



Condensed Interim Consolidated Financial Statements of

Wow Unlimited Media Inc.

For the three months ended March 31, 2021 and 2020

(Unaudited)

Wow Unlimited Media Inc.

Condensed Interim Consolidated Statements of Financial Position

As at March 31, 2021 and December 31, 2020 (Unaudited)

Expressed in Canadian dollars

	Note	March 31, 2021	December 31, 2020
ASSETS			
Current			
Cash and cash equivalents		\$ 4,484,881	\$ 4,174,317
Trade and other accounts receivable	3	35,783,352	32,823,943
Prepaid expenses, deposits and other		2,784,983	2,916,498
		43,053,216	39,914,758
Property, plant and equipment		11,467,279	12,040,638
Investment in film and television programming	4	16,166,346	14,773,302
Other intangible assets	5	1,062,673	1,215,848
Goodwill		2,531,022	2,565,135
Long-term accounts receivable	3	816,497	996,719
Deposits		155,841	156,274
		32,199,658	31,747,916
TOTAL ASSETS		\$ 75,252,874	\$ 71,662,674
LIABILITIES			
Current			
Bank indebtedness	7	\$ 2,336,156	\$ 2,036,156
Accounts payable and accrued liabilities		6,718,661	7,589,668
Interim production financing	7	20,308,737	17,192,426
Deferred revenue	10	21,663,717	20,038,666
Current portion of lease obligations		2,211,045	2,207,025
Other current liabilities	6	758,540	1,595,608
		53,996,856	50,659,549
Lease obligations		11,900,712	12,351,670
Convertible debentures	8	4,341,706	4,308,151
Other non-current liabilities	6	391,463	971,957
		16,633,881	17,631,778
TOTAL LIABILITIES		70,630,737	68,291,327
SHAREHOLDERS' EQUITY			
Share capital		84,969,758	84,969,758
Reserves		5,392,190	5,473,721
Accumulated deficit		(85,739,811)	(87,072,132)
TOTAL SHAREHOLDERS' EQUITY		4,622,137	3,371,347
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 75,252,874	\$ 71,662,674

Going concern (Note 2 (d)), Subsequent event (Note 17)

Approved by the Directors:

"Michael Hirsh"

Michael Hirsh, Director

"David Richards"

David Richards, Director

See accompanying notes to these unaudited condensed interim consolidated financial statements

Wow Unlimited Media Inc.

Condensed Interim Consolidated Statements of Comprehensive Income (Loss)

For the three months ended March 31, 2021 and 2020 (Unaudited)

Expressed in Canadian dollars

	Note	For the three months ended March 31, 2021	March 31, 2020
Revenue	10	\$ 14,955,130	\$ 13,695,485
Expenses			
Operating	11	10,840,288	12,358,374
Depreciation and amortization		2,300,891	1,498,571
General and administration	11	612,675	662,343
Forgiveness of CRTC tangible benefits obligation	6	(584,538)	–
Share-based compensation expense	13	55,908	155,368
Income (loss) before finance costs and taxes		1,729,906	(979,171)
Finance costs	14	397,585	563,085
Income (loss) before taxes		1,332,321	(1,542,256)
Deferred income tax expense (recovery)		–	(75,024)
Net income (loss)		\$ 1,332,321	\$ (1,467,232)
Other comprehensive (income) loss:			
Item that may be reclassified subsequently to profit or loss:			
Foreign currency translation adjustment		137,439	(806,847)
Total comprehensive income (loss)		\$ 1,194,882	\$ (660,385)
Earnings (loss) per share			
- basic and diluted	12	\$ 0.04	\$ (0.05)

See accompanying notes to these unaudited condensed interim consolidated financial statements

Wow Unlimited Media Inc.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity For the three months ended March 31, 2021 and 2020 (Unaudited)

Expressed in Canadian dollars

	Note	Number of non-voting shares issued	Number of common voting shares issued ⁽¹⁾	Reserves				Total		
				Share capital	Equity component of convertible debentures	Warrant reserve	Share-based payment reserve		Foreign currency translation reserve	Accumulated deficit
Balance as at January 1, 2020			29,442,557	\$ 84,969,758	\$ 351,851	\$ 969,747	\$ 4,609,251	\$ (960,269)	(82,105,775)	\$ 7,834,563
Three months ended March 31, 2020		2,581,757	29,442,557							
Net loss		-	-	-	-	-	-	-	-	(1,467,232)
Other comprehensive income (loss) for the period		-	-	-	-	-	-	806,847	-	806,847
Total comprehensive income (loss) for the period		-	-	-	-	-	-	806,847	(1,467,232)	(660,385)
Warrants issued	13	-	-	-	-	102,000	-	-	-	102,000
Equity settled share-based compensation expense	13	-	-	-	-	-	53,368	-	-	53,368
Balance as at March 31, 2020			29,442,557	84,969,758	351,851	1,071,747	4,662,619	(153,422)	(83,573,007)	7,329,546
Nine months ended December 31, 2020		2,581,757	29,442,557							
Net loss		-	-	-	-	-	-	-	-	(3,499,125)
Other comprehensive income (loss) for the period		-	-	-	-	-	-	(899,365)	-	(899,365)
Total comprehensive income (loss) for the period		-	-	-	-	-	-	(899,365)	(3,499,125)	(4,398,490)
Warrants issued	13	-	-	-	-	204,000	-	-	-	204,000
Equity settled share-based compensation expense	13	-	-	-	-	-	53,907	-	-	53,907
Fair value of equity component of convertible debentures on issuance, net of transaction costs		-	-	-	-	252,912	-	-	-	252,912
Deferred tax liability relating to convertible debentures		-	-	-	-	(70,528)	-	-	-	(70,528)
Balance as at December 31, 2020			29,442,557	84,969,758	534,235	1,275,747	4,716,526	(1,052,787)	(87,072,132)	3,371,347
Three months ended March 31, 2021		2,581,757	29,442,557							
Net income (loss)		-	-	-	-	-	-	-	-	1,332,321
Other comprehensive income (loss) for the period		-	-	-	-	-	-	(137,439)	-	(137,439)
Total comprehensive income (loss) for the period		-	-	-	-	-	-	(137,439)	1,332,321	1,194,882
Equity settled share-based compensation expense	13	-	-	-	-	-	55,908	-	-	55,908
Balance as at March 31, 2021			29,442,557	84,969,758	534,235	1,275,747	4,772,434	\$ (1,190,226)	\$ (85,739,811)	\$ 4,622,137

⁽¹⁾ The common voting shares issued are inclusive of common voting shares, and variable voting shares.

See accompanying notes to these unaudited condensed interim consolidated financial statements

Wow Unlimited Media Inc.

Condensed Interim Consolidated Statements of Cash Flows

For the three months ended March 31, 2021 and 2020 (Unaudited)

Expressed in Canadian dollars

	Note	For the three months ended	
		March 31, 2021	March 31, 2020
OPERATING ACTIVITIES			
Net income (loss)		\$ 1,332,321	\$ (1,467,232)
Items not involving cash:			
Depreciation and amortization		466,579	660,802
Amortization of investment in film and television programming	4	1,635,197	564,292
Amortization of other intangible assets	5	199,115	273,477
Share-based compensation expense	13	55,908	155,368
Finance costs	14	397,585	563,085
Deferred income tax expense (recovery)		–	(75,024)
Forgiveness of CRTC tangible benefits obligation	6	(584,538)	–
Paycheck Protection Program loan forgiveness	11	(791,813)	–
Other non-cash losses (gains)		(103,254)	193,444
		2,607,100	868,212
Investment in film and television programming	4	(4,692,718)	(2,505,316)
Funding received for investment in film and television programming		–	26,723
Changes in non-cash working capital and other	16	(268,938)	2,815,535
Cash generated by (used in) operating activities		(2,354,556)	1,205,154
FINANCING ACTIVITIES			
Proceeds from interim production financing	7	5,145,268	4,751,429
Repayment of interim production financing	7	(2,031,275)	(6,368,631)
Interest paid		(241,397)	(500,972)
Repayment of lease obligations		(407,687)	(630,052)
Cash generated by (used in) financing activities		2,464,909	(2,748,226)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(9,929)	(14,819)
Purchase of other intangible assets		(56,390)	–
Cash generated by (used in) investing activities		(66,319)	(14,819)
Increase (decrease) in cash and cash equivalents for the period		44,034	(1,557,891)
Effect of foreign exchange on cash and cash equivalents		(33,470)	81,842
Cash and cash equivalents, beginning of the period	16 (b)	2,138,161	1,796,058
Cash and cash equivalents, end of the period	16 (b)	\$ 2,148,725	\$ 320,009

Supplemental information (Note 16)

See accompanying notes to these unaudited condensed interim consolidated financial statements

Wow Unlimited Media Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2021 and 2020 (Unaudited)

Expressed in Canadian dollars

1. Nature of operations

Wow Unlimited Media Inc. (together with its subsidiaries, "Wow Unlimited" or the "Company") is a publicly listed company on the TSX Venture Exchange ("TSX-V") under the symbol "WOW" and on the OTCQX Best Market ("OTCQX") under the symbol "WOWMF". The Company is incorporated under the laws of the Province of British Columbia with limited liability and extra-provincially registered to conduct business in the Province of Ontario. Wow Unlimited is involved in the production and distribution of animated content for film, television, and online distribution channels. The Company's wholly owned subsidiary, Frederator Networks Inc. ("Frederator"), is incorporated in the United States of America, in the State of Delaware and is registered to operate in the States of New York and California.

The Company's head office is located at 55 Sudbury Street, Toronto, Ontario, M6J 3S7. The Company's registered office is located at 200-2025 West Broadway, Vancouver, British Columbia, V6J 1Z6.

2. Basis of presentation

(a) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 - *Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). They do not include all of the information required for annual financial statements and should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2020.

Select explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since December 31, 2020, the date of the most recent annual audited consolidated financial statements. The accounting policies applied in these condensed interim consolidated financial statements are the same as those applied in the Company's most recent annual audited consolidated financial statements.

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on May 27, 2021.

(b) Basis of measurement

These condensed interim consolidated financial statements have been prepared on a going concern basis under the historical cost basis, except for certain financial assets and financial liabilities which are measured at fair value.

All subsidiaries are 100% owned by the Company except for the following entity: Frederator Books LLC (51% interest).

(c) Critical accounting judgments and key sources of estimation uncertainty

On March 11, 2020, the World Health Organization ("WHO") characterized COVID-19 as a global pandemic. 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 future developments affect the judgments and estimates described in the Company's annual audited consolidated financial statements for the year ended December 31, 2020. Management continues to evaluate potential operational and financial risks to the Company as a result of the

Wow Unlimited Media Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2021 and 2020 (Unaudited)

Expressed in Canadian dollars

pandemic, including the impact on its judgments, estimates, accounting policies and amounts recognized in these condensed interim consolidated financial statements.

COVID-19 occurred in the latter part of the first quarter of 2020 and did not have a material impact on the Company's anticipated revenues and the assumptions utilized in determining the recoverable amounts of the Company's right-of-use assets, other intangible assets, property, plant, and equipment, investment in film and television programming, goodwill, or cash-generating units in these condensed interim consolidated financial statements. However, depending on the severity and duration of COVID-19, including the recent resurgence in the number of COVID-19 cases, the realizable value of the Company's assets subsequent to March 31, 2021 may be materially affected.

(d) Going concern

These condensed interim consolidated financial statements 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 three months ended March 31, 2021, the Company had negative cash flows from operating activities of \$2,354,556 (three months ended March 31, 2020 – positive \$1,205,154), and at March 31, 2021, had net current liabilities of \$10,943,640 (December 31, 2020 – net current liabilities \$10,744,791).

The Company's future operations are dependent upon many factors, including the ability to generate additional earnings and obtaining additional equity and/or debt financing in order to meet its planned business objectives.

The Company will need to raise funds 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 may cast significant doubt on the Company's ability to continue as a going concern. Should the Company be unable to realize its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the carrying amounts on the condensed interim consolidated statement of financial position.

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Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2021 and 2020 (Unaudited)

Expressed in Canadian dollars

3. Trade and other accounts receivable

	March 31, 2021	December 31, 2020
Trade receivables	\$ 15,384,035	\$ 15,648,319
Tax credits receivable	20,342,540	17,111,947
Other receivables	873,274	1,060,396
	\$ 36,599,849	\$ 33,820,662
Less long-term accounts receivable	(816,497)	(996,719)
Current portion of accounts receivable	\$ 35,783,352	\$ 32,823,943

Trade receivables include \$nil (December 31, 2020 - \$nil) of unbilled accounts receivable for services rendered prior to invoicing.

4. Investment in film and television programming

	Distribution rights	Productions in development	Productions in progress	Completed productions	Total
Cost					
As at January 1, 2021	\$ 4,459,165	\$ 2,326,261	\$ 6,676,386	\$ 34,483,533	\$ 47,945,345
Additions, net of government assistance and third party contributions	-	78,945	3,062,603	-	3,141,548
Transfer to completed productions	-	-	(1,579,270)	1,579,270	-
Exchange difference	(42,056)	(1,693)	(27,198)	(358,220)	(429,167)
Balance at March 31, 2021	\$ 4,417,109	\$ 2,403,513	\$ 8,132,521	\$ 35,704,583	\$ 50,657,726
Accumulated amortization and impairment					
As at January 1, 2021	\$ 4,096,926	\$ 1,715,451	\$ -	\$ 27,359,666	\$ 33,172,043
Additions	90,443	-	-	1,544,754	1,635,197
Exchange difference	(40,782)	-	-	(275,078)	(315,860)
Balance at March 31, 2021	\$ 4,146,587	\$ 1,715,451	\$ -	\$ 28,629,342	\$ 34,491,380
Carrying amount					
December 31, 2020	\$ 362,239	\$ 610,810	\$ 6,676,386	\$ 7,123,867	\$ 14,773,302
March 31, 2021	\$ 270,522	\$ 688,062	\$ 8,132,521	\$ 7,075,241	\$ 16,166,346

Additions to productions in progress include interest capitalized of \$120,783 for the three months ended March 31, 2021 (three months ended March 31, 2020 - \$70,176).

There were no impairments recorded against productions for the three months ended March 31, 2021, nor was there an indication that impairments previously recorded should be reversed (three months ended March 31, 2020 - \$nil and impairment reversal of \$nil).

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Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2021 and 2020 (Unaudited)

Expressed in Canadian dollars

5. Other intangible assets

	Production agreements	Animation network	Brands	Software	Total
Cost					
Balance as at January 1, 2021	\$ 1,022,640	\$ 8,104,422	\$ 562,452	\$ 1,149,280	\$ 10,838,794
Additions	–	–	–	56,390	56,390
Disposals	(1,022,640)	–	–	–	(1,022,640)
Exchange difference	–	(107,780)	(7,480)	–	(115,260)
Balance at March 31, 2021	\$ –	\$ 7,996,642	\$ 554,972	\$ 1,205,670	\$ 9,757,284
Accumulated amortization and impairment					
Balance as at January 1, 2021	\$ 1,022,640	\$ 7,608,303	\$ 227,324	\$ 764,679	\$ 9,622,946
Additions	–	122,924	13,936	62,255	199,115
Disposals	(1,022,640)	–	–	–	(1,022,640)
Exchange difference	–	(101,725)	(3,085)	–	(104,810)
Balance at March 31, 2021	\$ –	\$ 7,629,502	\$ 238,175	\$ 826,934	\$ 8,694,611
Carrying amount					
December 31, 2020	\$ –	\$ 496,119	\$ 335,128	\$ 384,601	\$ 1,215,848
March 31, 2021	\$ –	\$ 367,140	\$ 316,797	\$ 378,736	\$ 1,062,673

6. Forgiveness of Canadian Radio-television and Telecommunications Commission tangible benefits obligation

On February 5, 2021, the Canadian Radio-television and Telecommunications Commission (“CRTC”) announced in its ‘Broadcasting Decision 2021-51’ that it had approved the Company’s application to revoke its Broadcast License. The revocation of the Broadcasting License also nullifies the Company’s requirement to invest \$687,000 of tangible benefits into the Canadian broadcasting system over a seven-year period. The tangible benefits obligation was assessed in 2018, as a requirement by the CRTC, in its decision to approve the Company’s acquisition of a Broadcasting License from Bell Media Inc. The present value of the tangible benefits obligation of \$558,745 was initially capitalized to the ‘Broadcast License’ intangible asset, as a directly attributable cost of bringing the asset to its working condition. In 2019, as part of its annual impairment assessment, management reviewed the carrying value of its Broadcasting License and fully impaired the asset. As a result of the CRTC’s Broadcasting Decision on February 5, 2021, the Company derecognized the tangible benefits obligation in ‘other current’ and ‘other non-current liabilities’ and recognized a recovery of \$584,538 into the condensed interim consolidated statements of comprehensive income (loss).

Wow Unlimited Media Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2021 and 2020 (Unaudited)

Expressed in Canadian dollars

7. Bank indebtedness and Interim production financing

	Currency	Date of maturity	March 31, 2021		December 31, 2020	
			Facility amount ¹ (CAD)	Carrying amount (CAD) ²	Facility amount ¹ (CAD)	Carrying amount (CAD) ²
Interim production financing	CAD	On demand	\$ 32,913,239	\$ 12,593,523	\$ 26,461,624	\$ 10,305,425
Interim production financing	USD	On demand	9,327,314	7,715,214	7,209,612	6,887,001
			\$ 42,240,553	\$ 20,308,737	\$ 33,671,236	\$ 17,192,426
Bank indebtedness	CAD	On demand	5,000,000	2,336,156	5,000,000	2,036,156
Paycheck protection program loan	USD	Note 7 (e)	-	-	798,938	798,938
			\$ 47,240,553	\$ 22,644,893	\$ 39,470,174	\$ 20,027,520

¹ Facility amount of the loans represents the maximum facility available, excluding interest reserve

² Carrying amount represents the amount drawn as at March 31, 2021 and December 31, 2020, including interest reserve

(a) Interim production financing

The Company's interim production financing facilities with a Canadian bank bear interest at rates ranging from bank prime plus 1.25% - 1.75% per annum. The interim production financing facilities are generally repayable on demand and are generally secured by a combination of federal and provincial tax credits, other government incentives, production service agreements, and license agreements.

(b) Bank indebtedness

The Company has a \$5,000,000 revolving demand facility with a Canadian bank. Draws under the revolving demand facility can be made in Canadian or US dollars at the option of the Company by way of bank prime rate loans, Canadian Bankers' Acceptances, US Libor, or letters of credit and the aggregate of principal amounts outstanding shall not exceed the facility limit at any time. Canadian or US dollar bank prime borrowings bear interest at a rate equal to bank prime plus 2.00% per annum. For other draws under the revolving facility, the respective loans bear interest at a rate equal to Canadian Bankers' Acceptances or US Libor plus 3.75% per annum.

Subsequent to March 31, 2021, the Company amended its credit facility (the "Facility") with a Canadian bank on May 18, 2021. This amendment allows the Company to make draws under the revolving demand facility utilizing Canadian dollar bank overdrafts. Canadian dollar bank overdrafts bear interest at a rate equal to bank prime plus 2.00% per annum and can be prepaid at any time without penalty and without notice.

As at March 31, 2021 and December 31, 2020, the Company was in compliance with all covenants.

(c) Equipment lease line

As at March 31, 2021, the Company had drawn down \$6,290,281 of equipment under the Facility's \$7,000,000 equipment lease line (December 31, 2020 - \$6,290,281). Each transaction will have specific financing terms in

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Notes to the Condensed Interim Consolidated Financial Statements

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Expressed in Canadian dollars

respect of the leased equipment such as term, finance amount, rate, and payment terms. The Company has recorded right-of-use assets and lease obligations for the leased equipment acquired in respect of these draws.

(d) Treasury risk management facility

As at March 31, 2021, there were no outstanding amounts drawn under the Facility's treasury risk management facility (December 31, 2020 - \$nil). The treasury risk management facility has a limit of \$500,000.

As part of the amendment to the Facility subsequent to March 31, 2021, the maximum term for foreign exchange forward contracts and interest rate swaps have each been revised to a maximum term of up to one year. The maximum term for foreign exchange forward contracts and interest rate swaps was previously two years.

(e) Paycheck protection program loan

On April 28, 2020, Frederator Networks Inc., a subsidiary of the Company received an unsecured advance of \$625,000 USD (\$854,313 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. Subject to the satisfaction of certain conditions, the entire loan or a portion of the loan may be forgiven if the proceeds were used to fund qualifying expenditures such as payroll and benefits costs, rent, and utilities costs over an elected coverage period. A loan forgiveness application was filed in November 2020 and as at December 31, 2020, the Company did not have reasonable assurance that it had met the terms for forgiveness in relation to the loan. On February 6, 2021, the Company was informed that it had been granted full loan forgiveness by the US SBA. In accordance with IAS 20 – Accounting For Government Grants And Disclosure Of Government Assistance, the Company recognized loan forgiveness of \$791,813 (\$625,000 USD) in operating expenses in the condensed interim consolidated statement of comprehensive income (loss) for the three months ended March 31, 2021 (Note 11).

8. Convertible debentures

The Company issued unsecured subordinated convertible debentures ("Debentures") in the amount of \$4,700,000 on the closing of a non-brokered private placement offering that was completed in two tranches. The first tranche was completed on November 17, 2020, for gross proceeds of \$2,639,000 and the second tranche was completed on December 14, 2020, for gross proceeds of \$2,061,000. 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 Debentures mature on November 17, 2023 and are governed by the terms of an indenture between the Company and Computershare Trust Company of Canada.

A continuity of the amounts recorded for convertible debentures and the equity component during the three months ended March 31, 2021, is as follows:

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	Convertible debentures	Equity component of convertible debentures	Total
Balance at January 1, 2021	\$ 4,308,151	\$ 534,235	\$ 4,842,386
Interest accretion expense	143,651	–	143,651
Interest payable recorded in accounts payable and accrued liabilities	(110,096)	–	(110,096)
Balance at March 31, 2021	\$ 4,341,706	\$ 534,235	\$ 4,875,941

9. Segmented information

The Company operates and evaluates its business based on its products and services, and the mediums in which they are brought to market. The Company has two reportable segments: (i) Animation Production, and (ii) Networks and Platforms.

The Company measures segment performance based on revenues reported in accordance with IFRS and segment profit and loss. The following tables summarize the operating performance and assets of the reporting segments:

	For the three months ended		
	Animation Production	Networks and Platforms	Total
<i>March 31, 2021</i>			
Segment and external revenues	\$ 8,693,356	\$ 6,261,774	\$ 14,955,130
Operating expenses	5,344,623	5,495,665	10,840,288
Amortization of investment in film and television programming	1,566,689	68,508	1,635,197
Depreciation and amortization	528,695	139	528,834
Finance costs	394,479	3,106	397,585
Segment profit (loss)	\$ 858,870	\$ 694,356	1,553,226
Amortization of acquisition-related intangibles			136,860
Forgiveness of CRTC tangible benefits obligation			(584,538)
General and administration			612,675
Share-based compensation expense			55,908
Income (loss) before taxes			\$ 1,332,321
Capital expenditures			
Investment in film and television programming	\$ 3,141,548	\$ -	\$ 3,141,548
Other intangible assets	\$ 56,390	\$ -	\$ 56,390
Property, plant & equipment	\$ 112,087	\$ -	\$ 112,087

The tangible benefits obligation is related to the Company's former Broadcasting license that was an inactive stand-alone asset not grouped with assets or groups of CGUs comprising the Company's operating segments. Forgiveness of the CRTC tangible benefits obligation associated with the Broadcasting License has been excluded from segment profit as it does not impact operating decisions taken by the Company's management and is based upon the way the performance of the Company's business is evaluated in the Company's internal management reports.

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Expressed in Canadian dollars

<i>March 31, 2020</i>	For the three months ended		
	Animation Production	Networks and Platforms	Total
Segment and external revenues	\$ 7,689,948	\$ 6,005,537	\$ 13,695,485
Operating expenses	6,063,151	6,295,223	12,358,374
Amortization of investment in film and television programming	439,995	124,297	564,292
Depreciation and amortization	636,794	85,555	722,349
Finance costs	556,408	6,677	563,085
Segment profit (loss)	\$ (6,400)	\$ (506,215)	(512,615)
Amortization of acquisition-related intangibles			211,930
General and administration			662,343
Share-based compensation expense			155,368
Profit (loss) before taxes			\$ (1,542,256)
Capital expenditures			
Investment in film and television programming	\$ 2,157,115	\$ 93,562	\$ 2,250,677
Other intangible assets	\$ 171,422	\$ -	\$ 171,422
Property, plant & equipment	\$ 2,823,193	\$ 202,827	\$ 3,026,020

10. Revenue

a) Disaggregation of revenue from contracts with customers

The Company's primary sources of revenue are as follows:

<i>March 31, 2021</i>	For the three months ended		
	Animation Production	Networks and Platform	Total
Point in time	\$ 2,110,002	\$ 6,261,774	\$ 8,371,776
Over time	6,583,354	-	6,583,354
	\$ 8,693,356	\$ 6,261,774	\$ 14,955,130
<i>March 31, 2020</i>	For the three months ended		
	Animation Production	Networks and Platform	Total
Point in time	\$ 96,656	\$ 5,788,870	\$ 5,885,526
Over time	7,593,292	216,667	7,809,959
	\$ 7,689,948	\$ 6,005,537	\$ 13,695,485

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The approximate revenue based on geographic location of customers is as follows:

	For the three months ended	
	March 31, 2021	March 31, 2020
United States	\$ 13,210,084	\$ 10,473,217
United Kingdom ¹	1,214,364	3,005,601
Canada	530,682	216,667
	<u>\$ 14,955,130</u>	<u>\$ 13,695,485</u>

¹United Kingdom revenues relate to contracts with a customer that were denominated in USD.

b) Contract balances

Trade receivables and unbilled accounts receivable are disclosed in Note 3.

The Company's only contract related liabilities are deferred revenue, which reflects the timing difference between the receipt of cash and the recognition of revenue. The following table reflects the movement in deferred revenue as a result of cash received and revenue recognized in the three months ended March 31, 2021:

Deferred revenue

Balance as at January 1, 2021	\$ 20,038,666
Revenue recognized that was included in the deferred revenue balance at the beginning of the period	(6,409,676)
Increases due to cash received, excluding amounts recognized as revenue during the period	8,039,764
Exchange difference	(5,037)
Balance as at March 31, 2021	<u>\$ 21,663,717</u>

11. Nature of expenses

Operating expenses	For the three months ended	
	March 31, 2021	March 31, 2020
Employee costs	\$ 8,358,316	\$ 8,653,195
Refundable tax credits	(3,614,371)	(3,706,650)
Contractors and other third party expenses	5,970,774	6,529,322
Rent and occupancy	163,836	258,139
IT support and maintenance	491,054	561,283
Paycheck Protection Program loan forgiveness (Note 7(e))	(791,813)	–
Other	262,492	63,085
	<u>\$ 10,840,288</u>	<u>\$ 12,358,374</u>

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	For the three months ended	
	March 31, 2021	March 31, 2020
General and administration expenses		
Employee costs	\$ 301,220	\$ 325,142
Legal and accounting	116,820	148,284
Contractors and other third party expenses	40,560	–
Rent and occupancy	–	16,846
Other	154,075	172,071
	\$ 612,675	\$ 662,343

	For the three months ended	
	March 31, 2021	March 31, 2020
Employee costs and benefits		
Employee costs	\$ 8,659,536	\$ 8,978,337
Share-based compensation expense	55,908	155,368
	\$ 8,715,444	\$ 9,133,705

12. Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing the net income (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period.

	For the three months ended	
	March 31, 2021	March 31, 2020
Net income (loss)	\$ 1,332,321	\$ (1,467,232)
Weighted average number of common shares outstanding	32,024,314	32,024,314
Earnings (loss) per share - basic	\$ 0.04	\$ (0.05)

Diluted earnings (loss) per share is calculated by adjusting basic earnings (loss) per share, as described above, for the effects of all potentially dilutive instruments during the period.

	For the three months ended	
	March 31, 2021	March 31, 2020
Net income (loss)	\$ 1,332,321	\$ (1,467,232)
Interest expense on convertible debentures, net of tax (Note 8, 14)	104,865	–
Net income (loss) - diluted	\$ 1,437,186	\$ (1,467,232)
Weighted average number of common shares outstanding	32,024,314	32,024,314
Effect of potentially dilutive convertible debentures (Note 8)	8,545,455	–
Effect of potentially dilutive stock options (Note 13)	34,091	–
Weighted average number of common shares outstanding - diluted	40,603,860	32,024,314
Earnings (loss) per share - diluted	\$ 0.04	\$ (0.05)

For the three months and March 31, 2021, 2,802,672 stock options and 900,000 warrants were excluded from the diluted weighted average number of common shares outstanding calculation because their effect would have been anti-dilutive.

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In the first quarter of 2020, the Company had a net loss and the effect of any potentially dilutive convertible debentures, warrants, and stock options would have been anti-dilutive and were excluded from the diluted weighted average number of common shares outstanding calculation.

13. Share-based compensation

Total share-based compensation expense from all forms of share-based payment awards for the three months ended March 31, 2021 and 2020, is summarized below:

Share-based compensation expense	For the three months ended	
	March 31, 2021	March 31, 2020
Stock options	\$ 55,908	\$ 53,368
Warrants	–	102,000
	<u>\$ 55,908</u>	<u>\$ 155,368</u>

During the three months ended March 31, 2021, the Company issued 895,000 stock options under its existing rolling stock option plan.

14. Finance costs

	For the three months ended	
	March 31, 2021	March 31, 2020
Interest expense on interim production financing	\$ 193,557	\$ 244,727
Interest expense on bank indebtedness	21,638	19,111
Interest and accretion on convertible debentures (Note 8)	143,651	129,309
Interest accretion on lease obligations	156,416	233,437
Interest accretion on tangible benefits obligation (Note 6)	3,106	6,677
Interest capitalized to investments in film and television (Note 4)	(120,783)	(70,176)
	<u>\$ 397,585</u>	<u>\$ 563,085</u>

15. Financial instruments

(a) Fair value measurement of financial instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company categorizes its fair value measurements according to a three-level hierarchy. A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety.

The three levels of the fair value hierarchy are defined as follows:

- Level 1 - Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets.

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- Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Inputs that are based on unobservable inputs which are supported by little or no market activity.

During the three months ended March 31, 2021, the Company entered into twenty USD forward contracts with a total notional value of USD \$5,180,966 (March 31, 2020 - \$nil). Five of the forward contracts were fully exercised during the three months ended March 31, 2021, at an average exchange rate of 1.2793. As at March 31, 2021, the remaining outstanding USD forward contracts have a total notional value of USD \$3,080,966. These contracts have an expiry date ranging from April 9, 2021, to January 12, 2022, at an average rate of 1.2789. For the three months ended March 31, 2021, the Company realized a gain of \$29,560 and an unrealized gain of \$54,437 in the condensed interim consolidated statements of comprehensive income (loss) (March 31, 2020 - \$nil and \$nil).

The Company has designated its financial instruments as follows:

	Fair Value Hierarchy	March 31, 2021		December 31, 2020	
		Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:					
Amortized cost					
Cash and cash equivalents	Level 1	\$ 4,484,881	\$ 4,484,881	\$ 4,174,317	\$ 4,174,317
Trade receivables	Level 2	15,384,035	15,384,035	15,648,319	15,648,319
Long-term accounts receivable	Level 2	816,497	816,497	996,719	996,719
Deposits	Level 2	155,841	155,841	156,274	156,274
Fair value through profit or loss					
Other financial assets	Level 2	54,437	54,437	–	–
Financial liabilities:					
Amortized cost					
Bank indebtedness	Level 2	2,336,156	2,336,156	2,036,156	2,036,156
Accounts payable and accrued liabilities	Level 2	6,718,661	6,718,661	7,589,668	7,589,668
Interim production financing	Level 2	20,308,737	20,308,737	17,192,426	17,192,426
Convertible debentures	Level 2	4,341,706	4,982,840	4,308,151	4,982,840
Lease obligations	Level 2	14,111,757	14,111,757	14,558,695	14,558,695
Other liabilities	Level 2	1,103,901	1,103,901	2,484,271	2,484,271

(b) Risks arising from financial instruments

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company's liquidity needs can be met through a variety of sources including generating cash from operations, borrowing against license contracts, production service contracts, refundable tax credits receivable, entering into leases, the issuance of debentures, the issuance of shares, or the issuance of share purchase warrants. The

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Company manages liquidity risk by continuously monitoring actual and forecasted cash flows, using lease financing and by maintaining revolving credit facilities (Note 2 (d)).

The following table provides a contractual maturity analysis for financial liabilities:

As at March 31, 2021	< 1 year	1 to 5 years	Greater than 5 years	Total	Carrying Amount
Accounts payable and accrued liabilities	\$ 6,718,661	\$ –	\$ –	\$ 6,718,661	\$ 6,718,661
Bank indebtedness	2,336,156	–	–	2,336,156	2,336,156
Lease obligations ¹	3,441,246	7,384,096	8,560,891	19,386,233	14,111,757
Interim production financing	20,308,737	–	–	20,308,737	20,308,737
Convertible debentures ¹	446,500	5,429,079	–	5,875,579	4,341,706
Other liabilities ¹	758,540	356,049	–	1,114,589	1,103,901
	\$34,009,840	\$ 13,169,224	\$ 8,560,891	\$ 55,739,955	\$ 48,920,918

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

16. Consolidated statement of cash flows - supplemental information

(a) Changes in non-cash working capital

The net change in non-cash working capital related to operations for the three months ended March 31, 2021 and 2020, are as follows:

	For the three months ended	
	March 31, 2021	March 31, 2020
Trade and other accounts receivable	\$ (888,448)	\$ 5,425,544
Prepaid expenses, deposits and other	44,543	(602,787)
Deposits	433	(12,452)
Accounts payable and accrued liabilities	(1,013,325)	(4,236,451)
Deferred revenue	1,625,051	2,196,685
Other current and non-current liabilities	(37,192)	44,996
Net change in non-cash working capital	\$ (268,938)	\$ 2,815,535

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(b) Cash and cash equivalents on the consolidated statements of cash flows are comprised of the following:

	March 31, 2021	December 31, 2020	March 31, 2020
Cash and cash equivalents	\$ 4,484,881	\$ 4,174,317	\$ 2,229,009
Bank indebtedness	(2,336,156)	(2,036,156)	(1,909,000)
	<u>\$ 2,148,725</u>	<u>\$ 2,138,161</u>	<u>\$ 320,009</u>

17. Subsequent event

Bank indebtedness

On May 18, 2021, the Company amended its credit facility with a Canadian bank. Refer to Note 7 (b)(d) for further details.