# WildBrain Ltd.

Unaudited Interim Condensed Consolidated
Financial Statements
**March 31, 2020**
(expressed in thousands of Canadian dollars)

May 13, 2020

## Management's Responsibility for Financial Reporting

The accompanying unaudited interim condensed 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 unaudited interim condensed consolidated financial statements. The Board carries out this responsibility through its Audit Committee. The Audit Committee reviews the Company's unaudited interim condensed 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 unaudited interim condensed consolidated financial statements to the Board for approval.

The unaudited interim condensed consolidated financial statements have been prepared by management in accordance with International Accounting Standard 34, Interim Financial Reporting 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 unaudited interim condensed 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 unaudited interim condensed 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

**WildBrain Ltd.**
Unaudited Interim Condensed Consolidated Balance Sheet
**As at March 31, 2020 and June 30, 2019**

(expressed in thousands of Canadian dollars)

| | March 31, 2020 | June 30, 2019 |
|---|---|---|
| | $ | $ |
| **Assets** | | |
| **Current assets** | | |
| Cash | 62,221 | 39,999 |
| Amounts receivable (note 4) | 220,693 | 265,710 |
| Prepaid expenses and other | 8,467 | 7,182 |
| Investment in film and television programs (note 5) | 151,967 | 148,561 |
| | 443,348 | 461,452 |
| Long-term amounts receivable (note 4) | 16,806 | 14,318 |
| Acquired and library content (note 6) | 115,680 | 118,247 |
| Property and equipment (note 3) | 50,330 | 19,352 |
| Intangible assets | 491,230 | 465,832 |
| Goodwill (note 7) | 56,332 | 239,754 |
| | 1,173,726 | 1,318,955 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Bank indebtedness (note 8) | 10,000 | — |
| Accounts payable and accrued liabilities | 114,974 | 103,487 |
| Deferred revenue | 45,097 | 64,299 |
| Interim production financing (note 8) | 67,550 | 92,448 |
| Current portion of lease liabilities (note 3) | 9,388 | 3,115 |
| Current portion of long-term debt (note 8) | — | 7,892 |
| | 247,009 | 271,241 |
| Long-term debt (note 8) | 507,209 | 519,989 |
| Long-term lease liabilities (note 3) | 36,487 | 3,072 |
| Other long-term liabilities | 6,617 | 8,269 |
| Deferred income taxes (note 9) | 19,364 | 16,406 |
| | 816,686 | 818,977 |
| **Shareholders' Equity** | | |
| Equity attributable to shareholders of the Company | 84,127 | 243,033 |
| Non-controlling interest | 272,913 | 256,945 |
| | 357,040 | 499,978 |
| | 1,173,726 | 1,318,955 |

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

# WildBrain Ltd.

Unaudited Interim Condensed Consolidated Statement of Changes in Equity

**For the nine month periods ended March 31 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 for the period | — | — | — | (38,722) | 18,463 | (20,259) |
| Other comprehensive income | — | — | 7,540 | — | — | 7,540 |
| Comprehensive income (loss) | — | — | 7,540 | (38,722) | 18,463 | (12,719) |
| Common shares issued | 1,925 | (1,142) | — | — | — | 783 |
| Share-based compensation | — | 741 | — | — | — | 741 |
| Disposal of interest in subsidiary, net of transaction costs and taxes | — | — | — | 39,516 | 174,596 | 214,112 |
| Distributions to non-controlling interests | — | — | — | — | (20,655) | (20,655) |
| **Balance - March 31, 2019** | 307,092 | 28,659 | (6,597) | (10,609) | 258,118 | 576,663 |
| | | | | | | |
| **Balance - June 30, 2019** | 307,158 | 29,238 | (19,982) | (73,381) | 256,945 | 499,978 |
| Net (loss) income for the period | — | — | — | (239,979) | 23,679 | (216,300) |
| Other comprehensive income | — | — | 18,407 | — | 21,900 | 40,307 |
| Comprehensive income (loss) | — | — | 18,407 | (239,979) | 45,579 | (175,993) |
| Common shares issued, net of issuance costs and deferred taxes | 59,218 | (588) | — | — | — | 58,630 |
| Reclassification of deferred share units to equity-settled (note 10) | — | 245 | — | — | — | 245 |
| Share-based compensation (note 10) | — | 3,791 | — | — | — | 3,791 |
| Distributions to non-controlling interests | — | — | — | — | (29,611) | (29,611) |
| **Balance - March 31, 2020** | 366,376 | 32,686 | (1,575) | (313,360) | 272,913 | 357,040 |

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

**WildBrain Ltd.**

Unaudited Interim Condensed Consolidated Statement of Income (Loss)

**For the three and nine month periods ended March 31, 2020 and 2019**

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

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | **March 31, 2020** | **March 31, 2019** | **March 31, 2020** | **March 31, 2019** |
| | | | **$** | **$** |
| **Revenues** (note 18) | 98,341 | 109,986 | 332,732 | 331,040 |
| **Expenses** (note 12) | | | | |
| Direct production costs and expense of film and television produced | 53,942 | 62,713 | 184,446 | 192,198 |
| Amortization of acquired and library content (note 6) | 3,030 | 3,888 | 8,998 | 11,042 |
| Amortization of property and equipment and intangible assets | 6,526 | 5,574 | 18,122 | 17,073 |
| Reorganization, development and other | 2,444 | 1,365 | 15,780 | 4,085 |
| Write-down of investment in film and television programs, acquired and library content, property and equipment, intangible assets and goodwill (notes 5,6,7) | 187,300 | 34,199 | 194,104 | 36,154 |
| Selling, general and administrative | 21,664 | 20,240 | 65,156 | 58,711 |
| Finance costs, net (note 11) | 10,022 | 10,220 | 39,939 | 40,486 |
| Change in fair value of embedded derivative | (1,833) | (1,600) | (3,747) | (3,500) |
| Foreign exchange loss (gain) | 25,921 | (7,542) | 24,311 | 5,534 |
| | 309,016 | 129,057 | 547,109 | 361,783 |
| **Loss before income taxes** | (210,675) | (19,071) | (214,377) | (30,743) |
| **Provision for (recovery of) income taxes** | | | | |
| Current income taxes (note 9) | (1,541) | (4,245) | (958) | 842 |
| Deferred income taxes (note 9) | 5,677 | (3,008) | 2,881 | (11,326) |
| | 4,136 | (7,253) | 1,923 | (10,484) |
| **Net loss for the period** | (214,811) | (11,818) | (216,300) | (20,259) |
| Net income attributable to non-controlling interests | 6,896 | 6,610 | 23,679 | 18,463 |
| **Net loss attributable to shareholders of the Company** | (221,707) | (18,428) | (239,979) | (38,722) |
| **Basic loss per common share** (note 14) | (1.30) | (0.14) | (1.58) | (0.29) |
| **Diluted loss per common share** (note 14) | (1.30) | (0.14) | (1.58) | (0.29) |

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

# WildBrain Ltd.

Unaudited Interim Consolidated Statement of Comprehensive Income (Loss)

**For the three and nine month periods ended March 31, 2020 and 2019**

(expressed in thousands of Canadian dollars)

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | March 31, 2020 | March 31, 2019 | March 31, 2020<br>$ | March 31, 2019<br>$ |
| **Net loss** | (214,811) | (11,818) | (216,300) | (20,259) |
| **Other comprehensive income (loss)** | | | | |
| Items that may be subsequently reclassified to the statement of income (loss) | | | | |
| Foreign currency translation adjustment | 40,202 | (10,422) | 40,307 | 7,540 |
| **Comprehensive loss** | (174,609) | (22,240) | (175,993) | (12,719) |

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

# WildBrain Ltd.

Unaudited Interim Consolidated Statement of Cash Flows

**For the nine month periods ended March 31, 2020 and 2019**

(expressed in thousands of Canadian dollars)

| | March 31, 2020 | March 31, 2019 |
|---|---|---|
| **Cash provided by (used in)** | $ | $ |
| **Operating activities** | | |
| Net loss for the period | (216,300) | (20,259) |
| Charges (credits) not involving cash | | |
| Amortization of property and equipment and intangible assets | 18,122 | 17,073 |
| Amortization of acquired and library content | 8,998 | 11,042 |
| Accretion expense and amortization of deferred financing fees | 6,319 | 5,251 |
| Unrealized foreign exchange loss | 22,650 | 6,168 |
| Share-based compensation | 3,791 | 916 |
| Loss on modification of long-term debt and write-down of unamortized issue costs | 8,265 | 7,320 |
| Change in fair value of embedded derivative | (3,747) | (3,500) |
| Interest income | (1,518) | (1,715) |
| Interest expense | 26,873 | 29,630 |
| Deferred tax expense (recovery) | 2,881 | (11,326) |
| Write-down of investment in film and television programs | 6,895 | 22,615 |
| Write-down of acquired and library content | 193 | 11,059 |
| Write-down of property and equipment | 2,473 | — |
| Write-down of intangible assets | — | 2,480 |
| Write-down of goodwill | 184,543 | — |
| Gain on sale of assets | — | (1,415) |
| Interest received | 336 | 294 |
| Interest paid | (28,402) | (30,787) |
| Net investment in film and television programs (note 17) | (4,952) | 9,753 |
| Net change in non-cash balances related to operations (note 17) | 40,865 | (39,303) |
| **Cash provided by operating activities** | 78,285 | 15,296 |
| **Financing activities** | | |
| Common shares issued, net of withholding taxes | 60,513 | 783 |
| Common shares issuance costs | (1,883) | — |
| Distributions to non-controlling interests | (27,895) | (20,655) |
| Proceeds from (repayment of) bank indebtedness | 10,000 | (16,350) |
| Repayment of long-term debt | (57,819) | (212,437) |
| Payment of debt amendment costs | (2,934) | — |
| Repayment of obligations under finance leases | (7,714) | (4,128) |
| Proceeds from interim production financing | 25,878 | 41,840 |
| Repayment of interim production financing | (50,776) | (25,979) |
| Proceeds on sale of interest in a subsidiary, net of cash fees paid | — | 221,084 |
| **Cash used in financing activities** | (52,630) | (15,842) |
| **Investing activities** | | |
| Proceeds on sale of assets, net of transaction costs | — | 405 |
| Acquisition of property and equipment | (3,854) | (303) |
| Acquisition of intangible assets | (1,976) | (4,171) |
| **Cash used in investing activities** | (5,830) | (4,069) |
| Effect of foreign exchange rate changes on cash | 2,397 | 226 |
| **Net change in cash during the period** | 22,222 | (4,389) |
| **Cash - Beginning of the period** | 39,999 | 46,550 |
| **Cash - End of the period** | 62,221 | 42,161 |

**Supplemental information** (note 17)

The accompanying notes form an integral part of these unaudited interim condensed 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"), 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 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 that 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; 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 unaudited interim condensed consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, applicable to the preparation of International Accounting Standard ("IAS") 34, Interim Financial Reporting, and follow the same accounting policies as those used in the Company's most recent audited annual consolidated financial statements, except for the new accounting policies adopted and described in note 3. These unaudited interim condensed consolidated financial statements do not include all the disclosures included in the Company's audited annual consolidated financial statements. Accordingly, these unaudited interim condensed consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements.

These unaudited interim condensed consolidated financial statements have been authorized for issuance by the Board of Directors on May 13, 2020.

## 3 Significant accounting policies, judgments and estimation uncertainty

These unaudited interim condensed consolidated financial statements have been prepared using the same policies and methods as the annual consolidated financial statements of the Company for the year ended June 30, 2019, and new and amended accounting standards adopted and described below.

### Significant accounting judgments and estimation uncertainty

The preparation of 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, has 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

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

quarantine measures. These measures have disrupted the operating activities of many entities and have led to significant volatility in the global markets. The Company continues to monitor and actively manage the developing impacts from COVID-19, including but not limited to, the potential future effects on its assets, cash flow and liquidity, and will continue to assess impacts to the Company's operations and the reported value of assets and liabilities reported in these unaudited interim condensed consolidated financial statements.

**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 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.

**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

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

expense in the unaudited interim condensed 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.

The right-of-use assets for leases recognized as at July 1, 2019, the date of adoption, 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 amount 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.

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.

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

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 unaudited interim condensed 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 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 unaudited interim condensed consolidated statements of income*

The net effect of adopting IFRS 16 on the unaudited interim condensed consolidated statements of income for the nine-months ended March 31, 2020 was a decrease of direct production costs and expense of film and television produced by $2.2 million and a decrease of selling, general and administrative expenses by $3.8 million. The increase in amortization and financing costs did not result in a significant net impact on net income. IFRS 16 did not impact the Company's cash flows.

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

*Reconciliation of right-of-use assets and lease liabilities*

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

| | 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 | 10,939 | 1,093 | 12,032 | 12,032 |
| Depreciation | (5,155) | (2,746) | (7,901) | — |
| Foreign exchange | 1,194 | — | 1,194 | 1,215 |
| Accretion expense | — | — | — | 1,738 |
| Impairment | (2,473) | — | (2,473) | — |
| Payments | — | — | — | (9,464) |
| **Ending, March 31, 2020** | 29,732 | 6,927 | 36,659 | 45,875 |

During the current quarter, the Company recognized a right-of-use asset impairment charge on one of its leased premises located in the United Kingdom resulting from a strategic reduction of corporate office space.

*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.

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

## 4 Amounts receivable

| | March 31, 2020 $ | June 30, 2019 $ |
|---|---|---|
| Trade receivables | 156,995 | 182,701 |
| Less: Loss allowance on trade receivables | (8,917) | (9,354) |
| | 148,078 | 173,347 |
| Sales tax receivable | 745 | 1,019 |
| Federal and provincial film tax credits and other government assistance | 71,870 | 91,344 |
| Short-term amounts receivable | 220,693 | 265,710 |
| Long-term amounts receivable | 16,806 | 14,318 |
| Total amounts receivable | 237,499 | 280,028 |

The aging of trade receivables is as follows:

| | March 31, 2020 $ | June 30, 2019 $ |
|---|---|---|
| Less than 60 days | 137,169 | 152,249 |
| Between 60 and 90 days | 5,191 | 7,028 |
| Over 90 days | 14,635 | 23,424 |
| | 156,995 | 182,701 |

A continuity of loss allowance on trade receivables as follows:

| | March 31, 2020 $ | June 30, 2019 $ |
|---|---|---|
| **Opening balance** | 9,354 | 9,742 |
| Impact of adoption of IFRS 9 | — | 1,049 |
| **Opening balance, restated for IFRS 9** | 9,354 | 10,791 |
| Loss allowance on trade receivables | 1,664 | 2,788 |
| Receivables written off in the year | (2,686) | (3,428) |
| Recoveries of receivables previously provided for | — | (586) |
| Foreign exchange | 585 | (211) |
| **Ending balance** | 8,917 | 9,354 |

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

## 5 Investment in film and television programs

| | March 31, 2020<br>$ | June 30, 2019<br>$ |
|---|---|---|
| **Development costs** | 2,608 | 1,559 |
| **Productions in progress** | | |
| Cost, net of government and third party assistance | 6,061 | 11,890 |
| **Productions completed and released** | | |
| Cost, net of government and third party assistance | 610,959 | 564,065 |
| Accumulated expense | (447,177) | (417,206) |
| Accumulated write-down of investment in film and television programs | (44,071) | (37,295) |
| | 119,711 | 109,564 |
| **Program and film rights - broadcasting** | | |
| Cost | 156,674 | 148,288 |
| Accumulated expense | (127,350) | (117,121) |
| Accumulated write-down of program and film rights | (5,737) | (5,619) |
| | 23,587 | 25,548 |
| | 151,967 | 148,561 |

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

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

| | March 31, 2020<br>$ | June 30, 2019<br>$ |
|---|---|---|
| Net opening investment in film and television programs | 148,561 | 186,008 |
| Increase/(decrease) in development costs | 1,049 | (553) |
| Cost of productions (completed and released and productions in progress), net of assistance | 35,716 | 32,840 |
| Expense of investment in film and television programs | (29,971) | (40,165) |
| Write-down of investment in film and television programs | (6,776) | (21,385) |
| Increase of program and film rights - broadcasting | 8,386 | 13,523 |
| Expense of program and film rights - broadcasting | (10,229) | (14,919) |
| Write-down of program and film rights - broadcasting | (118) | (2,832) |
| Foreign exchange | 5,349 | (3,956) |
| | 151,967 | 148,561 |

During the nine month period ended March 31, 2020, interest of $161 (2019 - $322) was capitalized to investment in film and television programs.

During the nine month period ended March 31, 2020, the Company recorded $6,894 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)

## 6 Acquired and library content

| | March 31, 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 | (8,998) | (14,431) |
| Foreign exchange | 6,624 | (1,482) |
| | 115,680 | 118,247 |

## 7 Goodwill

The continuity of goodwill is as follows:

| | March 31, 2020 $ | June 30, 2019 $ |
|---|---|---|
| Opening balance | 239,754 | 240,806 |
| Impairment | (184,543) | — |
| Foreign exchange and other | 1,121 | (1,052) |
| | 56,332 | 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 of the Company's annual consolidated financial statements dated June 30, 2019. 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.

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.

Indicators of impairment did not arise for the Company's Peanuts and WildBrain Television CGU's, and the CPLG CGU does not have any goodwill. The WildBrain Television CGU delivered consistent cash flow with subscriber fees comprising approximately 90% of segment revenue and has continued to experience strong viewership. While current disruptions in the global retail sector caused by COVID-19 are expected to impact near-term operating results of the Peanuts CGU, management expects that as market demand recovers this CGU will perform well, supported by the release of new production content.

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

As at March 31, 2020, the carrying amount of goodwill in the Content Business CGU was $184,543 prior to the impairment charge recognized in the quarter.

In assessing the Content Business CGU goodwill for impairment, the Company compared the carrying value of the CGU to the recoverable amount, determined using the value-in-use ("VIU") valuation method. The VIU was 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 consider different scenarios that have been 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 rate applied to cash flow projections were derived from the Company's weighted average cost of capital and other external sources.

The following key assumptions were used:

| CGU | Perpetual growth rate | Pre-tax discount rate |
|---|---|---|
| Content Business | 2.0% | 16.9% |

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.

Expenditure levels 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.

Based on management's impairment analysis, 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 an impairment charge of $184,543 in the quarter.

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

## 8 Credit facilities

| | March 31, 2020 $ | June 30, 2019 $ |
|---|---|---|
| Bank indebtedness | 10,000 | — |
| Interim production financing | 67,550 | 92,448 |
| Term Facility, net of unamortized issue costs of $4,822 (June 30, 2019 - $11,856) | 387,413 | 407,031 |
| Convertible Debentures, net of unamortized issue costs of $4,024 (June 30, 2019 - $4,695) and embedded derivatives at fair value of $1,008 (June 30, 2019 - $4,755) | 119,796 | 120,850 |
| Total | 584,759 | 620,329 |
| Amount due within 12 months | (77,550) | (100,340) |
| Amount due beyond 12 months | 507,209 | 519,989 |

### a) Bank indebtedness ("Revolving Facility")

The Company's Revolving Facility has a maximum available balance of US$30,000 (CAD$42,561) and will mature 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 March 31, 2020, $10,000 (June 30, 2019 - $nil) was drawn on the Revolving Facility.

### b) Interim production financing

| | March 31, 2020 $ | June 30, 2019 $ |
|---|---|---|
| Interim production credit facilities | 67,550 | 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 3.25%, 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 $86,881 at March 31, 2020 (June 30, 2019 - $109,573) have been pledged as security. As at March 31, 2020, the CAD bank prime rate was 2.45% (June 30, 2019 - 3.95%).

### c) Term facility

As at March 31, 2020, the Company's Term Facility had a principal balance of US$276,491, or CAD $392,258 (June 30, 2019 - US$320,022, or CAD$418,887), bearing interest at floating rates and will mature on December 29, 2023.

During the second quarter of fiscal 2020, the Company repaid US$37,800 (CAD$50,229) against its Term Facility using proceeds from its subscription rights offering completed in the second quarter of fiscal 2020 (see note 10 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

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

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.

During the first quarter of fiscal 2020, the Company repaid US$5,731 (CAD$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.

As at March 31, 2020, the Company was in compliance with all its debt covenants with a Total Net Leverage Ratio of 5.29x.

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 an annual requirement performed at the end of each fiscal year.

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

As at March 31, 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 unaudited interim condensed consolidated balance sheet. Changes in the estimated fair value of the embedded derivatives are recorded through the Company's unaudited interim condensed consolidated statement of income (loss). As at March 31, 2020, the estimated fair value of the embedded derivatives was $1,008.

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

## 9 Income taxes

Significant components of the Company’s net deferred income tax liability as at March 31, 2020 and June 30, 2019 are as follows:

| | March 31, 2020 $ | June 30, 2019 $ |
|---|---|---|
| Broadcast licenses | (17,967) | (17,967) |
| Tangible benefit obligation | 1,100 | 1,644 |
| Deferred revenue | 169 | 372 |
| Foreign tax credits | 4,932 | 4,238 |
| Property and equipment | 1,265 | 1,501 |
| Share issuance costs and deferred financing fees | — | (759) |
| Investment in film and television programs and acquired and library content | (12,160) | (16,146) |
| Intangible assets | (1,148) | 2,094 |
| Non-capital losses and other | 4,445 | 8,617 |
| Net deferred income tax liability | (19,364) | (16,406) |

In the three and nine months ended March 31, 2020, the Company recorded a deferred tax expense of $11.6 million and $15.8 million (2019 - $nil and $nil) respectively, related to the derecognition of the deferred tax asset in Canada. The recognition of the 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 the losses will be utilized. The ending balance of deferred tax asset not recognized of $37.5 million (2019 - $21.7 million), 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 $96,023 at March 31, 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:

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | March 31, 2020 | March 31, 2019 | March 31, 2020 | March 31, 2019 |
| | $ | $ | $ | $ |
| Income tax recovery based on combined federal and provincial tax rates of 30.5% (March 31, 2019 - 31%) | (64,238) | (5,773) | (65,385) | (9,391) |
| Income taxes increased (reduced) by: | | | | |
| Share-based compensation | 10 | 210 | 296 | 222 |
| Goodwill impairment | 56,286 | — | 56,286 | — |
| Non-taxable or non-deductible portion of capital gain/(loss) | 1,594 | (1,410) | 1,433 | 527 |
| Tax rate differential | 1,503 | (1,105) | 822 | 1,341 |
| Non-controlling interest | (1,152) | (2,049) | (6,355) | (5,724) |
| True-up to return | (928) | 3,243 | (928) | 3,243 |
| Non-capital losses not recognized | 11,556 | — | 15,754 | — |
| Other | (495) | (369) | — | (702) |
| Expense (recovery) of income taxes | 4,136 | (7,253) | 1,923 | (10,484) |

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.

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

## 10 Share capital and contributed surplus

| | March 31, 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 | — | — |
| Employee share purchase plan | 65,561 | 110 | 100,390 | 226 |
| PSU's exercised | 30,552 | 209 | 78,460 | 541 |
| Options exercised | 81,000 | 174 | 465,625 | 1,224 |
| Ending balance | 171,043,622 | 366,375 | 134,938,365 | 307,158 |

### Preferred Variable Voting Shares ("PVVS")

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 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.

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

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 March 31, 2020, the Company had 36,727,386 Common Voting Shares and 134,316,236 Variable Voting Shares issued and outstanding.

**Omnibus equity incentive plan ("Omnibus Plan")**

On December 17, 2019, the shareholders of the Company approved to adopt 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.

**Options**

During the three and nine month periods ended March 31, 2020, the Company recognized a share-based compensation expense of $230 and expense of $970 for the vesting of options, respectively (2019 - $635 and $717, respectively), with a corresponding adjustment to contributed surplus.

During the nine months period ended March 31, 2020, there were no options granted, 1,824,791 options forfeited and 2,206,025 options expired.

**Performance share unit ("PSU") plan**

During the first quarter of fiscal 2020, the remaining 55,852 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 three and nine month periods ended March 31, 2020, the Company granted 200,000 and 2,725,000 PSUs, respectively, 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 three and nine month periods ended March 31, 2020, the Company recognized share-based compensation expense on the current year awards of $33 and $67, respectively (2019 - $nil) with a corresponding adjustment to contributed surplus.

**Restricted share unit ("RSU") plan**

During the three and nine month periods ended March 31, 2020, the Company granted 956,577 and 3,776,577 RSUs, respectively, as part of the Omnibus Plan.

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 vesting period for the 1,500,000 RSUs granted in the first quarter of fiscal 2020 is in three equal instalments on each anniversary date from the grant date over a three-year period. The remaining 2,276,577 RSUs granted in the second and third quarter of fiscal 2020 vest three years from the date of grant.

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

During the three and nine month periods ended March 31, 2020, the Company recognized share-based compensation expense of $597 and $1,246 respectively (2019 - $nil for both periods) with a corresponding adjustment to contributed surplus.

**Deferred share unit ("DSU") 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. 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 three and nine month periods ended March 31, 2020, the Company granted 159,559 and 709,403 DSUs respectively, and recognized share-based compensation expense of $230 and $997, respectively (2019 - $nil for both periods).

**Long term incentives plan ("LTIP")**

During the three and nine month periods ended March 31, 2020, the Company recognized share-based compensation expense of $80 and $567, respectively (2019 - $nil for both periods).

## 11 Finance costs, net

Net finance costs comprised of the following:

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | March 31, 2020 | March 31, 2019 | March 31, 2020 | March 31, 2019 |
| | $ | $ | $ | $ |
| **Finance costs** | | | | |
| Interest income | (403) | (491) | (1,518) | (1,715) |
| Interest expense on bank indebtedness | 19 | 61 | 43 | 387 |
| Interest on long-term debt | 7,727 | 8,649 | 24,760 | 28,222 |
| Interest on completed and released productions | 755 | 271 | 2,070 | 1,021 |
| Amortization of deferred financing fees | 544 | 915 | 2,375 | 2,707 |
| Loss on modification of long-term debt and write-down of unamortized issue costs | — | — | 8,265 | 7,320 |
| Accretion on Convertible Debentures, lease liabilities and other | 1,380 | 815 | 3,944 | 2,544 |
| | 10,022 | 10,220 | 39,939 | 40,486 |

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

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

## 12 Expenses by nature and employee benefit expense

The following sets out the expenses by nature:

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | **March 31, 2020** | **March 31, 2019** | **March 31, 2020** | **March 31, 2019** |
| | **$** | **$** | **$** | **$** |
| Direct production and new media costs | 38,874 | 44,923 | 144,246 | 151,383 |
| Expense of film and television programs | 11,625 | 13,791 | 29,971 | 29,065 |
| Expense of film and broadcast rights for broadcasting | 3,443 | 3,999 | 10,229 | 11,750 |
| Amortization of property and equipment and intangible assets | 6,526 | 5,574 | 18,122 | 17,073 |
| Amortization of acquired and library content | 3,030 | 3,888 | 8,998 | 11,042 |
| Write-down of investment in film and television programs, acquired and library content, intangible assets and goodwill | 187,300 | 34,199 | 194,104 | 36,154 |
| Office and administrative | 4,615 | 5,363 | 13,641 | 14,688 |
| Investor relations and marketing | 632 | 833 | 2,395 | 2,120 |
| Professional and regulatory | 1,999 | 1,180 | 6,385 | 5,061 |
| Reorganization, development and other, excluding employee benefits | 1,241 | 1,365 | 6,150 | 4,085 |
| Finance costs, net | 10,022 | 10,220 | 39,939 | 40,486 |
| Change in fair value of embedded derivative | (1,833) | (1,600) | (3,747) | (3,500) |
| Foreign exchange loss (gain) | 25,921 | (7,542) | 24,311 | 5,534 |
| | 293,395 | 116,193 | 494,744 | 324,941 |

The following sets out the components of employee benefits expense:

| | | | | |
|---|---|---|---|---|
| Salaries and employee benefits | 13,245 | 12,178 | 38,944 | 36,101 |
| Share-based compensation (note 10) | 1,173 | 686 | 3,791 | 741 |
| Termination and other benefits | 1,203 | — | 9,630 | — |
| | 15,621 | 12,864 | 52,365 | 36,842 |
| | 309,016 | 129,057 | 547,109 | 361,783 |

## 13 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 coronavirus 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 and cash equivalents, and credit exposure to customers through its outstanding trade receivables.

The maximum exposure to credit risk for cash and cash equivalents and trade receivables approximate the amount recorded on the unaudited interim condensed consolidated balance sheet of $236,022 at March 31, 2020 (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 resulted in an increase in 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 the majority of the Company's customers are large Canadian and international broadcasters, or large international distribution companies, we have not seen a 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 the quarter, and discussions with customers, the Company believes that the loss provision is adequate as at March 31, 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 and cash equivalents 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 nine month period ended March 31, 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<br>$ | Less than 1 year<br>$ | 1 to 3 years<br>$ | 4 to 5 years<br>$ | After 5 years<br>$ |
|---|---|---|---|---|---|
| Bank indebtedness | 10,000 | 10,000 | — | — | — |
| Accounts payable and accrued liabilities | 114,974 | 114,974 | — | — | — |
| Interim production financing | 67,550 | 67,550 | — | — | — |
| Other long-term liabilities | 6,617 | — | 6,617 | — | — |
| Senior unsecured convertible debentures | 177,024 | 8,225 | 16,450 | 152,349 | — |
| Term facility | 454,784 | 16,671 | 33,342 | 404,771 | — |
| Finance lease obligations | 61,086 | 11,644 | 20,038 | 14,942 | 14,462 |
| | 892,035 | 229,064 | 76,447 | 572,062 | 14,462 |

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 March 31, 2020, the Company had cash balances of $62,221 and amounts receivable of $237,499. 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.

### 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 dollar, US dollar and GBP.

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

At March 31, 2020, the Company revalued its financial assets and liabilities denominated in a foreign currency at the prevailing exchange rates. A 1% change in the USD, GBP, JPY or Euro foreign exchange rates would have an approximate $6,000 effect on net income (loss) for the nine month period ended March 31, 2020.

**Fair value of financial instruments**

Financial instruments recorded at fair value on the unaudited interim condensed 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 | | | |
|---|---|---|---|---|
| | March 31, 2020 | | June 30, 2019 | |
| | Fair value hierarchy | Fair value(1) | Fair value hierarchy | Fair value(1) |
| | | $ | | $ |
| Embedded Derivatives(2) | Level 2 | (1,008) | Level 2 | (4,755) |
| Foreign currency forwards(3) | Level 2 | (635) | Level 2 | — |

(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) The fair value of embedded derivatives are estimated using valuation models.

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

As at March 31, 2020, the Company held forward contract options with a total notional value ranging from 5,000 - 6,250 GBP, to exchange US dollars for GBP at an average range from 1.2925 to 1.3295. The Company does not apply hedge accounting and are measured at fair value at each reporting date. The estimated fair value as at March 31, 2020 was a liability of $635 (June 30, 2019 - $nil), which has been included in accounts payable and accrued liabilities in the unaudited interim condensed consolidated balance sheet.

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

**Financial assets and liabilities not measured at fair value**

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

| | As at | | | | | |
|---|---|---|---|---|---|---|
| | March 31, 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 | 87,500 | 118,788 | 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.

## 14 Earnings or loss per common share

a) Basic

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

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | March 31, 2020 | March 31, 2019 | March 31, 2020 | March 31, 2019 |
| | $ | $ | $ | $ |
| Net loss attributable to shareholders of the Company | (221,707) | (18,428) | (239,979) | (38,722) |
| Weighted average number of common shares outstanding (in 000's) | 171,012 | 134,954 | 152,013 | 134,752 |
| Basic loss per share | (1.30) | (0.14) | (1.58) | (0.29) |

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 and PSUs, or the exercise of the conversion option of the convertible debentures. The number of additional shares for inclusion in the diluted earnings per share calculation was determined using the treasury stock method.

For the three and nine month periods ended March 31, 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 for the period and the exercise of any potentially dilutive instruments would be anti-dilutive.

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

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | March 31, 2020 $ | March 31, 2019 $ | March 31, 2020 $ | March 31, 2019 $ |
| Net loss attributable to shareholders of the Company | (221,707) | (18,428) | (239,979) | (38,722) |
| Weighted average number of common shares (in 000's) | 171,012 | 134,954 | 152,013 | 134,752 |
| Dilutive effect of share-based compensation (in 000's) | — | — | — | — |
| Weighted average number of diluted shares outstanding | 171,012 | 134,954 | 152,013 | 134,752 |
| Diluted loss per share | (1.30) | (0.14) | (1.58) | (0.29) |

## 15 Related party transaction

During the second quarter of fiscal 2020, the Company entered into a standby purchase agreement with Fine Capital Partners, L.P. ("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 10 for additional details) for a fee of $1.5 million. 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.

See subsequent events note 20 for additional disclosures on a transaction with Fine Capital.

## 16 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.

The Company’s capital at March 31, 2020 and June 30, 2019 is summarized in the table below:

| | March 31, 2020 $ | June 30, 2019 $ |
|---|---|---|
| Total bank indebtedness, long-term debt and lease liabilities, excluding interim production financing | 563,084 | 534,068 |
| Less: Cash | (62,221) | (39,999) |
| Net debt | 500,863 | 494,069 |
| Total Shareholders’ Equity | 357,040 | 499,978 |
| | 857,903 | 994,047 |

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.

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

## 17 Statement of cash flows - supplementary information

### Net change in non-cash balances related to operations

| | March 31, 2020 $ | March 31, 2019 $ |
|---|---|---|
| Decrease (increase) in amounts receivable | 45,017 | (33,504) |
| Decrease (increase) in prepaid expenses and other | (1,285) | 2,678 |
| Decrease (increase) in long-term amounts receivable | (342) | 8,759 |
| Increase (decrease) in accounts payable and accrued liabilities | 18,853 | (12,713) |
| Increase (decrease) in deferred revenue | (19,202) | (3,433) |
| Tangible benefit obligation payments | (2,176) | (1,090) |
| | 40,865 | (39,303) |

During the nine month period ended March 31, 2020, the Company paid the following:

| | March 31, 2020 $ | March 31, 2019 $ |
|---|---|---|
| Taxes paid | (5,676) | (15,478) |
| Taxes refunded | 8,830 | 7,445 |

### Net change in film and television programs

| | Nine months ended March 31, 2020 $ | March 31, 2019 $ |
|---|---|---|
| Decrease (increase) in development | (1,049) | 210 |
| Decrease (increase) in productions in progress | 5,829 | 3,275 |
| Decrease (increase) in productions completed and released | (41,546) | (30,422) |
| Expense of film and television programs | 29,971 | 29,065 |
| Decrease (increase) in program and film rights - broadcasting | (8,386) | (4,125) |
| Expense of film and broadcast rights for broadcasting | 10,229 | 11,750 |
| | (4,952) | 9,753 |

(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 $ | Total $ |
|---|---|---|---|---|
| **Balance - June 30, 2019** | 407,031 | 120,850 | 6,187 | 534,068 |
| Repayments | (57,819) | — | (7,714) | (65,533) |
| **Total financing cash flow activities** | (57,819) | — | (7,714) | (65,533) |
| Initial recognition of lease liabilities under IFRS 16 | — | — | 34,167 | 34,167 |
| Amortization of deferred financing costs | 1,703 | 672 | — | 2,375 |
| Loss on modification of long-term debt and write-down of unamortized issue costs | 8,265 | — | — | 8,265 |
| Lease liabilities additions | — | — | 12,053 | 12,053 |
| Payment of debt amendment fees | (2,934) | — | — | (2,934) |
| Change in fair value of embedded derivatives | — | (3,747) | — | (3,747) |
| Interest paid on lease liabilities | — | — | (1,750) | (1,750) |
| Accretion expense | — | 2,021 | 1,750 | 3,771 |
| Foreign exchange | 31,167 | — | 1,182 | 32,349 |
| **Total other financing activities** | 38,201 | (1,054) | 47,402 | 84,549 |
| **Balance - March 31, 2020** | 387,413 | 119,796 | 45,875 | 553,084 |

| | Term facility $ | Senior unsecured convertible debentures $ | Lease liabilities $ | Total $ |
|---|---|---|---|---|
| **Balance - June 30, 2018** | 623,066 | 124,747 | 8,757 | 756,570 |
| Repayments | (212,437) | — | (4,128) | (216,565) |
| **Total financing cash flow activities** | (212,437) | — | (4,128) | (216,565) |
| Amortization of deferred financing costs | 2,037 | 670 | — | 2,707 |
| Write-down of term facility unamortized issue costs | 7,320 | — | — | 7,320 |
| Lease liability additions | — | — | 3,131 | 3,131 |
| Change in fair value of embedded derivatives | — | (3,500) | — | (3,500) |
| Interest paid on lease liabilities | — | — | (546) | (546) |
| Accretion expense | — | 1,685 | 546 | 2,231 |
| Foreign exchange | 6,691 | — | — | 6,691 |
| **Total other financing activities** | 16,048 | (1,145) | 3,131 | 18,034 |
| **Balance - March 31, 2019** | 426,677 | 123,602 | 7,760 | 558,039 |

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

## 18 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.

| | Three months ended March 31, 2020 | | | |
|---|---|---|---|---|
| | CPLG | Television | Content | Consolidated |
| | $ | $ | $ | $ |
| Revenues | 3,258 | 11,540 | 83,543 | 98,341 |
| Direct production costs and expense of film and television produced, and selling, general and administrative | 3,856 | 5,962 | 61,371 | 71,189 |
| **Segment profit (loss)** | (598) | 5,578 | 22,172 | 27,152 |
| Corporate selling, general and administrative | | | | 4,417 |
| Amortization of property and equipment and intangible assets | | | | 6,526 |
| Amortization of acquired and library content | | | | 3,030 |
| Finance costs, net | | | | 10,022 |
| Foreign exchange loss | | | | 25,921 |
| Change in fair value of embedded derivative | | | | (1,833) |
| Write-down of investment in film and television programs, acquired and library content, property and equipment, and goodwill | | | | 187,300 |
| Reorganization, development and other | | | | 2,444 |
| **Loss before income taxes** | | | | (210,675) |

| | Three months ended March 31, 2019 | | | |
|---|---|---|---|---|
| | CPLG | Television | Content | Consolidated |
| | $ | $ | $ | $ |
| Revenues | 2,864 | 12,349 | 94,773 | 109,986 |
| Direct production costs and expense of film and television produced, and selling, general and administrative | 3,503 | 7,308 | 65,563 | 76,374 |
| **Segment profit (loss)** | (639) | 5,041 | 29,210 | 33,612 |
| Corporate selling, general and administrative | | | | 6,579 |
| Amortization of property and equipment and intangible assets | | | | 5,574 |
| Amortization of acquired and library content | | | | 3,888 |
| Finance costs, net | | | | 10,220 |
| Foreign exchange gain | | | | (7,542) |
| Change in fair value of embedded derivative | | | | (1,600) |
| Write-down of investment in film and television programs, acquired and library content and intangible assets | | | | 34,199 |
| Reorganization, development and other | | | | 1,365 |
| **Loss before income taxes** | | | | (19,071) |

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

| | Nine months ended March 31, 2020 | | | |
|---|---|---|---|---|
| | **CPLG** | **Television** | **Content** | **Consolidated** |
| | **$** | **$** | **$** | **$** |
| Revenues | 10,319 | 35,978 | 286,435 | 332,732 |
| Direct production costs and expense of film and television produced, and selling, general and administrative | 10,683 | 18,994 | 203,728 | 233,405 |
| **Segment profit (loss)** | (364) | 16,984 | 82,707 | 99,327 |
| Corporate selling, general and administrative | | | | 16,197 |
| Amortization of property and equipment and intangible assets | | | | 18,122 |
| Amortization of acquired and library content | | | | 8,998 |
| Finance costs, net | | | | 39,939 |
| Foreign exchange loss | | | | 24,311 |
| Change in fair value of embedded derivative | | | | (3,747) |
| Write-down of investment in film and television programs, acquired and library content, property and equipment, and goodwill | | | | 194,104 |
| Reorganization, development and other | | | | 15,780 |
| **Loss before income taxes** | | | | (214,377) |

| | Nine months ended March 31, 2019 | | | |
|---|---|---|---|---|
| | **CPLG** | **Television** | **Content** | **Consolidated** |
| | **$** | **$** | **$** | **$** |
| Revenues | 9,797 | 39,402 | 281,841 | 331,040 |
| Direct production costs and expense of film and television produced, and selling, general and administrative | 10,166 | 21,670 | 202,918 | 234,754 |
| **Segment profit (loss)** | (369) | 17,732 | 78,923 | 96,286 |
| Corporate selling, general and administrative | | | | 16,155 |
| Amortization of property and equipment and intangible assets | | | | 17,073 |
| Amortization of acquired and library content | | | | 11,042 |
| Finance costs, net | | | | 40,486 |
| Foreign exchange loss | | | | 5,534 |
| Change in fair value of embedded derivative | | | | (3,500) |
| Write-down of investment in film and television programs, acquired and library content and intangible assets | | | | 36,154 |
| Reorganization, development and other | | | | 4,085 |
| **Loss before income taxes** | | | | (30,743) |

(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:

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | March 31, 2020 | March 31, 2019 | March 31, 2020 | March 31, 2019 |
| | $ | $ | $ | $ |
| **Content** | | | | |
| Production revenue | 9,755 | 9,956 | 24,534 | 18,460 |
| Distribution revenue | 25,054 | 35,632 | 101,563 | 94,239 |
| Merchandising and licensing and other revenue | 37,678 | 37,511 | 125,053 | 121,647 |
| Producer and service fee revenue | 11,056 | 11,674 | 35,285 | 47,495 |
| | 83,543 | 94,773 | 286,435 | 281,841 |
| **Television** | | | | |
| Subscriber revenue | 10,425 | 11,016 | 31,982 | 35,448 |
| Promotion and advertising revenue | 1,115 | 1,333 | 3,996 | 3,954 |
| | 11,540 | 12,349 | 35,978 | 39,402 |
| **CPLG** | | | | |
| Third party brand representation revenue | 3,258 | 2,864 | 10,319 | 9,797 |
| | 98,341 | 109,986 | 332,732 | 331,040 |

## 19 Reclassification of comparatives

Certain prior period amounts in the unaudited interim condensed consolidated statement of cash flows have been reclassified to conform with the current period presentation. In particular, 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.

## 20 Subsequent events

On May 13, 2020, the Company entered into a binding term sheet with Fine Capital, a related party, for up to $25.0 million in exchangeable secured debentures (the “Exchangeable Debentures”). The Exchangeable Debentures will be 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 Total Net Leverage Ratio under such agreement. The Exchangeable Debentures will bear interest on the outstanding principal amount at 7.5% per annum payable at maturity three years from the date of the initial closing. Upon closing, $16.5 million of the Exchangeable Debentures will be issued with the remainder drawn at the Company’s discretion. The Exchangeable Debentures are exchangeable for Variable Voting Shares of WildBrain at a price of $1.45 per share, subject to certain regulatory and stock exchange limitations. Concurrent with the issuance of the Exchangeable Debentures, the Company will issue to 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. The Exchangeable Debentures will be non-recourse to the Company. The closing of the Exchangeable Debentures is conditional on completion of definitive agreements, TSX approval and other customary closing conditions and regulatory approvals. The Exchangeable Debentures will be used to fund acquisitions and investments to drive the Company’s content and brand strategy with a focus on the Company’s AVOD business, WildBrain Spark.

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

The Corporate Finance Committee of the Board of Directors of the Company, which is comprised of independent directors who do not have a financial interest in this transaction and are also independent of Fine Capital, negotiated the terms of the Exchangeable Debentures. The Corporate Finance Committee retained Origin Merchant Partners to act as its independent financial advisor.