repayment of $2.3 million was made upon maturity of the Existing Debentures.

Proceeds of $2.6 million from the First Tranche less transaction costs of $0.1 million resulted in net proceeds of $2.5 million from the Offering. The net proceeds were used to repay amounts due on maturity of the Existing Debentures, for transaction costs related to the Offering, and for general working capital purposes.

Paycheck Protection Program loan

On April 28, 2020, Frederator Networks Inc., a subsidiary of the Company, received an unsecured advance of $0.6 million USD ($0.9 million CAD) under the Paycheck Protection Program ("PPP"), which was guaranteed by the US Small Business Administration ("US SBA"), pursuant to the Coronavirus Aid, Relief and Economic Security Act. The loan would have borne interest at 1% per annum and would have been 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 could be forgiven if the Company met all of the eligibility requirements and if the proceeds were used to fund qualifying expenditures such as payroll and benefits costs, rent, and utilities costs over an elected coverage period. The Company filed its initial loan forgiveness application in November 2020. However, as at December 31, 2020, the Company did not have certainty that it was in compliance with all of the eligibility requirements for forgiveness of the PPP loan, nor did it have reasonable assurance that loan forgiveness would be granted. On February 6, 2021, the Company was granted full loan forgiveness by the US SBA. In accordance with IAS 20 – Accounting For Government Grants And Disclosure Of Government Assistance, the Company will recognize loan forgiveness of $0.8 million CAD ($0.6 million USD) into the consolidated statement of comprehensive income or loss in the first quarter of 2021, the period in which forgiveness was granted.

Frederator Restructuring

In June 2020, the Company commenced a restructuring project at its Frederator operations and for the year ended December 31, 2020, has recognized restructuring costs of $0.8 million USD ($1.1 million CAD) in the consolidated statements of comprehensive loss. The restructuring and reorganization project reduced the headcount at Frederator and implemented overhead and cost saving initiatives which are expected to provide potential EBITDA savings in excess of $1.5 million USD ($1.9 million CAD) on an annualized basis.

CRTC decision on Broadcasting License and tangible benefits requirement

As previously noted above, in Q1 2021, the CRTC announced in a broadcasting decision that it had approved the Company's application to revoke its Broadcast License. The revocation of the Broadcasting License nullifies the Company's requirement to invest $0.7 million of tangible benefits into the Canadian broadcasting system. In the first quarter of 2021, the Company will recognize a recovery associated with the reversal of the tangible benefits obligation into the consolidated statement of comprehensive income or loss.

OPERATIONAL HIGHLIGHTS

Animation Production

- The Company continued production of the animated series titled *Madagascar: A Little Wild* for DreamWorks Animation. The series will consist of 52 episodes of 22 minutes each, and initial delivery of episodes commenced during Q2 2020.
- The Company continued production on a new internally developed animated series which began production in Q4 2019. The new series, consisting of 44 episodes of 11 minutes each, is being produced in partnership with a leading US based studio, and it will be released on a prominent global streaming platform. Delivery of the series is scheduled to commence in Q2 2021.
- In Q4 2020, the Company began production on a significant new project in partnership with Spin Master a global Canadian toy and entertainment company.
- Season 3 of the series *Castlevania* debuted on Netflix on March 5, 2020 and received critical acclaim through various media outlets. The Company is currently producing a fourth and final season of *Castlevania* for Netflix, which commenced deliveries in Q3 2020, and the final episodes are expected to be delivered by the end of Q2 2021.
- The final episodes of season 2 of *Barbie Dreamhouse Adventures* were delivered to longstanding client, Mattel, in Q1 2020. In August 2020, the Company delivered a 70-minute animated film entitled *Barbie Princess Adventure* which was available for streaming on Netflix beginning September 1, 2020. In Q4 2020, the Company also completed delivery on a 60-minute animated movie titled *Barbie & Chelsea The Lost Birthday* and continues to work on other additional projects for Mattel.
- Production of Seasons 5 through 8 of the series *Octonauts*, continued during the quarter for Silvergate Media. Delivery of the final episodes are expected to be completed at the end of 2023. In addition, delivery of a 3-episode special for *Octonauts* was completed during Q2 2020. The first special episode which is entitled *Octonauts and the Caves of Sac Actun,* was released on Netflix in August 2020. The second special episode entitled *The Great Barrier Reef* was released on Netflix in October 2020. The third special entitled *The Ring of Fire* was released on Netflix in March 2021.
- In October 2020, Netflix and the Company announced a new animated series *Bee and PuppyCat: Lazy in Space*, which is expected to be delivered in Q4 2021 and premiere in Spring 2022. The announcement was received with excitement on social media and old episodes of the show on YouTube also saw increased viewership and engagement.

Networks and Platforms

- Statistics from YouTube's Content Management System demonstrate that Channel Frederator Network had approximately 3,000 channels as at December 31, 2020.

CONSOLIDATED RESULTS

$000's		2020		2019		2018
Revenue	**$**	**61,123**	**$**	**103,872**	**$**	**78,628**
Amortization of investment in film and television programming	**$**	**6,359**	**$**	**10,976**	**$**	**7,141**
Operating EBITDA	**$**	**2,082**	**$**	**1,432**	**$**	**(2,831)**
Finance costs		1,944		1,875		1,177
Depreciation and amortization[1]		3,737		4,138		3,129
Operating loss		(3,599)		(4,581)		(7,137)
Items affecting comparability:						
Share-based compensation expense		413		1,117		799
Restructuring costs		1,100		–		–
Impairment of other intangible assets and goodwill		–		13,811		–
Deferred income tax expense (recovery)		(146)		74		(1,213)
		1,368		15,002		(414)
Net loss	**$**	**(4,966)**	**$**	**(19,583)**	**$**	**(6,723)**

[1] Excludes amortization of investment in film and television programming

Revenue and Operating EBITDA

Revenue for the year ended December 31, 2020, decreased by $42.7 million, compared to 2019, primarily as a result of the decrease in revenues for the Networks and Platforms segment of $38.0 million after the termination of the ADME agreement with Channel Frederator Network, as previously announced in December 2019. Revenues for the Animation Production segment in 2020 decreased by $4.7 million compared to 2019, due to more IP deliveries in the previous year.

Operating EBITDA increased by $0.7 million for the year ended December 31, 2020, compared to 2019. The increase in operating EBITDA for the year ended December 31, 2020, was primarily driven by a reduction of operating costs and overhead expenditures in the Networks and Platforms segment from the Frederator Restructuring, as previously described. In addition, the Company had additional savings in travel, entertainment and tradeshows compared to 2019 as a result of the on-going COVID-19 pandemic.

Amortization of investment in film and television programming

Amortization of investment in film and television programming during the year ended December 31, 2020, was $6.4 million, compared to $11.0 million. The higher amortization of investment in film and television in 2019 was due to the initial amortization recognized on the delivery of more IP episodes during the year.

Finance costs

$000's	2020	2019
Finance expense:		
Interest expense on interim production financing	$ 863	$ 1,110
Interest expense on bank indebtedness	88	50
Interest and accretion on convertible debentures	549	519
Interest accretion on lease obligations	767	845
Interest accretion on tangible benefits obligation	29	30
Interest capitalized to investments in film and television programming	(352)	(679)
	$ 1,944	**$ 1,875**

Finance costs for the year ended December 31, 2020, remained consistent at $1.9 million in comparison to the prior year.

Depreciation and amortization

$000's	2020	2019
Property, plant and equipment	$ 3,042	$ 2,557
Other intangible assets	1,114	1,581
Amounts capitalized to Investment in film and television	(419)	–
	$ 3,737	**$ 4,138**

The decrease in depreciation and amortization was primarily a result of lower amortization on the animation network other intangible asset which is amortized on a 50% declining balance 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, 2020, the net loss after adjusting for items affecting comparability was $5.0 million compared to $19.6 million for the year ended December 31, 2019. The most significant of these specified items are discussed below.

Share-based compensation expense

Share-based compensation expense for the year ended December 31, 2020, was $0.4 million, compared to $1.1 million in 2019. The higher share-based compensation expense in 2019 was primarily a result of the previously deferred share-based compensation expense related to Bell Warrants which had been recorded as share-based compensation expense beginning on August 30, 2019, the date that the Broadcasting License conveyed to the Company. The 2020 share-based compensation expense primarily relates to the vesting of warrants and stock options issued in previous periods.

Restructuring costs

Restructuring costs of $1.1 million for the year ended December 31, 2020, represents employee severance costs in relation to the restructuring of Frederator which commenced during Q2 2020, as previously discussed.

Impairment of other Intangibles assets and goodwill

Impairment of other intangible assets and goodwill for the year ended December 31, 2020 was $nil compared to $13.8 million in 2019. The $13.8 million impairment recorded in December 31, 2019, consisted of a $5.5 million impairment charge recorded for the impairment of the Broadcasting License as previously discussed and an $8.3 million impairment charge recorded for the impairment of Goodwill related to the acquisition of Frederator.

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 *Bee & PuppyCat* Season 2, which was financed by a production loan secured by a distribution and licensing contract and the *Castlevania* series, which is 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.

The Company also has access to a strong creator network by virtue of its ownership of Channel 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 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.

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 IP that has potential for multi-pronged commercial success related to distribution, brand awareness as well as global licensing and merchandising opportunities.

As at December 31, 2020, the Company's animation production backlog was $84.2 million. 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 24 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, 2020 and 2019 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, 2020, the Company had positive cash flows from operating activities of $4.1 million (2019 – negative $0.5 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.

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 consolidated statements of financial position.

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 the production of *Madagascar: A Little Wild* for DreamWorks Animation. The series will consist of 52 episodes of 22 minutes in length and initial deliveries commenced in Q2 2020.

The final episodes of season 2 of *Barbie Dreamhouse Adventures*, a 70-minute film *Barbie Princess Adventure,* and a 60-minute film *Barbie and Chelsea The Lost Birthday* were delivered to longstanding client, Mattel, in Q1 2020, Q3 2020, and Q4 2020, respectively. The Company also continues to work on other Mattel projects.

Production of seasons 5 through 8 of the *Octonauts* series continued during the quarter for Silvergate Media, and the delivery of the final episodes of *Octonauts* are expected to be completed at the end of 2023. In addition, the Company completed the delivery of a 3-episode special for *Octonauts* during Q2 2020, with the first episode, *Octonauts and the Caves of Sac Actun,* being released on Netflix in August 2020, and the second episode, *The Great Barrier Reef*, being released on Netflix in October 2020. The third episode, *The Ring of Fire*, was released on Netflix in March 2021.

In Q4 2020, the Company also began production on a significant new project in partnership with Spin Master a global Canadian toy and entertainment company.

Animation Production - Intellectual properties

Season 4, the final season, of *Castlevania* is currently in production with delivery of the final episodes slated for Q2 2021. The Company continues to explore opportunities to build upon its success with adaptions of popular video games.

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 which will be released on a prominent global streaming platform. This series will consist of 44 episodes of 11 minutes in length and the deliveries are scheduled to commence in Q2 2021.

The Company has commenced production on new episodes of its recently announced animated series *Bee and PuppyCat: Lazy in Space*, set to premiere in Spring 2022 on Netflix.

On March 9, 2021, the Company announced its acquisition of the rights to develop a new, original animated series based on the award-winning steampunk urban fantasy novel series, the *Parasol Protectorate*, by author Gail Carriger. With over a million copies in print, the *Parasol Protectorate* series (which includes the books *Soulless, Changeless, Blameless, Heartless*, and *Timeless*) is a New York Times and USA Today bestseller.

On March18, 2021, the Company announced that it acquired the rights to develop and produce a brand new series based on the award-winning hit preschool show *Maggie and the Ferocious Beast*. The new series is created by Mickey Paraskevas and Maria Bruno, and produced by Michael Hirsh. Hirsh also produced the original show, which was based on the Simon & Schuster book of the same title, *Maggie and the Ferocious Beast*, that was created by Betty Paraskevas and Mickey Paraskevas. When *Maggie and the Ferocious Beast* series first premiered, it averaged in the top three shows for Nick Junior. Airing on Nick Jr. and Nickelodeon channels internationally, the show garnered huge acclaim, winning a Gold award from the Parent's Choice Foundation in 2001 and a Gemini Award in the category of Best Preschool Program or series in 2002.

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.

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. Mainframe Studios plans to adapt its work from home model, beyond the current crisis, to expand its production capacity considerably, without leasing additional facilities. Frederator's operations have been largely unaffected by the virus except for some delays experienced by its external animation service providers. 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. The circumstances and extent to which COVID-19 impacts our business operations are dynamic, and therefore, the duration and impact on our future operations cannot be reasonably estimated.

RESULTS BY SEGMENT

$000's		**2020**		**2019**
Revenue				
Animation Production	$	35,645	$	40,353
Networks and Platforms		25,478		63,519
Total revenue	$	61,123	$	103,872
Amortization of investment in film and television programming				
Animation Production	$	5,871	$	10,502
Networks and Platforms		488		474
Total amortization of investment in film and television programming	$	6,359	$	10,976
Segment profit (loss)				
Animation Production	$	320	$	897
Networks and Platforms		88		(779)
Total segment profit (loss)	$	408	$	118

Animation Production

Revenue for the Animation Production segment was $35.6 million for the year ended December 31, 2020, compared to $40.4 million for the year ended December 31, 2019. Segment profit for the year ended December 31, 2020, was $0.3 million compared to $0.9 million for the year ended December 31, 2019. The higher revenue and segment profit in 2019 resulted from the delivery of more IP episodes in the previous year.

Amortization of investment in film and television programming for the year ended December 31, 2020 was $5.9 million compared to $10.5 million for the year ended December 31, 2019. The higher amortization of investment in film and television in 2019 was due the to the initial amortization from the delivery of IP during that year, as a result of the delivery of more IP episodes in the year.

Networks and Platforms

Revenue earned in the Networks and Platforms segment was $25.5 million for the year ended December 31, 2020, compared to $63.5 million for the year ended December 31, 2019. The large decrease in revenue primarily resulted from the termination of the ADME agreement with the Channel Frederator Network, which represented a significant portion of the Company's revenue but not a significant portion of the Company's profitability.

The segment profit (loss) for the Networks and Platforms segment was a profit of $0.1 million for the year ended December 31, 2020 compared to a loss of $0.8 million for the year ended December 31, 2019. The improvement in segment profit (loss) for the year ended December 31, 2020, was primarily due to decreased overhead expenditures as a result of the restructuring of Frederator, as previously discussed.

FOURTH QUARTER 2020

Selected financial information for the three months ended December 31, 2020, and 2019 is as follows:

`000's		Q4 2020		Q4 2019
Revenue	**$**	**20,437**	**$**	**34,413**
Amortization of investment in film and television programming	**$**	**3,493**	**$**	**8,209**
Operating EBITDA		**2,044**		**3,038**
Finance costs		446		390
Depreciation and amortization[1]		788		1,026
Operating profit (loss)		810		1,622
Items affecting comparability:				
Share-based compensation expense		11		210
Impairment of other intangible assets and goodwill		–		13,811
Deferred income tax expense (recovery)		(71)		74
		(60)		14,095
Net profit (loss)	**$**	**870**	**$**	**(12,473)**

[1] Excludes amortization of investment in film and television properties

Operating EBITDA decreased by $1.0 million for the three months ended December 31, 2020, compared to the three months ended December 31, 2019. Revenue for the three months ended December 31, 2020, was $20.4 million compared to $34.4 million for the three months ended December 31, 2019. The higher operating EBITDA and revenue for the three months ended December 31, 2019 was primarily a result of revenue recognized on the delivery of more IP episodes during Q4 2019.

The higher amortization of investment in film and television programming in 2019, primarily relates to the initial amortization of IP shows delivered during Q4 2019 as noted above.

Depreciation and amortization expense was $0.8 million for the three months ended December 31, 2020, compared to $1.0 million for the same period in 2019. The lower amortization of property plant and equipment was primarily a result of a decline in the amortization of the animation network, which is amortized on a 50% declining basis each year.

QUARTERLY FINANCIAL DATA (UNAUDITED)

$000's	For the three months ended Dec 31, 2020	Sep 30, 2020	Jun 30, 2020	Mar 31, 2020
Revenue	**$ 20,437**	**$ 15,463**	**$ 11,528**	**$ 13,695**
Operating EBITDA[1]	2,044	594	(664)	111
Operating profit (loss)	810	(891)	(2,131)	(1,387)
Net profit (loss)	**$ 870**	**$ (1,001)**	**$ (3,368)**	**$ (1,467)**
Basic net profit (loss) per share	$ 0.03	$ (0.03)	$ (0.11)	$ (0.05)
Diluted net profit (loss) per share	$ 0.03	$ (0.03)	$ (0.11)	$ (0.05)

$000's	For the three months ended Dec 31, 2019	Sep 30, 2019	Jun 30, 2019	Mar 31, 2019
Revenue	**$ 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)

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

The increase in operating EBITDA during the second quarter of 2019 resulted from increased animation production service work during the quarter.

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 & PuppyCat,* 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 revenue recognition from the delivery of IP during the quarter.

There was no revenue recognition from the delivery of IP during the first and second quarters of 2020, resulting in a decrease in operating EBITDA for those periods.

The increase in operating EBITDA during the third and fourth quarter of 2020 was primarily due to the delivery of IP during the quarters, in addition to overhead cost savings from the restructuring of Frederator, as previously discussed.

RECONCILIATIONS

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

$000's	For the three months ended Dec 31, 2020	Sep 30, 2020	June 30, 2020	Mar 31, 2020
Operating EBITDA	**$ 2,044**	**$ 594**	**$ (664)**	**$ 111**
Finance costs	446	497	440	564
Depreciation and amortization[1]	788	988	1,027	934
Operating profit (loss)	810	(891)	(2,131)	(1,387)
Items affecting comparability:				
Share-based compensation expense	11	110	137	155
Restructuring costs	–	–	1,100	–
Deferred income tax expense (recovery)	(71)	–	–	(75)
	(60)	110	1,237	80
Net profit (loss)	**$ 870**	**$ (1,001)**	**$ (3,368)**	**$ (1,467)**

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

$000's	For the three months ended Dec 31, 2019	Sep 30, 2019	Jun 30, 2019	Mar 31, 2019
Operating EBITDA	**$ 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)
Items affecting comparability:				
Share-based compensation expense	210	633	147	125
Impairment of other intangible assets and goodwill	13,811	–	–	–
Deferred income tax (recovery) expense	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.

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 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, 2020 and 2019 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, 2020, the Company had positive cash flows from operating activities of $4.1 million (December 31, 2019 – negative $0.5 million). As at December 31, 2020, the Company had a cash balance of $4.2 million and $16.2 million in additional unutilized credit facilities available by way of interim production loans secured against refundable tax credits and sales contracts. In addition, the Company had $5.0 million in credit facilities available under a CAD line of credit, of which $2.0

million was drawn as at December 31, 2020. A summary of the Company's cash flows for year ended December 31, 2020 and 2019 is as follows:

$000's		2020		2019
Cash generated by (used in) operating activities	$	4,104	$	(543)
Cash generated by (used in) financing activities		(3,610)		(45)
Cash generated by (used in) investing activities		(110)		(98)
Net change in cash and cash equivalents		384		(686)
Effect of foreign exchange on cash and cash equivalents		(42)		(44)
Cash and cash equivalents, beginning balance		1,796		2,526
Cash and cash equivalents, ending balance [1]	$	2,138	$	1,796

[1] Cash and cash equivalents less bank indebtedness

Cash generated by (used in) operating activities

$000's		2020		2019
Cash provided by (used in) operating activities before changes in non-cash working capital	$	7,508	$	12,912
Investment in film and television programming		(11,899)		(10,424)
Funding received for investment in film and television programming		27		116
Changes in non-cash working capital:				
Trade and other accounts receivable		1,426		(3,382)
Other assets [1]		(89)		(148)
Accounts payable and accrued liabilities		(3,240)		(2,196)
Deferred revenue		10,584		2,437
Other liabilities [2]		(213)		142
Cash generated by (used in) operating activities	$	4,104	$	(543)

[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 generated by operating activities for the year ended December 31, 2020, were $4.1 million compared to $0.5 million used in 2019.

Investment in film and television decreased cash by $11.9 million for the year ended December 31, 2020, compared to a decrease of $10.4 million for 2019. Expenditures for the year ended December 31, 2020, primarily relate to the costs incurred on *Castlevania*, season 4, and a new internally developed animated series which began production in Q4 2019, while the expenditures for the year ended December 31, 2019, relate to costs incurred on *Castlevania,* season 3, and *Bee & PuppyCat*, 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, 2020, $11.4 million in tax credit refunds were received compared to $15.6 million for the year ended December 31, 2019. Tax credits earned for the year ended December 31, 2020 was $14.7 million compared to $13.1 million for 2019. 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 increased cash by $4.7 million and decreased cash by $5.9 million in 2019 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, 2020, increased operating cash flows by $10.6 million, compared to $2.4 million for 2019, 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

$000's		**2020**		**2019**
Proceeds from interim production financing, net of repayment	$	(99)	$	2,394
Interest paid		(1,596)		(1,862)
Repayment of lease obligations		(2,994)		(2,540)
Proceeds from paycheck protection program loan		854		–
Proceeds from private placement, net of share issuance costs		–		1,963
Net proceeds on issuance of convertible debentures		2,490		–
Repayment on maturity of convertible debentures		(2,265)		–
Cash generated by (used in) financing activities	$	(3,610)	$	(45)

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, 2020, resulted in a net cash outflow of $0.1 million compared to a net inflow of $2.4 million in 2019. 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, bank indebtedness, finance leases and convertible debentures during the year ended December 31, 2020 was $1.6 million compared to $1.9 million for 2019. The decrease for the year ended December 31, 2020 compared to 2019 is a result of the repayment of certain production financing loans.

Principal repayments on finance leases for the year ended December 31, 2020, was $3.0 million compared to $2.5 million for 2019. The increase is primarily a result of new finance leases entered into during the year.

As previously discussed, during the year ended December 31, 2020, the Company received an unsecured advance of $0.6 million USD ($0.9 million 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.

Net proceeds on issuance of the Debentures was $2.5 million net of share issuance costs. These proceeds were primarily used to repay the Company's Existing Debentures of $2.3 million as previously noted.

CONTRACTUAL OBLIGATIONS

The following is a summary of the Company's contractual obligations as at December 31, 2020.

$000's	Less than 1 year	1 to 5 years	Greater than 5 years	Total
Accounts payable and accrued liabilities	$ 7,590	$ –	$ –	$ 7,590
Bank indebtedness	2,036	–	–	2,036
Lease obligations [1]	3,594	7,869	8,923	20,386
Interim production financing	17,192	–	–	17,192
Convertible debentures [1]	447	5,539	–	5,986
Other liabilities [1, 2]	1,575	829	196	2,600
	$ 32,434	$ 14,237	$ 9,119	$ 55,790

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

[2] Includes PPP loan and CRTC tangible benefits which have been forgiven subsequent to December 31, 2020.

CAPITAL EXPENDITURES

During the year ended December 31, 2020 and 2019, the Company incurred capital expenditures of $0.1 million. The additions in 2020 and 2019 primarily consisted of computer equipment purchases. The Company endeavours to fund IT purchases through finance leases where possible. For the year ended December 31, 2020, the Company funded $3.7 million (2019 - $0.5 million) of equipment purchases through capital leases.

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, Paycheck Protection Program loan, 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 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 consolidated statements of financial position, and measured at fair value through profit and loss.

During the year ended December 31, 2020, the Company entered into one USD forward contract with a total notional value of $0.7 million USD (2019 - $2.2 million USD) which was fully exercised in the year at an average exchange rate of 1.3480, realizing a net loss of $0.01 million (2019 – gain of $0.01 million) in the consolidated statements of comprehensive loss. As at December 31, 2020, there are no remaining outstanding USD forward contracts.

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.

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.

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 $2.1 million as at December 31, 2020, 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, 2020, three customers accounted for 72% 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, or material changes in YouTube's policies 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 in addition to the limited number of buyers for the Company's content.

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 operations have expanded to address new client contracts, 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. In addition, existing and new cyber risks remain a constant threat to the Company’s information technology systems and infrastructures in addition to the adoption of new and emerging information technology systems.

Litigation and protection and defence against intellectual property claims

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 (including intellectual property infringement claims) in the normal course of business. The Company’s ability to successfully respond to such claims cannot be assured.

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 income or 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 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.

Measurement of expected credit loss allowance

At the end of each reporting period, the Company estimates an expected credit loss ("ECL") allowance for trade accounts receivable and contract assets (unbilled accounts receivable) based on an assessment of the aging of uncollected balances and the probability that these balances will not be collected.

ADOPTION OF NEW ACCOUNTING POLICIES

Standards, interpretations and amendments to standards not yet effective and not yet adopted:

Amendments to IAS 1 - Presentation of Financial Statements

On January 23, 2020, the IASB issued amendments to IAS 1 – *Presentation of Financial Statements* to clarify the classification of liabilities as current or non-current. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted. To classify a liability as non-current, a right to defer settlement or roll over a liability for at least twelve months must exist at the end of a reporting period. The amendment clarifies that the classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. Settlement is further defined in the amendment as the transfer of cash, equity instruments, other assets, or services to the counterparty. The amendment also clarifies how a company classifies a liability that includes a counterparty conversion option. When classifying liabilities as current or non-current, a company can only ignore conversion options that are recognized as equity. The Company is currently assessing the impact of these amendments on its consolidated financial statements.

Amendments to IAS 37 - Provisions, Contingent Liabilities and Contingent Assets

On May 14, 2020, the IASB issued *Onerous Contracts - Cost of Fulfilling a Contract* (Amendments to IAS 37 - *Provisions, Contingent Liabilities and Contingent Assets*). The amendments are effective for annual periods beginning on or after January 1, 2022 and apply to contracts existing at the date when the amendments are first applied. Early adoption is permitted. These amendments clarify which costs should be included in determining the cost of fulfilling a contract when assessing whether a contract is onerous. The amendments clarify that the costs of fulfilling a contract is comprised of both incremental costs of fulfilling the contract (i.e. direct labour or materials) and an allocation of costs that relate directly to fulfilling the contract (i.e. depreciation charge for an item of property, plant and equipment). The Company is currently assessing the impact of these amendments on its consolidated financial statements.

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 quarterly 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, 2020, the Company had 2,032,672 stock options outstanding, of which 1,764,298 were exercisable for additional common shares.

As at April 28, 2021, the Company had 2,927,672 stock options outstanding, of which 1,803,458 were exercisable for additional common shares.

As at December 31, 2020 and April 28, 2021, the Company had 900,000 warrants outstanding which were exercisable for 900,000 additional common shares.

Outstanding Shares

As at December 31, 2020, the Company had 32,024,314 common shares issued and outstanding. On April 28, 2021, the Company had 32,024,314 common shares issued and outstanding. The total shares outstanding as at December 31, 2020 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:

	2020	2019
Remuneration	$ 1,493,169	$ 1,476,961
Share-based compensation expense	43,502	245,031
	$ 1,536,671	$ 1,721,992

Rental of office space

Office space in Toronto has been rented from a company that is related to an officer of the Company. During the year, the Company ended its agreement to rent space from the company related to an officer of the Company. For the year ended December 31, 2020, rent and property operating costs were paid in the amount of $54,812 (2019 - $189,533).

Share appreciation rights granted

For the year ended December 31, 2020, an expense of $nil (2019 – $114,206) was recognized for SARs that were awarded by a former officer of the Company to certain employees of the Company.

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 2019. The agreement was for $5,000 USD and was in connection with the development and production of short-form content for the Networks and Platforms segment of the business. There were no such transactions during the year ended December 31, 2020.

Convertible Debentures

As part of the issuance of convertible debentures on November 17, 2020 and December 14, 2020, directors and officers of the Company subscribed for $1.2 million of the total issuance of $4.7 million. These are held both directly and indirectly through companies owned by directors, or by their family members

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.