WildBrain Ltd.

Consolidated Financial Statements
June 30, 2020
(expressed in thousands of Canadian dollars)

September 22, 2020

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of WildBrain Ltd. (the "Company") are the responsibility of management and have been approved by the Board of Directors (the "Board"). The Board is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility through its Audit Committee. The Audit Committee reviews the Company's consolidated financial statements and recommends their approval by the Board.

The Audit Committee is appointed by the Board and all of its members are independent directors. It meets with the Company's management and reviews internal control and financial reporting matters to ensure that management is properly discharging its responsibilities before submitting the consolidated financial statements to the Board for approval.

The consolidated financial statements have been prepared by management in accordance with International Accounting Standards as issued by the International Accounting Standards Board. When alternative methods of accounting exist, management has chosen those it deems most appropriate in the circumstances. The consolidated financial statements include amounts based on informed judgments and estimates of the expected effects of current events and transactions with appropriate consideration to materiality. In addition, in preparing the consolidated financial statements, management must make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information. Actual results in the future may differ materially from our present assessment of this information because future events and circumstances may not occur as expected.

(signed) "*Eric Ellenbogen*"
Chief Executive Officer
New York, New York

(signed) "*Aaron Ames*"
Chief Financial Officer
Toronto, Ontario

Independent auditor's report

To the Shareholders of WildBrain Ltd.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of WildBrain Ltd. and its subsidiaries (together, the Company) as at June 30, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at June 30, 2020 and 2019;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of income (loss) for the years then ended;
- the consolidated statements of comprehensive income (loss) for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management Discussion and Analysis of Financial Condition and Results of Operation.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Donald M. Flinn.

(signed) *"PricewaterhouseCoopers LLP"*

Chartered Professional Accountants

Halifax, Nova Scotia
September 22, 2020

WildBrain Ltd.
Consolidated Balance Sheet
As at June 30, 2020 and 2019

(expressed in thousands of Canadian dollars)

	June 30, 2020 $	June 30, 2019 $
Assets		
Current assets		
Cash	67,889	39,999
Restricted cash (note 12(e))	16,637	—
Amounts receivable (note 6)	200,217	265,710
Prepaid expenses and other	8,779	7,182
Investment in film and television programs (note 7)	140,548	148,561
	434,070	461,452
Long-term amounts receivable (note 6)	21,035	14,318
Acquired and library content (note 8)	109,076	118,247
Property and equipment (note 9)	54,245	19,352
Intangible assets (note 10)	472,531	465,832
Goodwill (note 11)	55,344	239,754
	1,146,301	1,318,955
Liabilities		
Current liabilities		
Bank indebtedness (note 12(a))	10,000	—
Accounts payable and accrued liabilities	98,927	103,487
Deferred revenue	48,371	64,299
Interim production financing (note 12(b))	66,688	92,448
Current portion of lease liabilities (note 3)	9,274	3,115
Current portion of long-term debt (note 12(c))	—	7,892
	233,260	271,241
Long-term debt (notes 12(c),12(d),12(e))	502,006	515,234
Long-term lease liabilities (note 3)	41,552	3,072
Derivative liabilities (note 21)	7,089	4,755
Other long-term liabilities	2,647	8,269
Deferred income taxes (note 16)	18,261	16,406
	804,815	818,977
Shareholders' Equity		
Equity attributable to shareholders of the Company	81,351	243,033
Non-controlling interest (note 17)	260,135	256,945
	341,486	499,978
	1,146,301	1,318,955

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

WildBrain Ltd.
Consolidated Statement of Changes in Equity
For the years ended June 30, 2020 and 2019

(expressed in thousands of Canadian dollars)

	Common shares $	Contributed surplus $	Accumulated other comprehensive income (loss) $	Retained earnings (deficit) $	Non-controlling interest $	Total $
Balance - June 30, 2018	305,167	29,060	(14,618)	(4,531)	85,714	400,792
Adoption of IFRS 9	—	—	—	(1,049)	—	(1,049)
Adoption of IFRS 15	—	—	481	(5,823)	—	(5,342)
Balance - July 1, 2018	305,167	29,060	(14,137)	(11,403)	85,714	394,401
Net (loss) income	—	—	—	(101,494)	23,292	(78,202)
Other comprehensive income	—	—	(5,845)	—	—	(5,845)
Comprehensive income (loss)	—	—	(5,845)	(101,494)	23,292	(84,047)
Common shares issued	1,991	(1,176)	—	—	—	815
Share-based compensation	—	1,354	—	—	—	1,354
Disposal of interest in subsidiary, net of transaction costs and taxes	—	—	—	39,516	174,596	214,112
Distributions to non-controlling interests	—	—	—	—	(26,657)	(26,657)
Balance - June 30, 2019	307,158	29,238	(19,982)	(73,381)	256,945	499,978
Balance - July 1, 2019	307,158	29,238	(19,982)	(73,381)	256,945	499,978
Net (loss) income	—	—	—	(235,966)	27,175	(208,791)
Other comprehensive income	—	—	7,902	—	11,191	19,093
Comprehensive income (loss)	—	—	7,902	(235,966)	38,366	(189,698)
Common shares issued, net of issuance costs and related deferred taxes	59,239	(640)	—	—	—	58,599
Common shares purchased held in trust (note 13)	(162)	—	—	—	—	(162)
Warrants issued (note 12(e))	—	2,180	—	—	—	2,180
Reclassification of deferred share units to equity-settled (note 14)	—	245	—	—	—	245
Share-based compensation (note 14)	—	5,520	—	—	—	5,520
Distributions to non-controlling interests	—	—	—	—	(35,176)	(35,176)
Balance - June 30, 2020	366,235	36,543	(12,080)	(309,347)	260,135	341,486

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

WildBrain Ltd.

Consolidated Statement of Income (Loss)

For the years ended June 30, 2020 and 2019

(expressed in thousands of Canadian dollars, except for amounts per share)

	June 30, 2020 $	June 30, 2019 $
Revenues (note 26)	425,634	439,800
Expenses (note 20)		
Direct production costs and expense of film and television produced	237,789	253,003
Amortization of acquired and library content (note 8)	12,082	14,431
Amortization of property and equipment and intangible assets (notes 9,10)	24,171	22,651
Reorganization, development and other (note 20)	17,961	1,661
Write-down of investment in film and television programs, acquired and library content, property and equipment, intangible assets and goodwill (notes 7,8,9,10,11)	196,122	104,871
Selling, general and administrative	83,098	81,121
Finance costs, net (note 19)	49,404	52,236
Change in fair value of embedded derivatives	(1,955)	(7,185)
Foreign exchange loss (gain)	14,047	(1,081)
	632,719	521,708
Loss before income taxes	(207,085)	(81,908)
Provision for (recovery of) income taxes		
Current income taxes (note 16)	489	(1,770)
Deferred income taxes (note 16)	1,217	(1,936)
	1,706	(3,706)
Net loss	(208,791)	(78,202)
Net income attributable to non-controlling interests	27,175	23,292
Net loss attributable to shareholders of the Company	(235,966)	(101,494)
Basic loss per common share (note 24)	(1.51)	(0.75)
Diluted loss per common share (note 24)	(1.51)	(0.75)

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

WildBrain Ltd.
Consolidated Statement of Comprehensive Income (Loss)
For the years ended June 30, 2020 and 2019

(expressed in thousands of Canadian dollars)

	June 30, 2020 $	June 30, 2019 $
Net loss	(208,791)	(78,202)
Other comprehensive income (loss)		
Items that may be subsequently reclassified to the statement of income (loss)		
Foreign currency translation adjustment	19,093	(5,845)
Comprehensive loss	(189,698)	(84,047)

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

WildBrain Ltd.

Consolidated Statement of Cash Flows

For the years ended June 30, 2020 and 2019

(expressed in thousands of Canadian dollars)

	June 30, 2020 $	June 30, 2019 $
Cash provided by (used in)		
Operating activities		
Net loss	(208,791)	(78,202)
Charges (credits) not involving cash		
Amortization of property and equipment and intangible assets	24,171	22,651
Amortization of acquired and library content	12,082	14,431
Accretion expense and amortization of deferred financing fees	8,242	7,146
Unrealized foreign exchange loss	12,460	1,341
Share-based compensation	5,520	1,598
Loss on modification of long-term debt and write-down of unamortized issue costs	8,265	7,641
Change in fair value of embedded derivatives	(1,955)	(7,185)
Interest income	(1,755)	(2,036)
Interest expense	34,652	39,485
Deferred tax expense (recovery)	1,217	(1,936)
Write-down of investment in film and television programs	7,951	24,217
Write-down of acquired and library content	193	12,928
Write-down of property and equipment	3,435	—
Write-down of intangible assets	—	67,726
Write-down of goodwill	184,543	—
Gain on sale of assets	—	(6,499)
Interest received	399	415
Interest paid	(34,256)	(38,030)
Net investment in film and television programs (note 25)	1,232	9,274
Net change in non-cash balances related to operations (note 25)	38,530	(31,138)
Cash provided by operating activities	96,135	43,827
Financing activities		
Common shares issued, net of withholding taxes	60,482	815
Common shares issuance costs	(1,883)	—
Common shares purchased held in trust	(162)	—
Distributions to non-controlling interests	(33,460)	(26,657)
Proceeds from (repayment of) bank indebtedness	10,000	(16,350)
Repayment of long-term debt	(41,319)	(223,795)
Payment of debt amendment costs	(3,606)	—
Repayment of obligations under finance leases	(9,854)	(5,495)
Repayment of interim production financing (note 25)	(25,760)	(1,235)
Proceeds on sale of interest in a subsidiary, net of cash fees paid	—	218,088
Cash used in financing activities	(45,562)	(54,629)
Investing activities		
Business acquisitions, net of cash acquired	—	(2,696)
Proceeds on sale of assets, net of transaction costs	—	12,592
Acquisition of property and equipment	(5,589)	(1,247)
Acquisition of intangible assets	(1,875)	(4,252)
Cash (used in) provided by investing activities	(7,464)	4,397
Effect of foreign exchange rate changes on cash	1,418	(146)
Net change in cash and restricted cash during the year	44,527	(6,551)
Cash and restricted cash - Beginning of the year	39,999	46,550
Cash and restricted cash - End of the year	84,526	39,999

Supplemental information (note 25)

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

(expressed in thousands of Canadian dollars unless otherwise noted, except for amounts per share)

1 Nature of business

WildBrain Ltd., formerly known as DHX Media Ltd. (the "Company" or "WildBrain"), was incorporated on February 12, 2004 under the laws of the Province of Nova Scotia, Canada, and continued on April 25, 2006 under the Canada Business Corporation Act. The Company is a public company whose common shares are traded on the Toronto Stock Exchange ("TSX") under the symbol 'WILD' and were previously traded on the NASDAQ Global Trading Market ("NASDAQ") under the symbol 'DHXM'.

On December 24, 2019, the Company voluntarily delisted its common shares from NASDAQ and ceased trading on the U.S. stock exchange. Following the NASDAQ delisting, the Company filed the forms required to voluntarily deregister its shares in the U.S. and terminate its public reporting obligations with the Securities Exchange Commission.

The Company develops, produces and distributes films and television programs for the domestic and international markets; licenses its brands in the domestic and international markets; broadcasts films and television programs in the domestic market; sells advertising on various ad-supported video-on-demand platforms; and manages copyrights, licensing and brands for third parties. The address of the Company's head office is 5657 Spring Garden Road, Unit 505, Halifax, Nova Scotia, B3J 3R4.

2 Basis of preparation

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, on a going concern basis. The accounting policies applied in these consolidated financial statements were based on IFRS issued and outstanding as at June 30, 2020.

These consolidated financial statements have been authorized for issuance by the Board of Directors on September 22, 2020.

3 Summary of significant accounting policies, judgments and estimation uncertainty

The significant accounting policies used in the preparation of these consolidated financial statements are described below:

Basis of measurement

The consolidated financial statements have been prepared under a historical cost basis, except for certain financial assets and financial liabilities, including derivative instruments that are measured at fair value.

Consolidation

The consolidated financial statements include the accounts of the Company and all entities that it controls. WildBrain controls an entity: i) when it has the power to direct the activities of the entity that have the most significant impact on the entity's risks and/or returns; ii) where it is exposed to significant risks and/or returns arising from the entity; and iii) where it is able to use its power to affect the risks and/or returns to which it is exposed. The consolidated financial statements of all subsidiaries are prepared for the same reporting period, using consistent accounting policies. Intercompany accounts, transactions, income and expenses and unrealized gains and losses resulting from transactions among the consolidated companies have been eliminated upon consolidation.

Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are de-consolidated from the date that control ceases. Non-controlling interest represents the portion of a subsidiary's earning and losses and net assets that is not held by the Company.

(expressed in thousands of Canadian dollars unless otherwise noted, except for amounts per share)

Cash and restricted cash

Cash and cash equivalents consist of cash held in current operating bank accounts, term deposits and fixed income securities with an original term to maturity of 90 days or less. Cash equivalents are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Restricted cash consists of cash or cash equivalents that are not available for general use by the Company or its subsidiaries due to legal or contractual restrictions.

Foreign currency translation

(i) Functional and presentation currency

Items included in the consolidated financial statements of each consolidated entity of the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Primary and secondary indicators are used to determine the functional currency (primary indicators have priority over secondary indicators). The primary indicator which applies to the Company is the currency that mainly influences revenues and expenses. Secondary indicators include the currency in which funds from financing activities are generated. The Company operates material subsidiaries in three currency jurisdictions including the Canadian dollar, the US dollar, and the UK pound sterling. An assessment of the primary and secondary indicators for each subsidiary is performed to determine the functional currency of the subsidiary, which are then translated to Canadian dollars, the Company's presentation currency. The financial statements of consolidated entities that have a functional currency other than Canadian dollars (“foreign operations”) are translated into Canadian dollars as follows:

(a) assets and liabilities - at the closing rate at the date of the consolidated balance sheet; and
(b) income and expenses - at the average rate for the period.

All resulting exchange differences are recognized in other comprehensive income (loss) as foreign currency translation adjustments.

When the Company disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the foreign currency gains or losses accumulated in other comprehensive income (loss) related to the foreign operation are recognized in profit or loss. If the Company disposes of part of an interest in a foreign operation which remains a subsidiary, a proportionate amount of foreign currency gains or losses accumulated in other comprehensive income (loss) related to the subsidiary is reallocated between controlling and non-controlling interests.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation, at year-end exchange rates, of monetary assets and liabilities denominated in currencies other than the functional currency are recognized in the consolidated statement of income (loss).

Revenue recognition

Revenue is recognized at an amount that reflects the expected consideration receivable in exchange for transferring goods or services to a customer by applying the following five steps:

1. identify the contract with a customer;
2. identify the performance obligations in the contract;
3. determine the transaction price;
4. allocate the transaction price to the performance obligations in the contract; and
5. recognize revenue when (or as) the entity satisfies a performance obligation.

Revenue excludes sales taxes and other amounts that are collected on behalf of third parties and is recorded when control of a product or service is transferred to a customer.

For initial broadcast license rights related to proprietary production titles, an assessment is made at the execution of each contract to determine whether: i) the performance obligations are satisfied over time, or ii) the performance obligations are satisfied at a point in time. Performance obligations are satisfied over time during the production of the title when the customer can exert control over the production process and the Company's ability to generate other revenues from the title are limited based on the remaining rights held and the nature of the show. Revenue is recognized using the percentage-of-completion method when performance obligations are satisfied over time. Performance obligations that are not satisfied over time are satisfied at a point in time, which generally occurs when the production is completed, available to the customer and the customer has the contractual right to broadcast or stream the content. When performance obligations are satisfied at a point in time, revenue is recognized when all of the aforementioned recognition criteria are met.

Revenue from the sale of broadcast license rights to third parties is recognized when the licensed content is available to the customer and the customer has the contractual right to broadcast or stream the content.

Revenue from production services for third parties is recognized using the percentage-of-completion method. Percentage-of-completion recognizes revenues based upon the proportion of costs incurred in the current period to total expected costs.

Royalty revenue is accrued for royalty streams when the amount of revenue can be reliably measured based on relevant agreements and statements received from third party agents, and the underlying sales activity generating the royalty revenue has occurred.

Minimum guarantees received on its merchandising and consumer brand licenses are considered a right-to-access license and are deferred and recognized as revenue over the term of the license period. Minimum guarantees received on licenses that are determined to be a right-to-use license are recognized as revenue when the customer is able to and has the contractual right to use the license. License renewals or extensions are recognized when the licensed content becomes available under the renewal or extension.

Revenue from the management of copyrights, licensing and brands for third parties through representation agreements is recognized when the amount of revenue can be reliably measured and the services have been performed.

Amounts received or advances currently due pursuant to a contractual arrangement, which have not yet met the criteria established to be recognized as revenue, are recorded as deferred revenue.

Revenue is recognized at the transaction price, which is adjusted for the consideration of the time value of money if the timing of payments provides the customer with a significant financing component.

(expressed in thousands of Canadian dollars unless otherwise noted, except for amounts per share)

Principal versus agent revenue

The Company evaluates each arrangement with third parties to determine whether revenue should be reported on a gross or net basis by determining whether the nature of its promise is a performance obligation to provide the specified goods or services itself (principal) or to arrange for those goods or services to be provided by the other party (agent). An assessment of each specified good or service promised to the customer is made separately. Where the Company acts as the principal in an arrangement, revenues are reported on a gross basis and revenues and expenses are classified accordingly in the consolidated statement of income (loss). Conversely, where the Company acts as the agent in an arrangement, revenues are reported on a net basis and presented net of any related expenses or costs.

The most significant considerations to determine whether the Company acts as principal or agent include: i) whether the Company controls the specified good or service before it is transfered to the customer; ii) whether the Company is primarily responsible for fulfilling the promise to provide the specified good or service and the acceptability of such good or service; iii) whether the entity has inventory risk (or equivalent); and iv) whether the entity has latitude in establishing prices for the specified good or service.

Investment in film and television programs

Investment in film and television programs represents the balance of costs of film and television programs which have been produced by the Company or for which the Company has invested in distribution rights and the Company's right to participate in certain future cash flows of film and television programs produced and distributed by other unrelated parties.

Costs of investing in and producing film and television programs are capitalized. The costs are measured net of federal and provincial program contributions earned and are charged to income using a declining balance method of amortization. For film and television programs produced by the Company, capitalized costs include all direct production and financing costs incurred during production that are expected to benefit future periods. Financing costs are capitalized to the costs of a film or television program until substantially all of the activities necessary to prepare the film or television program for delivery are complete. Production financing provided by third parties that acquire participation rights is recorded as a reduction of the cost of the production.

The rates used for the declining-balance method of amortization range from 40% to 100% at the time of initial episodic delivery and at rates ranging from 10% to 30% annually thereafter. The determination of the rates is based on the expected economic useful life of the film or television program, and includes factors such as the ability to license rights to broadcast rights programs in development and availability of rights to renew licenses for episodic television programs in subsequent seasons, as well as the availability of secondary market revenue.

Investments in film and television programs are accounted for as inventory and classified within current assets. The normal operating cycle of the Company can be greater than 12 months.

The investment in film and television programs is measured at the lower of cost and net realizable value. The net realizable value is determined using estimates of future revenues net of future costs. A write-down is recorded equivalent to the amount by which the costs exceed the estimated net realizable value of the film or television program.

Acquired and library content

Acquired and library content represents the balance of acquired film and television programs. Acquired and library content typically has minimal ongoing costs to maintain the content and is charged to income using a declining-balance method of amortization.

The rates used for the declining-balance method of amortization range from 10% to 20% annually. The determination of rates is based on the expected economic useful life of the film or television program and includes factors such as the availability of rights to renew licenses for television programs in various territories, as well as the availability of secondary market revenue.

Acquired and library content is accounted for as an intangible asset and classified within long-term assets.

Acquired and library content is tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use, being the present value of the expected future cash flows of the asset. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Broadcast rights

Program and film rights for broadcasting are purchased on a fixed cost basis. The asset and liability for fixed cost purchases are recognized at the time the rights are known and determinable, and if they are available for airing. The cost of fixed program and film rights is expensed over the lesser of the availability period and the maximum period that varies depending upon the type of program, generally ranging from 24 to 60 months based on the expected pattern of consumption of the economic benefit.

In the event that the recognition criteria for fixed cost purchases described above are not met and the Company has already paid amounts to obtain future rights, such amounts are considered as prepaid program and film rights and are included as prepaids on the consolidated balance sheet.

Broadcast rights are tested for impairment on a title-by-title basis if events or changes in circumstances indicate that the carrying amount may exceed its recoverable amount. Any shortfall between the recoverable amount from future cash flows from the distribution rights and the carrying value is written off as an impairment expense on the consolidated statement of income (loss) in the period in which the decline in value becomes evident.

Accrued participation payables

Included in accounts payable and accrued liabilities are accrued participation payables. Accrued participation payables reflect the legal liability due as at the consolidated balance sheet date, calculated as the participation owing on cash collected and accounts receivable amounts.

Deferred financing fees and debt issue costs

Debt issue costs related to bank indebtedness are recorded as a deferred charge and amortized, using the straight-line method, over the term of the related bank indebtedness and the expense is included in finance costs in the consolidated statement of income (loss). Debt issue costs related to long-term debt are recorded as a reduction to the carrying amount of long-term debt and amortized using the effective interest method and the expense is included in finance costs.

Business combinations

The Company applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized either in income or loss or as a change to other comprehensive income (loss). Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the fair value of consideration transferred over the fair value of identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in income or loss.

Development costs

Development costs include costs of acquiring film rights to books, stage plays or original screenplays and costs to adapt such projects. Such costs are capitalized and included in investment in film and television programs upon commencement of production. Advances or contributions received from third parties to assist in development are deducted from these costs. Projects in development are written off as development expenses at the earlier of the date determined not to be recoverable or when projects under development are abandoned, or three years from the date of the initial recognition of the investment, if there have been no active development milestones or significant development expenditures within the last year.

Property and equipment

Property and equipment are carried at historical cost, less accumulated amortization and accumulated impairment losses. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the consolidated statement of income (loss) during the period in which they are incurred. Amortization is provided, commencing when the asset is available for use, over the estimated useful life of the asset, using the following annual rates and methods:

Buildings	4% declining-balance
Furniture, fixtures and other equipment	20% declining-balance
Computer equipment	30% declining-balance
Post-production equipment	30% declining-balance
Computer software	2 years straight-line
Website design	2 years straight-line
Leasehold improvements	Straight-line over the term of lease
Right-of-use assets	Straight-line over the term of lease

The Company allocates the amount initially recognized in respect of an item of property and equipment to its significant parts and depreciates each such part separately. Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gains and losses on the sale or disposal of property and equipment are determined by comparing the proceeds with the carrying amount of the asset.

Goodwill

Goodwill represents the cost of acquired businesses in excess of the fair value of net identifiable assets acquired at the date of acquisition. Goodwill is carried at cost less any accumulated impairment losses and is not subject to amortization. Goodwill is tested for impairment annually or more frequently if events or circumstances indicate that the asset might be impaired. Goodwill is allocated to a cash generating unit ("CGU"), or group of CGUs, which is the lowest level within an entity at which the goodwill is monitored for internal management purposes which is not higher than an operating segment. Impairment is tested by comparing the recoverable amount of goodwill assigned to a CGU or group of CGUs to its carrying value.

Intangible assets

Intangible assets are carried at cost. Amortization is provided on a straight-line basis over the estimated useful life of the assets, using the following annual rates and methods:

Broadcaster relationships	7 to 10 years straight-line
Customer relationships	10 years straight-line
Customer representation agreements	5 years straight-line
Brands	10 to 20 years straight-line or indefinite life
Production and distribution rights	10 to 25 years straight-line
Production backlog	2 to 3 years straight-line
Non-compete contracts	3 years straight-line
Production and other software	5 years straight-line

Intangible assets with indefinite life are not amortized. The assessment of whether the underlying asset continues to have an indefinite life is reviewed annually to determine whether an indefinite life continues to be supportable, and if not, the change in useful life from indefinite to finite is made on a prospective basis.

Broadcast licenses

Broadcast licenses are considered to have an indefinite life based on management's intent and ability to renew the licenses without significant cost and without material modification of the existing terms and conditions of the license. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Broadcast licenses are tested for impairment annually or more frequently if events or circumstances indicate that they may be impaired.

Broadcast licenses by themselves do not generate cash flows and therefore, when assessing these assets for impairment, the Company looks to the CGUs to which the asset belongs.

Impairment of non-financial assets

Property and equipment and intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Long-lived assets that are not amortized are subject to an annual impairment test. For the purposes of measuring recoverable amounts, assets are grouped into CGUs. The recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use, being the present value of the expected future cash flows of the relevant CGU. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, including investment in films and property and equipment, are added to the cost of those assets until such time as the assets are substantially complete and ready for use. All other borrowing costs are recognized as a finance expense in the consolidated statement of income (loss) in the period in which they are incurred.

Government financing and assistance

The Company has access to several government programs, including tax credits that are designed to assist film and television production and distribution in Canada, and wage subsidy programs for COVID-19 disruptions. The Company records government assistance when the related costs have been incurred, and there is reasonable assurance that the Company will comply with the conditions and they will be received. Amounts received or receivable in respect of production assistance are recorded as a reduction of the production costs of the applicable production. Government assistance with respect to distribution rights is recorded as a reduction of investment in film and television programs. Government assistance towards current expenses is recorded as a reduction of the applicable expense item.

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value where the effect is material. The Company performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

Income taxes

The tax expense for the period comprises current and deferred tax. Tax is recognized in the consolidated statement of income (loss), except to the extent that it relates to items recognized in other comprehensive income (loss) or directly in equity. In this case, the tax is also recognized in other comprehensive income (loss) or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous periods. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate based on amounts expected to be paid to the tax authorities.

Deferred tax is recognized in respect of temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements, as well as the benefit of losses that are probable to be realized and are available for carry forward to future years to reduce income taxes. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the consolidated balance sheet date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

(expressed in thousands of Canadian dollars unless otherwise noted, except for amounts per share)

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.
The effect of a change in tax rates on deferred tax assets and liabilities is included in income (loss) in the period that the change is substantively enacted, except to the extent it relates to items previously recognized outside income (loss) in which case the rate change impact is recognized in a manner consistent with how the items were originally recognized.

Share-based compensation

The Company issues stock options, performance share units ("PSUs") and restricted share units ("RSUs") which are accounted for as equity-settled awards. Upon vesting, these awards are settled by the Company with common shares from treasury. The costs of equity-settled awards are measured using the Black-Scholes valuation model using management's inputs and assumptions. Share-based compensation expense for equity-settled awards are recognized over the vesting period of each award, with a corresponding increase to contributed surplus, based on the vesting period that has elapsed and the Company's best estimate of the number of equity instruments that will ultimately vest. No expense is recognized for awards that do not vest.

The Company's also issues deferred share units ("DSUs") to directors and certain eligible employees to defer receipt of a portion of or all of their board fees or other cash bonus amounts. DSUs fully vest upon grant and cannot be redeemed until the recipient is no longer a director or employee of the Company. DSUs are settled in common shares of the Company that are purchased in the open market and held in a trust account, and cannot be settled by common shares issued from treasury. On the grant date, the Company recognizes a share-based compensation expense for the fair value of the awards with a corresponding increase to contributed surplus.

Earnings (loss) per share

Basic earnings (loss) per share (“EPS”) is calculated by dividing the net income (loss) for the year attributable to equity owners of the Company by the weighted average number of common shares outstanding during the year. Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for potentially dilutive instruments. The Company’s potentially dilutive common shares comprise of stock options, RSUs, PSUs, warrants, and convertible debentures. The number of shares included with respect to options, RSUs, PSUs, warrants and other similar instruments is computed using the treasury stock method. The dilutive effect of the Company's convertible debentures is determined using the if-converted method.

Financial instruments

Financial instruments are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 contains three primary measurement categories for financial assets: measured at fair value through profit and loss ("FVPL"), amortized cost, and fair value through other comprehensive income ("FVCI").

- Embedded derivatives component of the senior unsecured convertible debentures, foreign currency forwards, and exchangeable debentures are classified as FVPL, and are initially measured at fair value less transaction costs. They are subsequently measured at fair value and net gains/losses are recognized in the consolidated statement of income (loss).

- Cash, restricted cash, amounts receivables, long-term amounts receivables, accounts payable and accrued liabilities, interim production financing, long-term debt, senior unsecured convertible debentures and other liabilities are classified as 'amortized cost', and are initially measured at fair value. They are subsequently measured at amortized cost, with amounts receivables reassessed using the customer's historical default experience and expected future credit losses under the 'expected credit loss' model.

- There are no financial assets classified as FVCI.

Impairment of financial assets

The Company assesses for indicators of impairment at the end of each reporting period using the "expected credit loss" impairment model. It uses quantitative and qualitative analysis, based on the Company's historical credit collection data and forward-looking customer credit risk information, to estimate credit loss allowance as at the end of each reporting period.

Tangible benefit obligation

As part of the Canadian Radio-Television and Telecommunications Commission ("CRTC") decision approving the Company's acquisition of 8504601 Canada Inc. ("WildBrain Television") on July 31, 2014, the Company is required to contribute $17,313 to provide tangible benefits to the Canadian broadcasting system over seven years from the date of acquisition. The tangible benefit obligation was initially recorded in the consolidated statement of income (loss) at the estimated fair value on the date of acquisition, being the sum of the discounted future net cash flows and the same amount was recorded as a liability at the date of acquisition of WildBrain Television. The tangible benefit obligation is adjusted for the incurrence of related expenditures, the passage of time and for revisions to the timing of the cash flows. Discounting in the obligation (other than incurred expenditures) are recorded as finance costs in the consolidated statement of income (loss).

New and amended standards adopted

i) IFRS 16, Leases ("IFRS 16")

Effective July 1, 2019, the Company adopted IFRS 16, which introduced a single accounting model and eliminated the existing distinction between operating and finance leases for lessees. The standard required a lessee to recognize right-of-use assets and lease liabilities on the consolidated balance sheet for all leases, with limited exceptions. The Company adopted IFRS 16 using the modified retrospective method, which resulted in no restatement to prior reporting periods presented and no adjustment to opening retained earnings as at July 1, 2019. Existing finance leases under the previous standard continued to be classified as finance leases under IFRS 16.

The Company elected to apply the following practical expedients on adoption:

- Consider contracts determined to be leases under IAS 17, *Leases ("IAS 17")* as leases under IFRS 16;
- Measure all right-of-use assets and lease liabilities, regardless of commencement date, using discount rates as at July 1, 2019;
- Retain prior assessment of onerous lease contracts under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, rather than re-performing an impairment review;
- Exclude initial direct costs from the measurement of the right-of-use asset on the date of initial application;
- Continue to treat certain leases with a remaining term of 12 months or less from July 1, 2019, and low-value leases using the previous method of accounting under IAS 17 (i.e. expense when incurred); and
- Elect, by class of underlying asset, whether to separate non-lease components from lease components.

(expressed in thousands of Canadian dollars unless otherwise noted, except for amounts per share)

Impact of Adoption of IFRS 16

The following table summarizes the transition adjustment required to adopt IFRS 16 as at July 1, 2019:

	Carrying amount under IAS 17 as at June 30, 2019	Transitional adjustments	Carrying amount under IFRS 16 as at July 1, 2019
Property and equipment	19,352	26,534	45,886
Long-term amounts receivable	14,318	2,146	16,464
Accounts payable and accrued liabilities	(103,487)	560	(102,927)
Current portion of lease liabilities	(3,115)	(7,516)	(10,631)
Other long-term liabilities	(8,269)	4,927	(3,342)
Long-term lease liabilities	(3,072)	(26,651)	(29,723)

The Company has lease contracts consisting of premises and equipment. Prior to the adoption of IFRS 16, the Company classified certain leases where the Company was the lessee at the inception date as an operating lease under IAS 17. For these operating leases, the payments were recognized either through direct production costs and expense of film and television produced or selling, general and administrative expense in the consolidated statement of income (loss) on a straight-line basis over the lease term, and no corresponding asset or liability was recognized.

Upon adoption of IFRS 16, the Company recognized for the first time right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for certain low-value and short-term leases. As at July 1, 2019 on the date of adoption, the right-of-use assets for leases were recognized at an amount equal to the initial value of the lease liability, reduced by any deferred lease inducements which were previously classified in accounts payable and accrued liabilities and other long-term liabilities. The initial value of the lease liability was calculated based on the present value of the remaining lease payments at that date, discounted at the Company's incremental borrowing rate as at July 1, 2019, which ranged from 3.89% to 5.39%. Property taxes, common area maintenance charges and other operating expenses were considered non-lease components and excluded from the initial value of the lease liability.

For leases that were previously classified as finance leases under IAS 17, the carrying amounts of the right-of-use asset and lease obligation as at July 1, 2019 were set equal to the carrying amount of the property and equipment and lease obligations under IAS 17 immediately before the adoption.

For premise leases where the Company is a lessor and substantially all the risks and rewards incidental to the ownership of the underlying asset were transferred, these leases were classified as finance leases and the Company recognized a receivable equal to its net investment in the lease, discounted at the Company's incremental borrowing rate as at July 1, 2019.

(expressed in thousands of Canadian dollars unless otherwise noted, except for amounts per share)

The following table presents a reconciliation of operating lease commitments as previously disclosed in the Company's annual consolidated financial statements for June 30, 2019, to lease liabilities as at July 1, 2019:

	$
Operating lease commitments as previously disclosed under IAS 17	40,473
Less: effects of discounting	(6,306)
Lease liabilities recognized on transition	34,167
Add: lease liabilities previously recorded under IAS 17	6,187
Lease liability balance on transition at July 1, 2019	40,354

Accounting policies under IFRS 16

The following describes the Company's accounting policy upon the adoption of IFRS 16 when it acts as a lessee and a lessor, applied from the date of initial application:

Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized at the inception of the lease, initial direct costs incurred, and lease payments made at or before the lease commencement date less any lease incentives received.

Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Right-of-use assets are tested for recoverability when an indicator of impairment exists. Impairment is assessed at the lowest cash-generating-unit level, and is measured by comparing the recoverable amount to its carrying value and recording an impairment where the carrying value exceeds the recoverable amount.

Right-of-use assets are included in property and equipment in the consolidated balance sheet.

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased for accretion expense and reduced for lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification to the lease or a change in the assessment to purchase the underlying asset.

Significant judgment in determining the lease term of contracts with renewal options

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, considering all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Company re-assesses the lease term if there is a significant event or change in circumstances that is within

(expressed in thousands of Canadian dollars unless otherwise noted, except for amounts per share)

its control and affects its ability to exercise the option to renew, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Lessor accounting

Where the Company enters into a lease agreement and a significant portion of risks and rewards of ownership incremental to the underlying asset is retained by the Company as lessor, such leases are classified as operating leases. Payments received under operating leases (net of any incentives received from the lessor) are recorded as income when received or receivable.

Where the Company transfers a significant portion of risks and rewards of ownership incremental to the underlying asset to the lessee, such leases are classified as finance leases. The Company recognizes a receivable at an amount equal to its net investment in the lease.

Impact on the consolidated statements of income

The net effect of adopting IFRS 16 on the consolidated statements of income (loss) for the year ended June 30, 2020 was a decrease of direct production costs and expense of film and television produced by $3.0 million and a decrease of selling, general and administrative expenses by $4.9 million. The increase in amortization and financing costs did not result in a significant net impact on net income (loss). IFRS 16 did not impact the Company's cash flows.

Reconciliation of right-of-use assets and lease liabilities

The following presents a reconciliation of right-of-use assets and lease liabilities during the year:

	Right-of-use assets			**Lease liabilities**
	Premise Leases	**Operating equipment**	**Total**	**Total**
Opening, July 1, 2019	—	7,273	7,273	6,187
IFRS 16 Transition:				
Additions	30,714	1,307	32,021	34,167
Reclass existing deferred lease inducements	(5,487)	—	(5,487)	—
Right-of-use assets and lease obligations recognized under IFRS 16 as at July 1, 2019	25,227	8,580	33,807	40,354
Additions	16,407	3,096	19,503	19,786
Depreciation	(6,553)	(3,646)	(10,199)	—
Foreign exchange	616	—	616	540
Accretion expense	—	—	—	2,283
Impairment	(3,435)	—	(3,435)	—
Payments	—	—	—	(12,137)
Ending, June 30, 2020	32,262	8,030	40,292	50,826

(expressed in thousands of Canadian dollars unless otherwise noted, except for amounts per share)

ii) IFRIC 23, Uncertainty over Income Tax Treatment *("IFRIC 23")*

Effective July 1, 2019, the Company adopted IFRIC 23, which clarified how the requirements of IAS 12, Income Taxes should be applied when there is uncertainty over income tax treatments. The Company elected to adopt this new interpretation retrospectively with the cumulative effect of initially applying this interpretation recognized at the date of initial application, which is July 1, 2019. The adoption of this interpretation did not require an adjustment on transition and did not result in a material impact on the Company's consolidated financial statements.

Significant accounting judgments and estimation uncertainty

The preparation of consolidated financial statements under IFRS requires the Company to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable. Actual results may differ materially from these estimates.

During the third quarter of fiscal 2020, the outbreak of the coronavirus pandemic, identified as "COVID-19" and declared a global pandemic by the World Health Organization on March 11, 2020, resulted in federal and provincial governments enacting emergency measures to combat the spread of the virus. In response, many countries have required entities to limit or suspend business operations and implement travel restrictions and quarantine measures. These measures have disrupted the operating activities of many entities and have led to significant volatility in the global markets. These conditions continued to exist as at June 30, 2020. This has resulted in significant economic uncertainty, and the potential impact on the Company's future financial results is difficult to reliably measure. The Company has implemented monitoring procedures to actively manage the developing impacts from COVID-19, including but not limited to, the potential future effects on its assets, cash flow and liquidity, the impacts to the Company's operations and the value of assets and liabilities reported in these consolidated financial statements. Additional information on the Company's credit, liquidity, and currency risks and the management of such risks can be found in note 21.

The following is a summary of estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities:

(i) Income taxes and deferred income taxes

Deferred tax assets and liabilities require management’s judgment in determining the amounts to be recognized. In particular, judgment is used when assessing the extent to which deferred tax assets should be recognized with respect to the timing of deferred taxable income.

The current income tax provision for the year requires judgment in interpreting tax laws and regulations. Estimates are used in determining the provision for current income taxes and amounts recorded for uncertain tax positions which are recognized in the consolidated financial statements. The Company considers the estimates, assumptions and judgments to be reasonable but this can involve complex issues which may take an extended period to resolve. The final determination of the amounts to be paid related to the current year’s tax provisions could be different from the estimates reflected in the consolidated financial statements. The Company’s tax filings also are subject to audits, the outcome of which could change the amount of current and deferred tax assets and liabilities.

(ii) Business combinations

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

Management exercises judgment in determining the fair values of assets acquired and liabilities assumed based on assumptions and estimates, which are inherently uncertain and based on the best information available at the time of the assessment. Estimates include future cash flows forecasts, discount rates, estimated changes in future operating costs including the effects of synergies, among others. Changes in assumptions applied or estimated used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities and goodwill in the purchase price allocation.

(iii) Investment in film and television programs/acquired and library content

The costs of investing in and producing film and television programs are capitalized, net of federal and provincial program contributions earned.

Investment in film assets are amortized using the declining-balance method with rates of amortization ranging from 40% to 100% at the time of initial episodic delivery and at rates ranging from 10% to 30% annually thereafter. Management estimates these rates based on the expected economic useful life of the film or television program, and includes factors such as the ability to license for broadcast rights programs in development and availability of rights to renew licenses for episodic television programs in subsequent seasons, as well as the availability of secondary market revenue. Estimation uncertainty relates to management's ability to estimate the expected economic useful life of the film or television program.

(iv) Impairment of goodwill, indefinite life intangible assets and non-financial assets

Management estimates the recoverable amount of each CGU with goodwill, indefinite life intangible assets and non-financial assets when an indicator of impairment exists. Goodwill and indefinite life intangible assets are also tested annually at year-end for impairment. Recoverable amount is estimated at the greater of a CGU's value-in-use or fair value less costs to sell and the excess of carrying amount over the recoverable amount is recorded as an impairment charge in the period.

Value-in-use is based on the expected future cash flows of an asset or CGU discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The impairment test calculations are based on detailed budgets and forecasts which are prepared for each CGU to which the assets are allocated. These budgets and forecasts generally cover a period of five years with a long-term growth rate applied to the terminal year. Key areas of estimation uncertainty relate to management's assumptions about future operating results, long-term growth rates and the discount rate. Actual results could vary from these estimates which may cause significant adjustments to the Company's goodwill, indefinite life intangible assets and non-financial assets in subsequent reporting periods.

Fair value less costs to sell is based on market comparable valuation multiples or completed transactions, including the Company's own discussions with third parties of indicative fair value and other relevant market data. COVID-19 has impacted these multiples and market data and the Company is required to exercise judgment and make assumptions to determine its best estimate of fair value.

(v) Measurement of expected credit loss allowance

Management estimates the expected credit loss allowance for trade accounts receivable based on an assessment of accounts receivable aging, management's collection experience with the customer and the probability that these balances will not be collected. The full extent or duration of the impact of COVID-19 on the Company's customers requires management to exercise judgment based on current information available.

(expressed in thousands of Canadian dollars unless otherwise noted, except for amounts per share)

(vi) Revenue recognition of proprietary production

For the Company's proprietary production revenues, an assessment is made at the inception of each contract to determine whether performance obligations are satisfied over a period of time, or at a point in time. Management exercises judgment in assessing the facts and circumstances of each arrangement, including the ongoing ability to control the asset, the rights retained, and the nature of the Company's performance obligations. Contracts where performance obligations are satisfied over a period of time are recognized using the percentage of completion method of revenue completion, while contracts where performance obligations are satisfied at a point in time are recognized when all performance obligations are completed, as described above under the Company's policy on revenue recognition.

4 Compensation of key management

Key management includes all directors, including both executive and non-executive directors, as well as the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and President. The compensation earned by key management is as follows:

	2020 $	2019 $
Salaries and employee benefits	4,709	3,392
Share-based compensation	3,798	1,838
Termination and other benefits	1,388	732
	9,895	5,962

5 Acquisitions

On May 17, 2019, the Company acquired 100% of the outstanding shares of an entity that provides international strategic expertise on licensing programs, partnering with entertainment and design brands, for cash consideration of EUR€2,039 ($3,066).

This acquisition was accounted for using the purchase method and as such, the results of operations reflect revenue and expenses since the acquisition date of May 17, 2019. The final purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values as follows:

	$
Assets	
Cash	370
Amounts receivable	468
Prepaid expenses and deposits	32
Property and equipment	26
Intangible assets	3,918
Total identifiable net assets at fair value	4,814
Accounts payable and accrued liabilities	844
Deferred income tax liabilities	904
	1,748
Purchase consideration transferred	3,066

(expressed in thousands of Canadian dollars unless otherwise noted, except for amounts per share)

6 Amounts receivable

	June 30, 2020 $	June 30, 2019 $
Trade receivables	134,266	182,701
Less: Loss allowance on trade receivables	(7,720)	(9,354)
	126,546	173,347
Sales tax receivable	433	1,019
Federal and provincial film tax credits and other government assistance	73,238	91,344
Short-term amounts receivable	200,217	265,710
Long-term amounts receivable	21,035	14,318
Total amounts receivable	221,252	280,028

The aging of trade receivables is as follows:

	June 30, 2020 $	June 30, 2019 $
Less than 60 days	103,841	152,249
Between 60 and 90 days	7,594	7,028
Over 90 days	22,831	23,424
	134,266	182,701

A continuity of loss allowance on trade receivables as follows:

	June 30, 2020 $	June 30, 2019 $
Opening balance	9,354	10,791
Loss allowance on trade receivables	3,254	2,788
Receivables written off in the year	(5,067)	(3,428)
Recoveries of receivables previously provided for	—	(586)
Foreign exchange	179	(211)
Ending balance	7,720	9,354

(expressed in thousands of Canadian dollars unless otherwise noted, except for amounts per share)

7 Investment in film and television programs

	June 30, 2020 $	June 30, 2019 $
Development costs	2,761	1,559
Productions in progress		
Cost, net of government and third party assistance	10,279	11,890
Productions completed and released		
Cost, net of government and third party assistance	611,815	564,065
Accumulated expense	(462,176)	(417,206)
Accumulated write-down of investment in film and television programs	(45,128)	(37,295)
	104,511	109,564
Program and film rights - broadcasting		
Cost	158,951	148,288
Accumulated expense	(130,217)	(117,121)
Accumulated write-down of program and film rights	(5,737)	(5,619)
	22,997	25,548
	140,548	148,561

All program and film rights - broadcasting relate to WildBrain Television.

The continuity of investment in film and television programs is as follows:

	June 30, 2020 $	June 30, 2019 $
Net opening investment in film and television programs	148,561	186,008
Increase (decrease) in development costs	1,202	(553)
Cost of productions (completed and released and productions in progress), net of assistance	44,969	32,840
Expense of investment in film and television programs	(44,970)	(40,165)
Write-down of investment in film and television programs	(7,833)	(21,385)
Increase of program and film rights - broadcasting	10,663	13,523
Expense of program and film rights - broadcasting	(13,096)	(14,919)
Write-down of program and film rights - broadcasting	(118)	(2,832)
Foreign exchange	1,170	(3,956)
	140,548	148,561

During the year ended June 30, 2020, interest of $230 (2019 - $665) was capitalized to investment in film and television programs.

During the year ended June 30, 2020, the Company recorded $7,951 in the write-down of certain investments in film, television programs and broadcasting film rights (June 30, 2019 - $24,217). These write-downs are related to weaker than expected revenue performance and management's outlook for certain titles in the Company's library.

(expressed in thousands of Canadian dollars unless otherwise noted, except for amounts per share)

8 Acquired and library content

	June 30, 2020 $	June 30, 2019 $
Net opening acquired and library content	118,247	147,088
Write-down of acquired and library content	(193)	(12,928)
Amortization	(12,082)	(14,431)
Foreign exchange	3,104	(1,482)
	109,076	118,247

(expressed in thousands of Canadian dollars unless otherwise noted, except for amounts per share)

9 Property and equipment

	Land and building	Furniture, fixtures and equipment	Computer, post-production equipment and related software	Leasehold improvements	Right-of-use assets - equipment	Right-of-use assets - premise	Total
	$	$	$	$	$	$	$
For the year ended June 30, 2019							
Opening net book value	6,209	1,723	12,357	10,147	—	—	30,436
Additions	—	52	4,117	2	—	—	4,171
Acquisitions (note 5)	—	—	26	—	—	—	26
Disposals, net	(6,150)	(148)	(699)	(9)	—	—	(7,006)
Amortization	(59)	(381)	(6,425)	(1,466)	—	—	(8,331)
Foreign exchange	—	—	56	—	—	—	56
	—	1,246	9,432	8,674	—	—	19,352
At June 30, 2019							
Cost	—	6,534	42,080	14,877	—	—	63,491
Accumulated amortization	—	(5,297)	(33,061)	(6,221)	—	—	(44,579)
Foreign exchange	—	9	413	18	—	—	440
Net book value	—	1,246	9,432	8,674	—	—	19,352
For the year ended June 30, 2020							
Opening net book value	—	1,246	9,432	8,674	—	—	19,352
Impact of adoption of IFRS 16:							
Initial recognition of ROU assets	—	—	—	—	1,307	30,714	32,021
Reclass existing ROU assets	—	—	(7,273)	—	7,273	—	—
Reclass existing lease inducements	—	—	—	—	—	(5,487)	(5,487)
Balance - July 1, 2019	—	1,246	2,159	8,674	8,580	25,227	45,886
Additions	—	293	3,463	1,833	3,096	16,407	25,092
Amortization	—	(239)	(2,274)	(1,240)	(3,646)	(6,553)	(13,952)
Impairment	—	—	—	—	—	(3,435)	(3,435)
Foreign exchange	—	15	23	—	—	616	654
	—	1,315	3,371	9,267	8,030	32,262	54,245
At June 30, 2020							
Cost	—	6,827	38,270	16,710	11,676	38,199	111,682
Accumulated amortization	—	(5,536)	(35,335)	(7,461)	(3,646)	(6,553)	(58,531)
Foreign exchange	—	24	436	18	—	616	1,094
Net book value	—	1,315	3,371	9,267	8,030	32,262	54,245

For the year ended June 30, 2020, the Company recognized a right-of-use asset impairment charge of $3,435 for two leased premises, located in Canada and the United Kingdom, which the Company is currently in the process of subleasing. The impairment charge was determined as the excess of the carrying amount of each right-of-use asset over the discounted future estimated cash inflows from a sublessee.

(expressed in thousands of Canadian dollars unless otherwise noted, except for amounts per share)

10 Intangible assets

	Broadcast licenses (1)	Broadcaster relationships	Customer relationships and representation agreements	Brands (2)	Production and distribution rights (3)	Software and Other (4)	Total
	$	$	$	$	$	$	$
For the year ended June 30, 2019							
Opening net book value	67,800	232	15,977	440,714	21,169	1,105	546,997
Additions	—	—	—	260	—	81	341
Acquisitions (note 5)	—	—	3,918	—	—	—	3,918
Amortization	—	(21)	(2,887)	(8,100)	(2,354)	(958)	(14,320)
Impairment	—	—	—	(67,726)	—	—	(67,726)
Foreign exchange	—	—	(407)	(2,055)	(894)	(22)	(3,378)
Net book value	67,800	211	16,601	363,093	17,921	206	465,832
At June 30, 2019							
Cost	67,800	7,362	31,838	389,735	30,946	8,482	536,163
Accumulated amortization and impairment	—	(7,195)	(15,359)	(30,917)	(8,363)	(8,320)	(70,154)
Foreign exchange differences	—	44	122	4,275	(4,662)	44	(177)
Net book value	67,800	211	16,601	363,093	17,921	206	465,832
For the year ended June 30, 2020							
Opening net book value	67,800	211	16,601	363,093	17,921	206	465,832
Additions	—	—	—	—	323	1,552	1,875
Amortization	—	(16)	(3,631)	(3,185)	(3,087)	(221)	(10,140)
Foreign exchange	—	—	48	14,748	224	23	15,043
Net book value	67,800	195	13,018	374,656	15,381	1,560	472,610
At June 30, 2020							
Cost	67,800	7,362	31,838	389,735	31,269	10,034	538,038
Accumulated amortization and impairment	—	(7,211)	(18,990)	(34,102)	(11,450)	(8,541)	(80,294)
Foreign exchange	—	44	170	19,023	(4,438)	67	14,866
Net book value	67,800	195	13,018	374,656	15,381	1,560	472,610

(1) All broadcast licenses relate to the operations of WildBrain Television.
(2) Included in Brands are $362,641 of indefinite life intangibles (2019 - $348,246).
(3) Comprised of rights acquired by the Company to produce and/or distribute television content where the Company does not own the underlying intellectual properties.
(4) Comprised of software, production backlog and non-compete contracts.

(expressed in thousands of Canadian dollars unless otherwise noted, except for amounts per share)

11 Goodwill

The continuity of goodwill is as follows:

	June 30, 2020 $	June 30, 2019 $
Opening balance	239,754	240,806
Impairment	(184,543)	—
Foreign exchange and other	133	(1,052)
	55,344	239,754

Impairment testing

Goodwill and indefinite life intangible assets, being the broadcast licenses and certain brands, are tested for impairment annually or more frequently if events or circumstances indicate that the asset might be impaired. The Company performs its goodwill impairment test annually at June 30, in accordance with its policy described in note 3. Goodwill is tested for impairment at the lowest cash-generating unit ("CGU") level that goodwill is monitored. On this basis, management has determined that it has four CGUs: i) the Company's production, distribution and licensing of film and television programs business, being the Content Business excluding Peanuts (the "Content Business"); ii) Peanuts; iii) CPLG, which manages copyrights, licensing and brands for third parties; and iv) WildBrain Television. The CPLG CGU does not have any goodwill or indefinite life intangible assets, and therefore has not been tested for impairment.

In assessing the goodwill and indefinite life intangible assets for impairment, the Company compares the carrying value of the CGU to the recoverable amount, where the recoverable amount is the higher of fair value less costs to sell ("FVLCS") and the value-in-use ("VIU").

To determine the recoverable amount for each of its CGUs, the Company applied the following valuation methods:

CGU	Valuation methodology
Content Business	Value-in-use
Peanuts	FVLCS
WildBrain Television	Value-in-use

Value-in-use

The VIU of the Company's Content Business CGU and WildBrain Television CGU were determined by discounting two-year cash flow projections prepared from business plans reviewed by senior management, extended for three additional years using industry outlook growth rate assumptions for a total forecast period of five years. The projections reflect management’s expectations and best estimate of revenue, profit, capital expenditures, working capital and operating cash flows, based on past experience and future expectations of operating performance, and considered different scenarios that were probability-weighted due to the economic uncertainty arising from the COVID-19 pandemic. Cash flows beyond the five-year period were extrapolated using perpetual growth rates to determine the terminal value.

The discount rates applied to cash flow projections were derived from the Company's weighted average cost of capital and other external sources.

(expressed in thousands of Canadian dollars unless otherwise noted, except for amounts per share)

The following key assumptions were used:

CGU	Perpetual growth rate	Pre-tax discount rate
Content Business	2.0%	16.9%
WildBrain Television	0.0%	15.2%

For the Content Business CGU, key revenue assumptions included i) future production slates (both proprietary and production service), ii) future sources of distribution revenues (linear and digital) and expected sales prices/revenue levels, and iii) consumer products revenue forecasts by brand. These key assumptions represent management's assessment of future industry trends and are based on both historical results, future projections considering the economic uncertainty arising from COVID-19 and other recent industry changes, and external sources. Gross margins for the Content Business were estimated using a combination of both forecast and historical margins.

For the WildBrain Television CGU, the key revenue assumptions included subscriber levels, rates per subscriber, and future advertising revenues. Subscriber levels were estimated based on management's assessment of future industry trends, while subscriber rates were based on existing agreements and management's estimates of future renewal rates. Advertising and promotion revenues were based upon management's assessment of future industry trends, based on internal and external sources. Gross margins for WildBrain Television were estimated using historical margins, while giving consideration to expected future content costs.

Expenditure levels for all CGU's were forecasted based on historical spend and management's assessment of future requirements.

Cash flow adjustments for capital expenditures were based upon management's sustainable capital expenditure estimates, adjusted for presently planned capital expenditures required to achieve forecasted operating results.

The perpetual growth rates were estimated based upon management's assessment of future industry trends for each specific CGU.

In the third quarter of 2020, indicators of impairment were identified which impacted the Company's Content Business CGU, triggering an impairment test. These indicators included a significant decline in the Company's market capitalization as traded on the TSX, changes made by YouTube in January 2020 related to discontinuing targeted advertising on kids' content that adversely impacted the Company's WildBrain Spark business unit (part of the Content Business CGU) and a reduction to near-term internal operating forecasts due to economic uncertainty arising from the coronavirus pandemic. Based on management's impairment analysis performed in the third quarter of 2020, it was determined that the carrying amount of the Content Business CGU exceeded the recoverable amount and that the full carrying amount of goodwill attributable to the Content Business CGU of $184,543 was impaired. As such, the Company recorded a goodwill impairment charge of $184,543.

The WildBrain Television CGU was tested for impairment at June 30, 2020 as part of its annual impairment test. Management believes that any reasonably possible change in the key assumptions on which the estimate of recoverable amount was determined would not result in an impairment for this CGU.

Fair value less costs to sell

The fair value less costs to sell of the Company's Peanuts CGU was estimated with reference to a peer group of publicly traded company earnings before interest, taxes, depreciation and amortization ("EBITDA") multiples, considering pre- and post-COVID-19 impact on these multiples, and other relevant market data. Based on the analysis performed, the Company's assessment of recoverable amount exceeded the carrying amount of the CGU and therefore no impairment of goodwill or indefinite life intangible assets in the Peanuts CGU was required as at June 30, 2020.

(expressed in thousands of Canadian dollars unless otherwise noted, except for amounts per share)

12 Credit facilities

	June 30, 2020 $	June 30, 2019 $
Bank indebtedness	10,000	—
Interim production financing	66,688	92,448
Term Facility, net of unamortized issue costs of $4,520 (June 30, 2019 - $11,856)	372,280	407,031
Convertible debentures, net of unamortized issue costs and conversion option of $20,269 (June 30, 2019 - $23,905)	119,731	116,095
Exchangeable debentures, net of unamortized issue costs and conversion option of $6,642	9,995	—
Total	578,694	615,574
Amount due within 12 months	(76,688)	(100,340)
Amount due beyond 12 months	502,006	515,234

a) Bank indebtedness ("Revolving Facility")

The Company's Revolving Facility has a maximum available balance of US$30,000 ($40,884) and matures on June 30, 2022. The Revolving Facility may be drawn down by way of either $USD base rate, $CAD prime rate, $CAD bankers' acceptance or $USD and £GBP LIBOR advances (the "Drawdown Rate") and bears interest at floating rates ranging from the Drawdown Rate + 2.50% to the Drawdown Rate + 3.75%.

As at June 30, 2020, $10,000 (June 30, 2019 - $nil) was drawn on the Revolving Facility.

b) Interim production financing

	June 30, 2020 $	June 30, 2019 $
Interim production credit facilities	66,688	92,448

The Company has interim production credit facilities with various financial institutions and other entities, bearing interest at bank prime plus 0.5% - 1.0%, LIBOR plus 2.50% or base rate of 5.75% plus 0.5%. Assignment and direction of specific production financing, licensing contracts receivable and film tax credits receivable with a net book value of approximately $81,620 at June 30, 2020 (June 30, 2019 - $109,573) have been pledged as security. As at June 30, 2020, the Canadian dollar bank prime rate was 2.45% (June 30, 2019 - 3.95%).

c) Term facility

As at June 30, 2020, the Company's Term Facility had a principal balance of US$276,491, or $376,800 (June 30, 2019 - US$320,022, or $418,887), bearing interest at floating rates and will mature on December 29, 2023.

During the first quarter of fiscal 2020, the Company repaid US$5,731 ($7,590) against its Term Facility using cash flows from operation. As a result of this repayment, the Company recorded a write-down of its unamortized issue costs of $200.

(expressed in thousands of Canadian dollars unless otherwise noted, except for amounts per share)

During the second quarter of fiscal 2020, the Company repaid US$37,800 ($50,229) against its Term Facility using proceeds from its subscription rights offering completed in the second quarter of fiscal 2020 (see note 13 for additional details). Concurrently with the repayment, the Company's term loan lenders consented to amend the net leverage ratio covenant under its senior secured credit agreement (the "Senior Secured Credit Agreement") to 6.75x with no step downs, and the interest rate on the term loan increasing from USD LIBOR + 3.75% to USD LIBOR + 4.25%. As a result of this repayment, the Company recorded a loss on modification of long-term debt and write-down of unamortized issue costs of $8,065.

As at June 30, 2020, the Company was in compliance with all its debt covenants with a Total Net Leverage Ratio of 5.40x.

The Term Facility also requires repayments equal to 50% of Excess Cash Flow (the "Excess Cash Flow Payments") (as defined in the Senior Secured Credit Agreement), commencing for the fiscal year ended June 30, 2018, while the First Lien Net Leverage Ratio (as defined in the Senior Secured Credit Agreement) is greater than 3.50 times, reducing to 25% of Excess Cash Flow while First Lien Net Leverage Ratio (as defined in the Senior Secured Credit Agreement) is at or below 3.50 times and greater than 3.00 times, with the remaining balance due on December 29, 2023. The Excess Cash Flow Payments calculation is performed annually at the end of each fiscal year. No payments were required under the Excess Cash Flow Payments for the year ended June 30, 2020.

The LIBOR rate is scheduled to be discontinued at the end of calendar year 2021. The Company is currently in discussions with its creditors to assess the impact of the change, however it is expected that the alternative interest rate will be established giving due consideration to the then prevailing market convention for determining interest rates for syndicated loans denominated in US dollars.

d) Senior unsecured convertible debentures ("Convertible Debentures")

As at June 30, 2020, the Convertible Debentures had a principal balance of $140,000 (June 30, 2019 - $140,000), bearing interest at an annual rate of 5.875% and paid semi-annually on March 31 and September 30 of each year. The Convertible Debentures are convertible into Common Voting Shares or Variable Voting Shares of the Company at a price of $7.729 per share, subject to certain customary adjustments. The Convertible Debentures mature on September 30, 2024.

The Convertible Debentures have a cash conversion option whereby the Company can elect to make a cash payment in lieu of issuing Common Voting Shares or Variable Voting Shares upon exercise of the conversion option feature by the holder of the Convertible Debentures. As a result, the Convertible Debentures were deemed to have no equity component at initial recognition and the estimated fair value of the embedded derivatives is recorded as a financial liability and included with the debt component on the Company's consolidated balance sheet. Changes in the estimated fair value of the embedded derivatives are recorded through the Company's consolidated statement of income (loss). As at June 30, 2020, the estimated fair value of the embedded derivatives was $1,980.

e) Exchangeable debentures

On June 24, 2020, in connection with a US$18,497 ($25,000) financing, the Company issued US$12,208 ($16,500) of exchangeable debentures to Fine Capital Partners, L.P., a related party of WildBrain, on behalf of certain funds managed by it ("Fine Capital") (see note 18 for additional details), with a further commitment of US$6,289 ($8,500) subject to certain conditions being met. The exchangeable debentures were issued by a newly-formed single purpose subsidiary of the Company, which is excluded from the security granted to the lenders under the Company's Senior Secured Credit Agreement. As a result, it is also excluded from the calculation of the net leverage ratio covenant. The exchangeable debentures mature in three years on June 24, 2023, bear interest at 7.5% payable at maturity and are exchangeable for Variable Voting Shares of the Company at a conversion price of US$1.072855 per share, the US dollar equivalent of

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$1.45 per share converted at the foreign exchange rate of 1.3516. The exchangeable debentures are non-recourse to the Company.

The funds are not for working capital but are earmarked for investments in growth initiatives to drive the Company's content and brand strategy, and therefore have been classified as restricted cash on the consolidated balance sheet.

Concurrent with the issuance of the exchangeable debentures, the Company issued Fine Capital warrants to purchase 5,000,000 Variable Voting Shares of the Company at an exercise price of $1.45 per share. The warrants vest immediately and expire five years from the date of closing on June 24, 2025.

The fair value of the warrants were determined using the Black-Scholes valuation model using volatility of 50%, risk-free rate of 0.7%, exercise price of $1.45, term of five years and share price at valuation date of $1.17. The value of the warrants was determined to be $2,180 and has been included as part of the exchangeable debenture on initial recognition, with a corresponding adjustment to contributed surplus in the consolidated balance sheet.

The conversion option represents an embedded derivative with a fixed USD conversion price for Variable Voting Shares of WildBrain, which are denominated in Canadian dollars. As a result, the exchangeable debentures were deemed to have no equity component at initial recognition and the estimated fair value of the embedded derivatives was recorded as a derivative liability. The embedded derivative was valued using volatility of 61%, risk-free rate of 0.6%, exercise price of $1.45, term of three years and share price at valuation date of $1.17. The initial value of the derivative liability was determined to be $3,850 and has been included as part of the exchangeable debenture instrument on initial recognition, with a corresponding adjustment to derivative liability in the consolidated balance sheet.

The fair value of the exchangeable debentures was determined by subtracting the value of the warrants and the conversion option from the net proceeds received on the issuance of the exchangeable debentures.

As at June 30, 2020, the Company's exchangeable debentures had a principal balance of US$12,208, or $16,637. During the year ended June 30, 2020, a change in fair value of embedded derivative of $820 was recorded, and the estimated fair value of the embedded derivative at June 30, 2020 was $4,670.

(expressed in thousands of Canadian dollars unless otherwise noted, except for amounts per share)

13 Share capital

	June 30, 2020		June 30, 2019	
	Number	Amount	Number	Amount
	#	$	#	$
Preferred variable voting shares				
Opening balance	100,000,000	—	100,000,000	—
Shares issued	400,000,000	—	—	—
Ending balance	500,000,000	—	100,000,000	—
Common shares				
Opening balance	134,938,365	307,158	134,293,890	305,167
Shares issued under Rights Offering, net of issuance costs and deferred taxes	35,928,144	58,724	—	—
Shares purchased held in trust	(133,882)	(162)	—	—
Options exercised	81,000	174	465,625	1,224
PSU's exercised	30,552	209	78,460	541
Employee share purchase plan	87,595	132	100,390	226
Ending balance	170,931,774	366,235	134,938,365	307,158

Preferred Variable Voting Shares ("PVVS")

500,000,000 Preferred Variable Voting Shares (“PVVS”), redeemable at the option of the Company at any time at a millionth of a cent per share, no entitlement to dividends, voting
Unlimited Common Voting Shares without nominal or par value
Unlimited Variable Voting Shares without nominal or par value
Unlimited Non-Voting Shares without nominal or par value

On November 6, 2019, 100,000,000 PVVS were transferred to the Company's Chief Financial Officer, Aaron Ames ("Ames"), in accordance with the terms of a shareholders agreement among the Company and holder of the PVVS (the “PVVS Shareholder Agreement”). On the date of such transfer, Ames entered into the PVVS Shareholder Agreement with the Company, pursuant to which Ames: (i) agreed not to transfer the PVVS, in whole or in part, except with the prior written approval of the Board; (ii) granted to the Company the unilateral right to compel the transfer of the PVVS, at any time and from time to time, in whole or in part, to a person designated by the Board; and (iii) granted to the Company a power of attorney to effect any transfers contemplated by the PVVS Shareholder Agreement. The Board will not approve or compel a transfer without first obtaining the approval of the TSX, and the PVVS Shareholder Agreement cannot be amended, waived or terminated unless approved by the TSX.

On December 4, 2019, an additional 400,000,000 PVVS shares were issued to Ames. The additional PVVS were issued in order to ensure that the Company complies with Canadian ownership and control requirements under the Broadcasting Act (Canada). The additional PVVS will have no impact on voting or economic rights of shareholders.

The votes attached to the PVVS as a class are automatically adjusted so that they, together with the votes attached to the common shares that are owned by Canadians, equal 55% of the votes attached to all shares in the capital of the Company. The votes attached to the PVVS as a class are, in aggregate, not less than 1% of the votes attached to all shares in the capital of the Company. The PVVS are not listed on any stock exchange.

Common shares

On September 30, 2014, the Company's shareholders approved a reorganization of the Company's share capital structure (the "Share Capital Reorganization") to address the Canadian ownership requirements of DHX Television. The Share Capital Reorganization was affected on October 9, 2014 and resulted in, among other things, the creation of three new classes of shares: Common Voting Shares, Variable Voting Shares and Non-Voting Shares.

On October 9, 2014, each outstanding Common Share of the Company that was not owned and controlled by a Canadian for the purposes of the Broadcasting Act (Canada) (the "Broadcasting Act") was converted into one Variable Voting Share, and each outstanding Common Share that was owned and controlled by a Canadian for the purposes of the Broadcasting Act was converted into one Common Voting Share. Each Common Voting Share carries one vote per share on all matters. Each Variable Voting Share carries one vote per share unless the number of Variable Voting Shares outstanding exceeds 33 1/3% of the total number of Variable Voting Shares and Common Voting Shares outstanding, in which case the voting rights per share of the Variable Voting Shares are reduced so that the total number of votes associated with the outstanding Variable Voting Shares equals 33 1/3% of the total votes associated with the outstanding Variable Voting Shares and Common Voting Shares combined. The economic rights of each Variable Voting Share, each Common Voting Share and each Non-Voting Share are the same. All of the unissued Common Shares of the Company were cancelled on the completion of the Share Capital Reorganization. The Variable Voting Shares and Common Voting Shares are listed on the TSX under the ticker symbol WILD, and previously traded on the NASDAQ Global Trading Market ("NASDAQ") under the symbol "DHXM".

On November 22, 2019, the Company completed a subscription rights offering (the "Rights Offering"), issuing an aggregate of 35,928,144 common shares of the Company at a price of $1.67 per common share for gross proceeds of $60.0 million. Transaction costs and deferred taxes associated with the Rights Offering were $1.3 million, comprised of $1.9 million in transaction costs and $0.6 million of deferred taxes.

Pursuant to the Rights Offering, each shareholder of the Company received one right (a "Right") for each common share of the Company held, and every 3.757635354 Rights entitled the holder to subscribe for one whole common share of the Company at a price of $1.67 per common share. All Rights have been exercised.

The common shares of the Company are inclusive of Common Voting Shares, Variable Voting Shares and Non-Voting Shares. As at June 30, 2020, the Company had 27,887,163 Common Voting Shares and 143,044,611 Variable Voting Shares issued and outstanding (2019 - 32,198,166 and 102,740,199 respectively).

During the year ended June 30, 2020, 81,000 common shares were issued out of treasury at an average price of $1.51 upon exercise of stock options (2019 - 465,625 at $1.79).

During the year ended June 30, 2020, the Company issued 30,552 common shares, at an average price of $6.84 as part of the Company's performance share unit plan (2019 - 78,460 at $6.89).

During the year ended June 30, 2020, the Company issued 87,595 common shares at an average price of $1.51 as part of the Company's employee share purchase plan (2019 - 100,390 at $2.25).

Share trust

In the fourth quarter of 2020, the Company established an employee share trust to purchase and hold common shares of the Company to satisfy certain employee and director share-based compensation awards, including restricted share units and deferred share units. During the year ended June 30, 2020, the Company purchased 133,882 common shares of the Company in the open market at an average price per common share of $1.16 or $162 in total, which has been recorded as a reduction of shareholders' equity in the consolidated balance sheet.

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14 Share-based compensation

Omnibus equity incentive plan ("Omnibus Plan")

On December 17, 2019, the shareholders of the Company approved the adoption of the Omnibus Plan, a single umbrella plan that provides flexibility to the Company to grant equity-based incentive awards in the form of stock options, restricted share units, and performance share units. The Omnibus Plan provides the aggregate maximum number of equity-awards issuable not to exceed 8.5% of the Company's total issued and outstanding Common and Variable Voting Shares. As at June 30, 2020, this amounted to 14,540,580 (2019 - 11,414,980).

Options

As at June 30, 2020 and 2019, the Company had the following stock options outstanding:

	Number of options #	Weighted exercise price per stock $
Outstanding at June 30, 2018	8,123,475	6.41
Granted	5,069,016	1.66
Forfeited	(1,946,250)	6.67
Expired	(810,000)	3.81
Exercised	(465,625)	1.79
Outstanding at June 30, 2019	9,970,616	4.38
Forfeited	(1,824,791)	2.09
Expired	(2,206,025)	7.31
Exercised	(81,000)	1.51
Outstanding at June 30, 2020	5,858,800	4.02
Exercisable at June 30, 2020	3,204,975	5.16

On September 27, 2018, 4,046,500 options were granted to directors, officers and employees with an exercise price of $1.51 per common share. Included in this option grant were 3,046,500 that vest over four years and expire in seven years, and 1,000,000 that vest if the shares of WildBrain traded on the TSX reach a target price of $10 and expire in seven years.

On November 16, 2018, 272,516 options were granted to directors, officers and employees with an exercise price of $2.81 per common share, all of which vest over four years and expire in seven years.

On February 15, 2019, 300,000 options were granted to directors, officers and employees with an exercise price of $2.26 per common share, all of which vest over four years and expire in seven years.

On May 17, 2019, 300,000 options were granted to a director with an exercise price of $1.80 per common share, vesting over 10 months subject to meeting certain performance conditions.

On June 10, 2019, 150,000 options were granted to an employee with an exercise price of $2.04 per common share, vesting over four years with an expiry of seven years.

(expressed in thousands of Canadian dollars unless otherwise noted, except for amounts per share)

The weighted average grant date value of stock options and assumptions using the Black-Scholes option pricing model for the year ended June 30, 2020 and 2019 are as follows:

	2020	2019
Weighted average grant date value	n/a	$ 0.68
Risk-free rate	n/a	2.19%
Expected option life	n/a	5 years
Expected volatility	n/a	46%
Expected dividend yield	n/a	—%

During the year ended June 30, 2020, the Company recognized a share-based compensation expense of $1,183 for the vesting of options (2019 - $1,277), with a corresponding adjustment to contributed surplus.

The range of exercise prices for options outstanding at June 30, 2020 is presented below.

Range of exercise prices	Number outstanding at June 30, 2020	Weighted average remaining contractual life years	Weighted average exercise price $	Number outstanding at June 30, 2019	Weighted average exercise price $
$1.50 - $3.49	3,089,500	5.35	1.64	5,034,016	1.66
$3.50 - $5.49	300,000	4.25	5.47	300,000	5.47
$5.50 - $7.49	1,901,800	3.48	6.36	2,672,100	6.43
$7.50 - $9.49	567,500	2.26	8.38	1,964,500	8.37
Total	5,858,800	4.38	4.02	9,970,616	4.38

Performance share unit plan

During the first quarter of fiscal 2020, the remaining 30,552 PSUs that were granted in previous years were exercised and settled, for which the Company recorded a share-based compensation recovery of $74 upon settlement.

During the year ended June 30, 2020, the Company granted 2,825,000 PSUs as part of the Omnibus Plan. These PSUs vest on the basis of 1/3 of the award upon the 60-day volume weighted average share price traded on the TSX ("60-day VWAP") exceeding $7, 1/3 upon the 60-day VWAP exceeding $9 and 1/3 upon the 60-day VWAP exceeding $11. PSUs are accounted for as equity-settled awards. The fair value of these awards are measured using the Black-Scholes valuation model using management's inputs and assumptions, adjusted by an estimated probability factor of achieving the market conditions vesting criteria.

During the year ended June 30, 2020, the Company recognized share-based compensation expense on the current year awards of $97 (2019 - $43) with a corresponding adjustment to contributed surplus.

Restricted share unit plan

During the year ended June 30, 2020, the Company granted 4,410,417 RSUs as part of the Omnibus Plan, of which 77,363 RSUs were forfeited.

RSUs are accounted for as equity-settled awards. The fair value of these awards are determined at the grant date and measured using the trailing five-day VWAP on the date of grant. The 1,500,000 RSUs granted in the first quarter of fiscal 2020 vest in three equal instalments on each anniversary date from the grant date over a three-year period. The 2,401,577 RSUs granted in the second and third quarters of fiscal 2020 vest three-years from

(expressed in thousands of Canadian dollars unless otherwise noted, except for amounts per share)

the grant date. In the fourth quarter of fiscal 2020, the Company issued 508,840 RSUs to certain employees in lieu of a portion of their salary as part of the Company's COVID-19 protection measures. These RSUs vest six months from the date of grant.

During the year ended June 30, 2020, the Company recognized share-based compensation expense of $2,075 (2019 - $nil) with a corresponding adjustment to contributed surplus.

Deferred share unit plan

During the second quarter of fiscal 2020, the Company resolved to settle all future DSU redemptions in shares rather than cash. All outstanding DSUs shall be accounted for as equity-settled awards prospectively. Prior to this resolution, DSUs were accounted for as cash-settled awards. As a result of this change, the fair value of the DSUs at the reclassification date of $245 was reclassified from accrued liabilities to contributed surplus.

During the year ended June 30, 2020, the Company granted 1,036,561 DSUs and recognized share-based compensation expense of $1,587 (2019 - $244), which included $300 for services rendered but DSUs not yet granted.

Long term incentives plan ("LTIP")

The LTIP is a long-term employee retention program whereby common shares of the Company are issued to certain eligible employees. These common shares are purchased in the open market and cannot be issued from treasury. On the grant date, the Company recognizes a share-based compensation expense for the value of the awards based on the cash cost of the common shares purchased.

During the year ended June 30, 2020, the Company recognized share-based compensation expense of $632 (2019 - $228). The LTIP plan is cash-settled and proceeds are used to purchase common shares in the open market and transfered to eligible employees.

Employee stock purchase plan ("ESPP")

The ESPP is a equity based incentive program whereby common shares of the Company are issued from treasury to certain eligible employees at a 15% discount to the market share price. During the year ended June 30, 2020, the Company recognized share-based compensation expense of $20 (2019 - $34).

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15 Government financing and assistance

During the fourth quarter of fiscal 2020, various governments and other bodies introduced wage subsidy programs to help companies keep employees on payrolls in response to business disruptions from the COVID-19 pandemic. As at June 30, 2020, the Company received or is eligible to receive $2,312 under these programs. These subsidies are to assist with payroll costs, and therefore have been recorded against selling, general and administrative expenses in the consolidated statement of income (loss).

During the year ended June 30, 2020, investment in film was reduced by $2,810 (2019 - $4,549) related to non-repayable contributions from the Canadian Media Fund license fee program. Investment in film and television programs was reduced by $16,046 (2019 - $17,559) for tax credits related to production activities. The Company received $51,054 in government financing and assistance (2019 - $47,164).

Amounts receivable from the Canadian federal government and other government agencies in connection with production financing represented 33% of total amounts receivable at June 30, 2020 (2019 - 35%). Certain of these amounts are subject to audit by the government agency. The Company adjusts amounts receivable from Canadian federal government and other government agencies including federal and provincial tax credits receivable, in connection with production financing, quarterly and yearly, for any known differences arising from internal or external audit of these balances.

16 Income taxes

Significant components of the Company's net deferred income tax liability as at June 30, 2020 and June 30, 2019 are as follows:

	June 30, 2020 $	June 30, 2019 $
Broadcast licenses	(17,967)	(17,967)
Tangible benefit obligation	1,112	1,644
Deferred revenue	118	372
Foreign tax credits	5,010	4,238
Property and equipment	988	1,501
Share issuance costs and deferred financing fees	—	(759)
Investment in film and television programs and acquired and library content	(12,541)	(16,146)
Intangible assets	(285)	2,094
Non-capital losses and other	5,304	8,617
Net deferred income tax liability	(18,261)	(16,406)

The Company recorded a deferred tax expense of $15,547 (2019 - $21,743) related to the derecognition of certain deferred tax assets in Canada. The recognition of Canadian net operating losses is dependent upon future taxable income and the ability under Canadian tax law to utilize its net operating losses. Based on the current forecast of Canadian taxable income, it is not probable that certain losses will be utilized. The ending balance of deferred tax asset not recognized of $37,290 (2019 - $21,743) relates primarily to the Canadian non-capital loss carry forwards which begin to expire in the 2033 taxation year. The de-recognition of the deferred tax asset related to the net operating losses does not constrain the Company's ability to utilize it against future income in Canada.

Deferred income tax liabilities have not been recognized for the withholding tax and other taxes that would be payable on unremitted earnings of certain subsidiaries, as such amounts are permanently reinvested. Unremitted earnings totaled $92,298 at June 30, 2020 (June 30, 2019 - $81,879).

(expressed in thousands of Canadian dollars unless otherwise noted, except for amounts per share)

The reconciliation of income taxes computed at the statutory tax rates to income tax expense (recovery) is as follows:

	June 30, 2020 $	June 30, 2019 $
Income tax recovery based on combined federal and provincial tax rates of 30.5% (June 30, 2019 - 31%)	(63,161)	(25,391)
Income taxes increased (reduced) by:		
Share-based compensation	361	7
Goodwill impairment	56,286	—
Non-taxable or non-deductible portion of capital gain (loss)	298	(4,768)
Tax rate differential	375	10,536
Non-controlling interest	(8,288)	(5,946)
Provision to return	(113)	—
Non-capital losses not recognized	15,547	21,743
Other	401	113
Expense (recovery) of income taxes	1,706	(3,706)

The Company operates in multiple jurisdictions with differing tax rates. The Company's effective tax rates are dependent on the jurisdiction to which income relates.

17 Non-controlling interest

The Company's non-controlling interest as at June 30, 2020 was $260,135 (June 30, 2019 - $256,945), which primarily related to its subsidiary, Peanuts Worldwide LLC (DE) ("Peanuts"). The Company held a 51% interest of an 80% stake in Peanuts, while Sony Music Entertainment (Japan) Inc. held a 49% interest of the 80% stake. The family of Charles M. Schulz held the remaining 20% interest. As at June 30, 2020, the Company controlled Peanuts and therefore consolidates 100% of Peanuts with an adjustment for non-controlling interest.

The following tables summarizes the information of Peanuts before intercompany eliminations:

	June 30, 2020 $	June 30, 2019 $
Current assets	143,763	97,628
Non-current assets	390,538	426,810
Current liabilities	(42,801)	(48,560)
Net assets	491,500	475,878
Revenue	151,705	149,625
Total expenses	(108,892)	(108,667)
Net income and comprehensive income	42,813	40,958

(expressed in thousands of Canadian dollars unless otherwise noted, except for amounts per share)

18 Related party transactions

During the second quarter of fiscal 2020, the Company entered into a standby purchase agreement with Fine Capital, as investment manager, whereby Fine Capital would acquire any common or variable voting shares (together, the "Voting Shares") that were not taken up by holders of Rights Offering (see note 13 for additional details) for a fee of $1,500. Fine Capital is a significant shareholder of WildBrain, and a member of the Board of Directors of WildBrain Ltd. is also the Chief Executive Officer and Chief Investment Officer at Fine Capital.

During the fourth quarter of fiscal 2020, the Company issued US$12,208 of exchangeable debentures to Fine Capital and warrants to purchase 5,000,000 variable voting shares of the Company, which vest immediately as part of the same transaction. See note 12(e) for additional details of the transaction.

19 Finance costs, net

Net finance costs comprised of the following:

	June 30, 2020	June 30, 2019
	$	$
Finance costs		
Interest income	(1,755)	(2,036)
Interest expense on bank indebtedness	152	426
Interest on long-term debt	32,053	37,239
Interest on completed and released productions	2,447	1,820
Amortization of deferred financing fees	2,919	3,628
Loss on modification of long-term debt and write-down of unamortized issue costs	8,265	7,641
Accretion on Convertible Debentures, lease liabilities and other	5,323	3,518
	49,404	52,236

Interest income is comprised of accretion on long-term amounts receivable and cash interest earned on bank deposits and tax credit receivables.

(expressed in thousands of Canadian dollars unless otherwise noted, except for amounts per share)

20 Expenses by nature and employee benefit expense

The following sets out the expenses by nature and employee benefits expense:

	June 30, 2020	June 30, 2019
	$	$
Direct production and new media costs	179,723	197,919
Expense of film and television programs	44,970	40,165
Expense of film and broadcast rights for broadcasting	13,096	14,919
Amortization of property and equipment and intangible assets	24,171	22,651
Amortization of acquired and library content	12,082	14,431
Write-down of investment in film and television programs, acquired and library content, property and equipment, intangible assets and goodwill	196,122	104,871
Office and administrative	17,950	21,664
Investor relations and marketing	2,504	3,579
Professional and regulatory	8,133	6,401
Reorganization, development and other, excluding employee benefits	7,033	1,661
Finance costs, net	49,404	52,236
Change in fair value of embedded derivative	(1,955)	(7,185)
Foreign exchange loss (gain)	14,047	(1,081)
	567,280	472,231
Employee benefits expense:		
Salaries and employee benefits	48,991	47,651
Share-based compensation (note 14)	5,520	1,826
Termination and other benefits	10,928	—
	65,439	49,477
	632,719	521,708

Included in reorganization, development and other costs were legal fees associated with a dispute with former employees of $3,171, corporate rebranding charges of $2,125, and systems upgrade and process enhancement initiatives of $1,491.

(expressed in thousands of Canadian dollars unless otherwise noted, except for amounts per share)

21 Management of financial risks and financial instruments

The financial risks arising from the Company’s operations include credit risk, interest rate risk, liquidity risk, currency risk and market risk. These risks arise from the normal course of operations. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

During the third quarter of fiscal 2020, the outbreak of the COVID-19 pandemic has resulted in significant disruption to businesses globally and market volatility, resulting in an economic slowdown.

a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or counter-party to a financial asset or liability fails to meet its contractual obligations, and arises primarily from the Company's cash (including restricted cash) and credit exposure to customers through its outstanding trade receivables.

The maximum exposure to credit risk for cash (including restricted cash) and trade receivables approximates the amounts recorded on the consolidated balance sheet of $239,827 (2019 - $237,018). The Company manages credit risk on cash and cash equivalents by ensuring that the counter-parties are banks, governments and government agencies with high credit ratings.

The balance of trade amounts receivable is mainly with Canadian broadcasters and large international distribution companies. Management manages credit risk performing a credit assessment on new customers and regularly reviewing aged accounts receivables. To determine the loss allowance for trade receivables, management assessed the lifetime expected credit losses of customers by categorizing these customers into different risk profile groups and applying provision percentages based on historical loss rates and management's experience and judgment. The loss allowance for trade receivables represents approximately 5.7% of current trade receivables, which management believes is adequate. Further, long-term receivable arrangements are only granted to large international linear and digital broadcasting companies with good payment history.

COVID-19 has increased the credit risk in the Company's trade receivables. To manage this risk, the Company has increased its collection efforts with customers, risk-adjusted certain customers when determining a loss allowance, and in some limited cases provided customers with payment plans on past due amounts. Certain customers of the consumer-products segment, in particular Peanuts, are licensees who have been impacted by the closure of retailers during the pandemic and the Company is closely monitoring these receivables. Given that the majority of the Company's customers are large Canadian and international broadcasters, or large international distribution companies, there has not been evidence of significant deterioration in the credit quality of our customers and trade receivables to date.

The Company is unable to predict or anticipate the full extent or duration of impact due to COVID-19 at this time. Based on collections subsequent to year-end, and discussions with customers, the Company believes that the loss provision is adequate as at June 30, 2020.

(expressed in thousands of Canadian dollars unless otherwise noted, except for amounts per share)

b) Interest rate risk

The Company's interest rate risk primarily relates to its interim production financing, Revolving Facility, Term Facility, and cash which are subject to interest rate benchmarks that fluctuate such as prime rate, LIBOR rate, bankers acceptance rates and other applicable interest rate benchmarks.

A 1% (100 bps) fluctuation in the interest rate on the Company's variable rate debt instruments would have an approximate $4,000 to $5,000 effect on net income (loss) for the year ended June 30, 2020.

c) 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 manages liquidity by regularly preparing cash flow forecasts and continuously monitoring actual and projected cash flows and matching the maturity profile of financial assets and liabilities.

The following table summarizes the Company's financial liabilities and their contractual maturities:

	Total $	Less than 1 year $	1 to 3 years $	3 to 5 years $	After 5 years $
Bank indebtedness	10,000	10,000	—	—	—
Accounts payable and accrued liabilities	98,927	98,927	—	—	—
Interim production financing	66,688	66,688	—	—	—
Other long-term liabilities	2,647	—	2,647	—	—
Senior Unsecured Convertible Debentures	174,973	8,225	16,450	150,298	—
Exchangeable debentures	20,381	—	20,381	—	—
Term facility	432,871	16,014	32,028	384,829	—
Finance lease obligations	58,885	11,542	19,875	14,589	12,879
	865,372	211,396	91,381	549,716	12,879

Contractual payments in the table above include fixed rate interest payments but exclude variable rate interest payments and are not discounted.

The Company operates a diverse range of business lines, including production studio services, linear and digital content distribution, consumer products licensing, consumer products representation and television broadcasting. While the operating results may experience variability from period to period, the operating cash flows are generally predictable based on the Company's production and content pipeline, contract renewals, royalty agreements and associated minimum guarantees and television subscriber fees.

As at June 30, 2020, the Company had cash balances of $67,889 and amounts receivable of $$221,252. Based on the Company's cash balances and available credit facilities, expected collection of trade and other receivables and forecasted operating results, management believes it will be able to fulfill its financial obligations as they become due.

(expressed in thousands of Canadian dollars unless otherwise noted, except for amounts per share)

d) Currency risk

The Company has global operations which require holding cash and working capital balances, generating revenue and incurring costs in foreign currencies. These activities result in exposure to fluctuations in foreign currency exchange rates. The Company periodically enters into foreign exchange forward contracts to manage its foreign exchange risk across its portfolio of currencies which are primarily denominated in Canadian dollars, US dollars and GBP.

At June 30, 2020, the Company revalued its financial assets and liabilities denominated in a foreign currency at the prevailing exchange rates. A 1% change in US dollars would impact net income (loss) for the year ended June 30, 2020 by $4,170, and 1% change in other currencies would not result in a significant impact.

Fair value of financial instruments

Financial instruments recorded at fair value on the consolidated balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The value hierarchy has the following levels:

Level 1 - Valuation based on quoted prices observed in active markets for identical assets and liabilities.

Level 2 - Valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable for that instrument and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Valuation techniques with significant unobservable market inputs.

A financial instrument is classified to the lowest of the hierarchy for which a significant input has been considered in measuring fair value.

Fair value estimates are made at a specific point in time based on relevant market information. These are estimates and involve uncertainties and matters of significant judgment and cannot be determined with precision. Changes in assumptions and estimates could significantly affect fair values.

Financial assets and liabilities measured at fair value

	As at			
	June 30, 2020		June 30, 2019	
	Fair value hierarchy	Fair value[1]	Fair value hierarchy	Fair value[1]
		$		$
Embedded derivatives[2]	Level 2	(6,650)	Level 2	(4,755)
Foreign currency forwards[3]	Level 2	(439)	n/a	n/a

(1) Derivative financial instruments are initially measured at fair value on the trade date. Subsequent valuations are based on observable inputs to the valuation model.

(2) Includes embedded derivatives for Convertible Debentures and exchangeable debenture, measured using valuation models.

(3) The fair value of foreign currency contracts is determined using prevailing exchange rates.

(expressed in thousands of Canadian dollars unless otherwise noted, except for amounts per share)

As at June 30, 2020, the Company held forward contract options with the following notional value and average contractual exchange rates:

US dollars exchange for GBP	
Less than one year	USD 4,635 to 5,745
Weighted average rate	1.3132

The Company does not apply hedge accounting and the forward contract options are measured at fair value at each reporting date. The estimated fair value as at June 30, 2020 was a liability of $439 (June 30, 2019 - $nil), which has been included in derivative liabilities in the consolidated balance sheet.

Financial assets and liabilities not measured at fair value

The carrying amount of all financial instruments presented in the consolidated financial statements approximate their fair values, except for the Convertible Debentures as follows:

	As at					
	June 30, 2020			June 30, 2019		
	Fair value hierarchy	Fair value liability	Carrying value	Fair value hierarchy	Fair value liability	Carrying value
		$	$		$	$
Convertible Debentures(1)	Level 1	98,000	119,731	Level 1	103,600	116,096

(1) The fair value of the Convertible Debentures is based on market quotes as these are actively traded on the open exchange.

22 Commitments and contingencies

The Company is, from time-to-time, involved in various claims, legal proceedings and complaints arising in the normal course of business and as such, provisions have been recorded where appropriate. Management does not believe that the final determination of these claims will have a material adverse effect on the financial position or results of operations of the Company.

23 Capital disclosures

The Company's objectives when managing capital are to provide an adequate return to shareholders, safeguard its assets, maintain a competitive cost structure and continue as a going concern in order to pursue the development, production, distribution and licensing of its film and television properties and broadcast operations. The balance of the Company's cash is being used to maximize ongoing development and reduce leverage.

(expressed in thousands of Canadian dollars unless otherwise noted, except for amounts per share)

The Company's capital at June 30, 2020 and June 30, 2019 is summarized in the table below:

	June 30, 2020 $	June 30, 2019 $
Total bank indebtedness and long-term debt, excluding interim production financing	512,006	523,126
Less: Cash and restricted cash	(84,526)	(39,999)
Net debt	427,480	483,127
Total Shareholders' Equity	341,486	499,978
	768,966	983,105

To facilitate the management of its capital structure, the Company prepares annual expenditure operating budgets that are updated as necessary depending on various factors including industry conditions and operating cash flows. These budgets are regularly reviewed by the Board of Directors.

24 Earnings or loss per common share

a) Basic

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

	June 30, 2020 $	June 30, 2019 $
Net loss attributable to shareholders of the Company	(235,966)	(101,494)
Weighted average number of common shares outstanding (in 000's)	156,748	134,828
Basic loss per share	(1.51)	(0.75)

b) Diluted

Diluted earnings or loss per common share reflect the potential dilutive effect that could occur if additional common shares were assumed to be issued under securities or instruments that may entitle their holders to obtain common shares in the future. Dilution could occur through the exercise of stock options, RSUs, PSUs, warrants, or the exercise of the conversion option of the Convertible Debentures or exchangeable debentures. The number of additional shares for inclusion in the diluted earnings or loss per share calculation was determined using the treasury stock method for the stock options, RSUs, PSUs and warrants, and the if-converted method for the convertible and exchangeable debentures.

(expressed in thousands of Canadian dollars unless otherwise noted, except for amounts per share)

For the year ended June 30, 2020 and 2019, the diluted weighted average number of common shares outstanding is the same as the basic weighted average number of common shares outstanding, as the Company had a net loss and the exercise of any potentially dilutive instruments would be anti-dilutive.

	June 30, 2020 $	June 30, 2019 $
Net loss attributable to shareholders of the Company	(235,966)	(101,494)
Weighted average number of common shares (in 000's)	156,748	134,828
Dilutive effect of share-based compensation (in 000's)	—	—
Weighted average number of diluted shares outstanding	156,748	134,828
Diluted loss per share	(1.51)	(0.75)

25 Consolidated statement of cash flows - supplementary information

Net change in non-cash balances related to operations

	June 30, 2020 $	June 30, 2019 $
Decrease (increase) in amounts receivable	66,849	(13,642)
(Increase) decrease in prepaid expenses and other	(1,597)	1,430
(Increase) decrease in long-term amounts receivable	(4,571)	4,471
(Decrease) increase in accounts payable and accrued liabilities	(4,033)	(31,279)
(Decrease) increase in deferred revenue	(15,928)	10,288
Tangible benefit obligation payments	(2,190)	(2,406)
	38,530	(31,138)

	June 30, 2020 $	June 30, 2019 $
Taxes paid	(5,504)	(15,478)
Taxes refunded	8,874	7,445
Proceeds from interim production financing	37,027	61,696
Repayment of interim production financing	(62,787)	(62,931)

Net change in film and television programs

	June 30, 2020 $	June 30, 2019 $
Decrease (increase) in development	(1,202)	553
Decrease in productions in progress	1,611	5,687
Increase in productions completed and released	(46,580)	(38,527)
Expense of film and television programs	44,970	40,165
Increase in program and film rights - broadcasting	(10,663)	(13,523)
Expense of film and broadcast rights for broadcasting	13,096	14,919
	1,232	9,274

(expressed in thousands of Canadian dollars unless otherwise noted, except for amounts per share)

Reconciliation between the opening and closing balances on the consolidated balance sheet arising from financing activities:

	Term facility $	Senior unsecured convertible debentures $	Lease liabilities $	Exchangeable debentures $	Total $
Balance - June 30, 2019	407,031	116,095	6,187	—	529,313
Proceeds (repayment)	(57,819)	—	(9,854)	16,500	(51,173)
Payment of debt amendment fees	(2,954)	—	—	(652)	(3,606)
Interest paid on lease liabilities	—	—	(2,283)	—	(2,283)
Total financing cash flow activities	(60,773)	—	(12,137)	15,848	(57,062)
Initial recognition of lease liabilities under IFRS 16	—	—	34,167	—	34,167
Amortization of deferred financing costs	2,024	895	—	—	2,919
Loss on modification of long-term debt and write-down of unamortized issue costs	8,265	—	—	—	8,265
Lease liabilities additions	—	—	19,786	—	19,786
Warrants issued	—	—	—	(2,180)	(2,180)
Initial recognition of embedded derivative	—	—	—	(3,850)	(3,850)
Accretion expense	—	2,741	2,283	39	5,063
Foreign exchange	15,733	—	540	138	16,411
Total other financing activities	26,022	3,636	56,776	(5,853)	80,581
Balance - June 30, 2020	372,280	119,731	50,826	9,995	552,832

	Term facility $	Senior unsecured convertible debentures $	Lease liabilities $	Total $
Balance - June 30, 2018	623,066	112,807	8,757	744,630
Repayments	(223,795)	—	(5,495)	(229,290)
Interest paid on lease liabilities	—	—	(612)	(612)
Total financing cash flow activities	(223,795)	—	(6,107)	(229,902)
Amortization of deferred financing costs	2,735	893	—	3,628
Loss on modification of long-term debt and write-down of unamortized issue costs	7,641	—	—	7,641
Lease liability additions	—	—	2,925	2,925
Accretion expense	—	2,395	612	3,007
Foreign exchange	(2,616)	—	—	(2,616)
Total other financing activities	7,760	3,288	3,537	14,585
Balance - June 30, 2019	407,031	116,095	6,187	529,313

(expressed in thousands of Canadian dollars unless otherwise noted, except for amounts per share)

26 Revenues and segmented information

The Company operates production entities and offices throughout Canada, the United States and Europe. In evaluating performance, the Chief Operating Decision Maker does not distinguish or group its production, distribution and merchandising operations ("Content Business") on a geographic basis. The Company has determined that it has three reportable segments being the Content Business, CPLG, which manages copyrights, licensing and brands for third parties and Television.

				Year ended June 30, 2020
	CPLG	**Television**	**Content**	**Consolidated**
	$	**$**	**$**	**$**
Revenues	14,560	49,526	361,548	425,634
Direct production costs and expense of film and television produced and selling, general and administrative	13,917	24,378	264,239	302,534
Segment profit	643	25,148	97,309	123,100
Corporate selling, general and administrative				18,353
Amortization of property and equipment and intangible assets				24,171
Amortization of acquired and library content				12,082
Finance costs, net				49,404
Foreign exchange loss				14,047
Change in fair value of embedded derivatives				(1,955)
Write-down of investment in film and television programs, acquired and library content, property and equipment and goodwill				196,122
Reorganization, development and other				17,961
Loss before income taxes				(207,085)

				Year ended June 30, 2019
	CPLG	**Television**	**Content**	**Consolidated**
	$	**$**	**$**	**$**
Revenues	14,320	52,469	373,011	439,800
Direct production costs and expense of film and television produced, and selling, general and administrative	14,254	27,886	269,846	311,986
Segment profit	66	24,583	103,165	127,814
Corporate selling, general and administrative				22,138
Amortization of property and equipment and intangible assets				22,651
Amortization of acquired and library content				14,431
Finance costs, net				52,236
Foreign exchange loss				(1,081)
Change in fair value of embedded derivatives				(7,185)
Write-down of investment in film and television programs, acquired and library content and intangible assets				104,871
Reorganization, development and other				1,661
Loss before income taxes				(81,908)

(expressed in thousands of Canadian dollars unless otherwise noted, except for amounts per share)

The following table presents further components of revenue derived from the following areas:

	June 30, 2020 $	June 30, 2019 $
Content		
Production revenue	40,881	22,239
Distribution revenue	121,428	128,793
Merchandising and licensing and other revenue	154,046	160,252
Producer and service fee revenue	45,193	61,727
	361,548	373,011
Television		
Subscriber revenue	41,965	47,425
Promotion, advertising and other revenue	7,561	5,044
	49,526	52,469
CPLG		
Third party brand representation revenue	14,560	14,320
	425,634	439,800

Of the Company’s $425,634 in revenues for the year ended June 30, 2020 (2019 - $439,800), $154,254 was attributable to the Company’s entities based in Canada (2019 - $161,870), $157,850 (2019 - $158,072) was attributable to the Company’s entities based in the USA, $105,304 (2019 - $107,525) was attributable to the Company's entities based in the UK and $8,226 (2019 - $12,333) was attributable to entities based outside of Canada, the USA and the UK.

As at June 30, 2020, the following non-current assets were attributable to the Company’s entities based in the USA: $1,170 of property and equipment, $369,727 of intangible assets, and $24,081 of goodwill (2019 - $21, $353,305 and $26,271, respectively). As at June 30, 2020, the following non-current assets were attributable to the Company’s entities based outside of Canada and the USA: $13,784 of property and equipment, $16,921 of intangible assets and $nil of goodwill (2019 - $1,551, $24,990, and $4,420, respectively). All other non-current assets were attributable to the Company’s entities based in Canada.

27 Reclassification of comparatives

Certain prior period amounts in the consolidated balance sheet and statement of cash flows have been reclassified to conform with the current period presentation. In particular, in the consolidated balance sheet, the embedded derivative liability related to the Convertible Debentures was previously included in the long-term debt, and is now separately presented and included in derivative liabilities. In the consolidated statement of cash flows, certain line items related to net finance costs previously presented have been aggregated or disaggregated to provide more useful information. These reclassifications had no effect on the reported results of operations.