



**Q1 2022**

**Management Discussion and Analysis  
of Financial Condition and Results of Operation  
For the Three-Months ended September 30, 2021 and September 30, 2020**

## MANAGEMENT DISCUSSION AND ANALYSIS

The following Management Discussion & Analysis ("MD&A") dated as of November 9, 2021 presents an analysis of the consolidated financial condition of WildBrain Ltd. and its subsidiaries (together referred to as "WildBrain", the "Company", "we", "our" or "us") as at September 30, 2021 compared to June 30, 2021, and the consolidated results of operations for the three-month period ended September 30, 2021 compared with the corresponding periods ended September 30, 2020. This MD&A should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements and related notes for the quarter ended September 30, 2021. Unless otherwise noted, the financial information reported herein has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, and are presented in thousands of Canadian Dollars, except per share amounts and as otherwise indicated. Some figures and percentages may not total exactly due to rounding.

This MD&A refers to certain financial measures that are not determined in accordance with IFRS. Although these measures do not have standardized meanings and may not be comparable to similar measures presented by other companies, these measures are defined herein or can be determined by reference to our unaudited interim condensed consolidated financial statements. The Company discusses these measures because it believes that they assist the reader in better understanding operations and key financial results.

WildBrain is a public company whose common voting shares ("Common Voting Shares") and variable voting shares ("Variable Voting Shares") are traded on the Toronto Stock Exchange ("TSX") under the ticker 'WILD'. Headquartered in Canada, WildBrain has offices worldwide.

Further information about the Company can be found on our website at [www.wildbrain.com](http://www.wildbrain.com) or on SEDAR at [www.sedar.com](http://www.sedar.com).

### Caution Regarding Forward-Looking Statements

Certain statements contained in this MD&A and documents referenced herein constitute "forward-looking information" and "forward-looking statements" within the meaning of applicable Canadian securities legislation (collectively herein referred to as "forward-looking statements"), including the provincial securities legislation in Canada. These statements relate to future events or future performance, and reflect the Company's expectations and assumptions regarding the growth, results of operations, performance and business prospects and opportunities of the Company and its subsidiaries. Forward looking statements are often, but not always, identified by the use of words such as "may", "would", "could", "will", "should", "expect", "expects", "plan", "intend", "anticipate", "believe", "estimate", "predict", "potential", "pursue", "continue", "seek", "intend" or the negative of these terms or other similar expressions concerning matters that are not historical facts. In particular, statements regarding the Company or any of its subsidiaries' objectives, plans and goals, including those related to future operating results, financial performance, and the markets and industries in which the Company operates are or involve forward-looking statements. Specific forward-looking statements in this document include, but are not limited to:

- the business strategies, operational activities, and strategic priorities of WildBrain and its subsidiaries;
- management's financial targets and priorities, and the future financial and operating performance, projections, and goals of the Company and its subsidiaries, including Adjusted EBITDA, revenue, cash flow, and leverage;
- the timing for implementation of certain business strategies and other operational activities of WildBrain;
- the markets and industries, including competitive conditions, in which WildBrain operates, including the market for content;
- legal and regulatory changes and potential impacts on WildBrain and the markets and industries in which it operates;
- the value, prospects and opportunities of the Company and its assets;
- WildBrain's production pipeline and projects in development;
- the ability of the Company to license its content into numerous markets repeatedly;
- the positioning and ability of the Company to monetize its library, content and other business lines;
- the growth and strategies to drive growth of the WildBrain Spark business;
- changes in YouTube's approach to advertising and expected results therefrom, including the impact on the financial and operating performance of WildBrain Spark through, among other things, improved monetization;
- the growth and proliferation of digital / non-linear distribution of media content;
- the future market and demand for content;

- the activation of the Company's IP and results and benefits therefrom;
- use of proceeds from an exchangeable debenture financing;
- use of capital for investments and other growth opportunities and expected returns and benefits therefrom;
- the impact of epidemics, pandemics or other public health crises, including the current outbreak of COVID-19, which could have a significant and ongoing negative impact on the Company, its employees, its business and results of operations, including but not limited to consumer-products, studio productions and advertising; and
- further actions the Company may have to take in response to COVID-19, and the impact of such actions taken.

Forward-looking statements are based on factors and assumptions that management believes are reasonable at the time they are made, but a number of assumptions may prove to be incorrect, including, but not limited to, assumptions about: (i) the Company's future operating results, (ii) the expected pace of expansion of the Company's operations, (iii) future general economic and market conditions, including debt and equity capital markets and the availability of financing on acceptable terms, (iv) the impact of increasing competition on the Company, (v) changes in the industries and changes in laws and regulations related to the industries in which the Company operates, (vi) consumer and consumer preferences, (vii) the ability of the Company to execute on acquisition and other growth strategies and opportunities and realize the expected benefits therefrom, (viii) the ability of the Company to execute on production, distribution and licensing arrangements, (ix) the availability of investment opportunities at acceptable valuations and the ability of the Company to execute on such investment opportunities, (x) interest and foreign exchange rates, (xi) the timing for commencement and completion of productions, (xii) the ability of the Company and its partners to execute on its brand plans and consumer products programs, (xiii) changes in the markets and industries in which the Company operates and the ability of the Company to adapt to such changes, (xiv) changes to YouTube and in advertising markets, and (xv) the ability of company to commercialize consumer products related to its brands. Although the forward-looking statements contained in this MD&A and any documents incorporated by reference herein are based on what the Company considers to be reasonable assumptions based on information currently available to the Company, there can be no assurances that actual events, performance, or results will be consistent with these forward-looking statements and these assumptions may prove to be incorrect.

Forward-looking statements are inherently subject to risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections, or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. A number of known and unknown risks, uncertainties, and other factors, many of which are beyond the control of the Company, could cause actual events, performance or results to differ materially from what is projected in the forward-looking statements. Factors that could cause actual results or events to differ materially from current expectations include, but are not limited to, epidemics, pandemics or other public health crises, including the current outbreak of COVID-19, the magnitude and length of economic disruption as a result of the worldwide COVID-19 outbreak and its impact on advertising markets and the consumer products and retail sectors, among other things, competition and competitor activities, product development and acceptance, the ability of the Company to acquire, develop and exploit entertainment properties, the Company's ability to source IP and creative talent who can develop IP, consumer and customer preferences, the ability of the Company to execute on its strategy, the Company's leverage and indebtedness and failure to meet covenant requirements under the senior credit facility of the Company (as and where applicable), the ability of the Company to execute on production and licensing arrangements, the ability of the Company to attract and retain talent, reliance on key personnel, risks relating to the Company's exposure to advertising revenues through YouTube and the ability of the Company to attract and realize on advertising revenues, including through YouTube and on other platforms, adverse publicity, risks related to doing business internationally, interest and foreign exchange rates fluctuations, the reliance of the Company on the Internet and other technologies to continue to conduct its business, technology changes, intellectual property infringement and other claims, the ability of the Company to exploit its content library, access to capital, maintaining effective internal controls, equity capital markets risk and market share price fluctuations, loss of Canadian status, access to government incentives, loss of television licenses, the availability of acquisition and investment opportunities at acceptable valuations and the ability to execute on such opportunities, production risks, financial risks and dilution from the Company's capital requirements, labour relations, changes in the regulatory environment, general economic and market segment conditions, market factors, and catastrophic events and circumstances. In evaluating these forward-looking statements, investors and prospective investors should specifically consider these and various other risks, uncertainties and other factors which may cause actual events, performance, or results to differ materially from any forward-looking statement.

This is not an exhaustive list of the factors that may affect any of the Company's forward-looking statements. Please refer to a discussion of the above and other risk factors related to the business of the Company and the industry in which it operates that will continue to apply to the Company, which are discussed in the Company's Annual Information Form ("AIF") for the year ended June 30, 2021 filed on [www.sedar.com](http://www.sedar.com) and in this MD&A below under the "Risk Assessment" section.

These forward-looking statements are made as of the date of this MD&A or, in the case of documents referenced herein, as of the date of such documents, and the Company does not intend, and does not assume any obligation, to update or revise them to reflect new events or circumstances, except in accordance with applicable securities laws. Investors and prospective investors are cautioned not to place undue reliance on forward-looking statements.

## Business Overview

WildBrain is a leading independent kids and entertainment company, recognized globally for high-profile properties including *Caillou*, *Chip and Potato*, *Degrassi*, *Inspector Gadget*, *Johnny Test*, *Peanuts*, *Strawberry Shortcake*, *Teletubbies* and *Yo Gabba Gabba!*. We focus on children and family content, given the international reach and longer lifespan of this genre of programming and the potential to monetize this content across multiple revenue streams. Kids' and family content travels across cultures and consists largely of animated series, which can be easily dubbed into multiple languages. Such content is timeless and therefore can be licensed into numerous markets repeatedly for many years.

In addition to being one of the world's foremost producers of children's series, WildBrain also owns the world's largest independent library of children's content of approximately 13,000 half-hours. We take a 360° approach to growing brands by monetizing content and related intellectual property ("IP") across our business by:

1. producing for, and distributing shows to, over 500 streaming services and linear broadcasters worldwide;
2. monetizing our large digital audience by generating advertising and other revenues through our wholly owned subsidiary, WildBrain Spark, which operates one of the largest networks of children's AVOD channels on YouTube; and
3. realizing royalties from sales of consumer products based on our owned IP and partner brands as well as representing third-party lifestyle and entertainment brands around the world through our wholly-owned licensing agency business, WildBrain CPLG. We also realize operational synergies by using WildBrain CPLG as the agent for a number of our owned brands.

We also own and operate the Family suite of linear specialty kids channels in Canada, which has been a trusted broadcaster for over 25 years and provides stable cash flow, and also serves to fund and facilitate new content for our library.

## Revenue Model

In Q1 2021, we reclassified our financial reporting to better reflect our 360° approach to growing brands and the characteristics of the transactions that we are entering into with global streaming services ("SVODs") and across other distribution channels. Accordingly, we now report production and distribution in one revenue line under Content Production and Distribution.

As the market for content continues to evolve and competition for viewers intensifies, major SVODs, such as Apple, Amazon Prime, Hulu, Netflix and HBO Max, are investing significantly to deliver high-quality, exclusive programming. Under this model, typically the SVODs pay for the cost of production, inclusive of production fees, while we retain ownership of the underlying IP as well as linear distribution rights (after a hold back of approximately 24 to 36 months) and all consumer products revenues. This differs from the traditional production/distribution model of covering production costs from multiple linear broadcasters, with margins realized over multi-year licensing cycles. Since our slate has become a combination of both these models, we have revised our reporting to aggregate production and distribution, which is consistent not only with the integrated management of our business, but also with industry practice.

We also consolidated reporting of all revenue streams related to consumer products under Consumer Products. This includes revenue from our owned brands (inclusive of our Peanuts business), partnerships with third-party brands (where we get a share of back-end consumer products royalties), and our licensing agency business WildBrain CPLG (which represents both third-party brands and our owned IP).

Revenue from WildBrain Spark continues to be reported separately, as the majority of its revenue is derived from advertising and sponsorships.

Collectively, the three preceding revenue lines (Content Production and Distribution, Consumer Products and WildBrain Spark) comprise our Content Business for reporting purposes.

For clarity, our Canadian television business has been renamed Canadian Television Broadcasting and continues to be reported separately.

Accordingly, WildBrain operates through the following two reportable segments:

1. Content Business - comprising revenue generated from:
  - Content Production and Distribution - production in our studio for our proprietary content, production with strategic brand partners and third-party service work as well as distribution of proprietary and third-party titles in our library;
  - WildBrain Spark - distribution of content from our owned IP and third-party partners on our AVOD platform, using data analytics to grow brands, digital ad sales and paid media; and

- Consumer Products - licensing royalties from our owned IP and through our brand partnerships as well as commissions earned from our licensing agency business.

2. Canadian Television Broadcasting - comprises revenue from operating our Family broadcast channels in Canada.

### Content Production and Distribution

Content Production and Distribution includes production revenue generated: i) by licensing broadcast or streaming rights for our proprietary titles to linear broadcast or SVOD networks, ii) from our strategic brand partnerships such as with Mattel, and iii) service revenue earned when producing animation or live-action programs for third parties. Service work does not typically result in the ownership of IP.

This segment includes distribution revenue derived from licensing shows from our content library including internally produced and acquired library titles, and third-party produced titles for which we hold distribution rights. We distribute titles to digital platforms (e.g. Apple, Amazon Prime, Netflix and home entertainment) and linear broadcast channels across different geographic jurisdictions.

### WildBrain Spark

WildBrain Spark revenue is generated from our platform of kids and family AVOD channels where we distribute both our owned content and content of third-party brands on YouTube and other AVOD platforms. Revenues are earned primarily through third-party algorithmic advertising on the WildBrain Spark platform. Other sources of revenue include producing original short-form content (animation, toy play, stop motion and live action), running advertising campaigns (paid media) and direct advertising sales on our AVOD platform.

### Consumer Products Revenue

Consumer Products revenue is earned from generating licensing royalties on our proprietary brands (among others, *Caillou*, *In the Night Garden*, *Peanuts*, *Strawberry Shortcake*, *Teletubbies*, and *Yo Gabba Gabba!*), including merchandising, publishing, music rights, live tours and themed-events, interactive games and apps, and from consumer products royalties earned through our strategic brand partnerships such as with Mattel.

Consumer Products also includes revenue earned through our WildBrain CPLG agency business. WildBrain CPLG earns commissions by licensing owned brands and third-party brands from lifestyle brand owners, film studios and other independent IP owners.

### Canadian Television Broadcasting Revenue

Canadian Television Broadcasting revenue is earned primarily through monthly subscriber fees as well as advertising, promotion and other revenues through our owned broadcast channels including Family Channel, Family Jr, Télémagino, and Family CHRGD. Subscription fees are earned monthly through partnerships with Canadian cable and satellite television distributors. In addition, all four channels have multi-platform applications, which allow their content to be distributed both on-demand and streamed.

## **Strategy and Outlook**

As a content producer, distributor and IP owner, WildBrain is focused on building brands and managing them throughout their life cycles by producing and distributing shows and creating consumer awareness for these brands across all media platforms, and generating royalties from the sale of consumer products based on our shows and brands.

### Evolving Market for Content

As the market for content evolves, major streaming platforms, such as Apple, Amazon Prime, Hulu and Netflix, are investing in larger-budget, original shows, often paying a premium for those based on established brands. Simultaneously, YouTube has emerged as one of the most popular destinations for short-form kids' entertainment.

We capitalize on the demand for premium content and short-form content to grow brands by leveraging our position as the owner of many well-known brands, the world's largest independent library of children's content, comprised of approximately 13,000 half-hours, and our large digital audience on WildBrain Spark, and our market-leading AVOD network of kids' videos on YouTube and other AVOD platforms.

In January 2020, YouTube introduced new rules and policies for 'Made for Kids' content, including how that content is managed and monetized, and the features available, or limited, on that content. We believe these changes create a more positive environment, and ultimately, improved monetization, which will reward quality content. We are ideally positioned to benefit from these changes. Advertising is now sold based on the content itself and the demographic that enjoy this content ("contextual advertising"), similar to the contextual advertising model for linear TV where we have considerable experience.

As a result of the changes made by YouTube in January 2020, to eliminate targeted advertising on kids and family content (also referred to as "Made for Kids"), we experienced downward pressure on advertising rates through Fiscal 2021. Advertising rates began to gradually recover in the latter part of Q1 2021 and this improvement has continued.

Furthermore, the global advertising industry was significantly impacted by the COVID-19 pandemic, and advertising revenue declined further in our AVOD business in the latter part of March 2020. While these market conditions for advertising extended into our Fiscal 2021, we began to see sequential improvements in advertising revenue in the latter part of Q1 2021 and this positive trend has continued into Fiscal 2022. See "Business Update and Protection Measures in Response to COVID-19" section below for more discussion on the impact of COVID-19 on our business.

We believe WildBrain Spark has significant long-term potential and are taking actions to evolve and grow this business. Given its large and expanding viewership, WildBrain Spark is a valuable platform to drive audience awareness and to build user engagement for our IP and partner brands. We continue to focus on growing higher value views and pursuing initiatives to monetize our large user base. These include, building our own direct ad sales team to sell to agencies and advertisers offering placement on our kid-safe, curated content, further mining our content library, using our data analytics and insights to determine what kids like to watch, and create more of that content, growing our network with new third-party brands, growing owned brands, and expanding into new revenue areas and platforms to drive future growth. The investments and capabilities driving growth in nascent revenue streams including direct ad sales, paid media and digital production fees that are increasing diversification from primarily YouTube monetization at WildBrain Spark. Furthermore, we are realizing the strategic value of WildBrain Spark's massive audience engagement and reach to secure comprehensive partnerships with brand owners that benefit various areas of our business from content, licensing and audience delivery that will fuel growth across our company and build quality, durable earning streams and consumer products upside.

#### Business Update and Protection Measures in Response to COVID-19

In response to the global COVID-19 crisis, we implemented business-continuity plans to keep our people safe while managing our global operations. These included implementing work-from-home measures for all our employees across our global organization. Fortunately, we can conduct much of our business remotely and have been able to keep our global team connected and productive.

##### *Premium Content Production Continues:*

- We were able to expeditiously transition our animation studio of approximately 700 team members to work-at-home solutions. Our studio team is operating at over 95% productivity and is expected to deliver our shows on budget and with minimal delays.
- Our current production slate remains healthy, with a robust pipeline. Production is ongoing on new WildBrain content, for partners such as LEGO, DreamWorks, Netflix, Mattel, SEGA and Apple TV+.

##### *Content Distribution Across All Media Platforms:*

- Our Canadian Television channel business continues to deliver consistent cash flow despite subscriber erosion in line with the broader linear TV market. We do not expect the impact arising from current economic uncertainties due to COVID-19 to have a material impact on our channel business, which derives approximately 90% of its revenue from subscriber fees.
- Distribution of our library content fluctuates quarter to quarter based on when deals are closed and timing of content deliveries. We are also leveraging new productions to drive library sales, as evidenced by our expanded partnership with Apple TV+ on *Peanuts* and *Yo Gabba Gabba!*.
- WildBrain Spark continues to enjoy a highly engaged audience of 35.1 billion views on its AVOD network in Fiscal 2021, watching 215.9 billion minutes of videos. Advertising revenue also continued to rebound from the broad pull-back in media advertising due to the global pandemic starting in March 2020 as well as the changes to YouTube data-collection policies implemented in January 2020. WildBrain Spark's revenue increased 73% in Q1 2022 and rose by 81% in Q4 2021, compared with the same prior year periods. This improvement compared with declines of 60% in the first quarter of 2021, compared with Q1 2020. Over the longer term, we are in a favorable position to capitalize on the growing trends of viewership and digital advertising given our compelling offering of premium content in a curated environment that engages a family audience and what advertisers are looking for. WildBrain Spark's significant audience engagement and global reach are also expanding cross-selling opportunities with IP and content owners to drive revenue across our other business units including the recent content and licensing partnerships with the emoji company and Moose Toys (Akedo).

### *Consumer Products Driven by Peanuts Franchise:*

- Our first new original Peanuts series, *Snoopy in Space*, has proven to be one of the most popular shows on Apple TV+, extending the profile and reach of the Peanuts brand on a leading global media platform for today's families. As part of our recently expanded partnership, kids and families will be enjoying both the classic specials and more new Peanuts programming in the weeks, months and years to come on Apple's streaming platform worldwide.
- Our consumer products business continues to perform well, driven by our Peanuts franchise - a top-10 character brand at retail, supported by Apple's extensive global marketing campaign around the ongoing stream of new Peanuts content rolling out on Apple TV+. Our agency, WildBrain CPLG, is also experiencing significant growth due to its expanding client portfolio and licensing rights.

### *Business Protection Measures:*

In Fiscal 2021, encouraged by the performance of our business in the current environment, we suspended certain business protection measures implemented in Fiscal 2020, including the temporary salary reductions and restricted share units in lieu, to return to focus on growth in licensing and at WildBrain Spark, by investing in growing our direct ad sales teams as well as production, licensing and data analytics.

We continue to regularly assess the COVID-19 situation and evaluate the potential impacts on our business, as well as additional steps, if any, that may be required to ensure continuity of operations and the impact on our growth plans. We continue to believe in the long-term prospects and opportunities for our kids' content and brands.

### Content Strategy

Management is returning to growth by executing on a disciplined strategy aimed at generating attractive returns on invested capital, improving cash flow and driving organic growth by activating and building content-driven brands that are central to WildBrain's business. Our strategy is guided by the following key priorities:

- *Activating IP and Grow Key Brands* - Leveraging our capabilities to provide both new content development on premium, original long-form series to meet rising demand from major streaming platforms for exclusive programming; and digital - first content that reach kids wherever they are consuming content, to build and expand global franchise brands to drive consumer products royalties, and;
- *Maximizing the Value of WildBrain Spark* - Leveraging WildBrain Spark's network scale, global reach and audience engagement with, our data insights to drive consumer products by amplifying and building awareness and affinity for our own and partner brands.

### **Fiscal 2022 Outlook**

We expect growth to build in Fiscal 2022 and beyond as our growing production pipeline and the new deals we entered into in the prior fiscal year begin to be reflected in our results. We will continue to leverage WildBrain's 360° capabilities in content, distribution, audience delivery and licensing to maximize the profitability of our assets and IP. To that end, we are executing on our strategic priorities of activating and growing key brands and maximizing the value of our AVOD network, WildBrain Spark, to deliver sustainable growth.

## Fiscal 2022 Strategic Priorities

PRIORITIES	OBJECTIVES
Activate IP and Grow Key Brands	<ul style="list-style-type: none"> <li>- Activate our own and partner IP to grow brand franchises, leveraging our vertically integrated capabilities across content, licensing and audience delivery</li> <li>- Create and produce new series on IP with consumer products potential</li> <li>- Invest in creative talent and expand development pipeline</li> <li>- Leverage our capabilities to provide both premium originals for SVODs and digital-first content that reach kids wherever they are consuming content</li> <li>- Grow brand awareness and licensee base for Peanuts globally</li> <li>- Grow opportunities for our IP and content in underserved territories and with underexploited licensing categories</li> <li>- Expand our portfolio of holistic partnerships, leveraging our one-stop shop to build, market and merchandise brands and IP to drive revenue across our business and opportunities for profit-sharing</li> </ul>
Maximize the Value of WildBrain Spark	<ul style="list-style-type: none"> <li>- Grow viewership and audience engagement on our AVOD network</li> <li>- Use our AVOD network to drive consumer products by amplifying and building awareness and affinity for our own and partner brands</li> <li>- Use our network's global reach, scale and data insights to identify audience behaviour and trends to test-market, develop and exploit IP and source emerging IP</li> <li>- Continue to invest in our ad sales business and operations including data-analysis and ad-tech to grow nascent revenue streams in direct ad sales, paid media and digital production</li> <li>- Leverage our AVOD strength, and collaborate across WildBrain to sign holistic partnerships that drive multiple revenue streams and opportunities for profit-sharing</li> </ul>
Deliver Sustainable Growth	<ul style="list-style-type: none"> <li>- Grow revenue to approximately \$480.0 million to \$500.0 million and adjusted EBITDA<sup>1</sup> to between \$87.0 million and \$93.0 million</li> <li>- Continue to improve cash flow generation</li> <li>- Apply excess cash flow to debt repayment while investing in creative, our AVOD business and brands to support growth</li> <li>- Explore targeted partnerships to best monetize our assets globally</li> </ul>

Our Fiscal 2022 financial outlook is based on our latest projections and our current pipeline, as well as expected timing around revenue recognition on our production projects.

<sup>1</sup>Adjusted EBITDA are non-GAAP financial measures, see "Non-GAAP Financial Measures" section of this MD&A for their respective definitions as well as a reconciliation to GAAP measures.

## Financial Highlights for the Three-Months Ended September 30, 2021 ("Q1 2022")

- Consolidated revenue was \$112.6 million in Q1 2022, compared to \$95.5 million in Q1 2021, an increase of \$17.1 million or 18%. Higher revenue was driven by increases of \$9.6 million in Consumer Products, \$6.5 million in WildBrain Spark revenue, and \$1.2 million in Content Production and Distribution.
- Content Production and Distribution revenue of \$37.6 million in Q1 2022 increased by \$1.3 million, compared to \$36.3 million in Q1 2021. The increase was driven by higher production revenues from premium projects including *Sonic Prime* and multiple new series and family specials for Peanuts.
- WildBrain Spark revenue was \$15.4 million in Q1 2022, an increase of 73% from \$8.9 million in Q1 2021. The increase reflected ongoing recovery in advertising rates and our focus on higher value views. This was also evident in other nascent AVOD revenues increasing 128% in Q1 2022 vs Q1 2021 through the value add we bring to our IP partners through direct-ad sales, paid media and digital production.
- Consumer Products revenue grew by 25% to \$48.5 million in Q1 2022, an increase of \$9.6 million, compared to \$38.8 million in Q1 2021. Higher revenue was due the strength in the Peanuts brand, and growth from our wholly owned licensing agency, WildBrain CPLG, arising from synergies in representing Peanuts across Europe and the Middle East, expanding representation of third-party partner IP and increasing new deal volumes.
- Net loss attributable to WildBrain was \$21.4 million compared to a net loss attributable to WildBrain of \$3.3 million in Q1 2022. Higher net loss was primarily driven by a non-cash, foreign exchange loss of \$13.0 million in the current quarter versus a foreign exchange gain of \$5.1 million in Q1 2021.
- Adjusted EBITDA attributable to WildBrain increased to \$19.9 million in Q1 2022, compared to \$17.5 million in Q1 2021, an increase of \$2.4 million or 13%. This was driven by higher gross margin of \$8.2 million, offset by a higher portion of Adjusted EBITDA attributable to non-controlling interests of \$1.0 million, and higher SG&A of \$4.9 million including initiatives for growth.
- Cash used in operating activities in Q1 2022 was \$11.4 million, compared to \$19.6 million provided by operating activities in Q1 2021. Free Cash Flow<sup>1</sup> for Q1 2022 was negative \$19.9 million, compared to negative \$2.7 million in Q1 2021, primarily due to increased accounts receivables arising from larger deals concluded in the quarter and timing of working capital settlements. These included higher third-party participation due to higher distribution and consumer products revenues, the final payment of \$2.9 million in tangible benefit obligations related to our broadcast channels and a minor delay in receiving \$8.8 million in accounts receivables from production, which were received after quarter-end.

<sup>1</sup> Free Cash Flow defined as operating cash flow less distributions to non-controlling interests, changes in interim production financing, cash interest paid on our long-term debt, bank indebtedness, and lease liabilities, and principal repayments on our lease liabilities. Free Cash Flow is a non-GAAP financial measure, see "Non-GAAP Financial Measures" section of this MD&A for a reconciliation to GAAP measures.

## SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The summary consolidated financial information set out below for the periods ended September 30, 2021 and 2020 has been derived from the Company's unaudited interim condensed consolidated financial statements and accompanying notes and can be found on WildBrain's website at [www.wildbrain.com](http://www.wildbrain.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).

The following information should be read in conjunction with the above-mentioned statements and the related notes.

(expressed in \$000s, except per share data)	Three Months Ended	
	September 30, 2021	September 30, 2020
<b>Consolidated Statements of (Loss) Income Data:</b>		
Revenues .....	112,596	95,455
Direct production costs and expense of film and television produced .....	(61,053)	(52,204)
Gross margin <sup>1</sup> .....	51,543	43,251
Selling, general, and administrative .....	(23,022)	(18,075)
Share-based compensation .....	(2,033)	(2,598)
Reversal of right-of-use asset impairment .....	719	—
Amortization, finance costs and other expenses, net .....	(37,562)	(19,285)
Income tax expense .....	(3,000)	(239)
Net (loss) income for the period .....	(13,355)	3,054
Net (income) loss attributable to non-controlling interests .....	(8,041)	(6,361)
Net loss attributable to the Shareholders of the Company .....	(21,396)	(3,307)
Basic (loss) earnings per common share .....	(0.12)	(0.02)
Diluted (loss) earnings per common share .....	(0.12)	(0.02)
Weighted average common shares outstanding (in 000s) ..		
Basic .....	171,969	170,776
Diluted .....	171,969	170,776
<b>Other Key Performance Measures:</b>		
Adjusted EBITDA attributable to the Shareholders of the Company <sup>1</sup> .....	19,857	17,537
Cash flow from operating activities .....	(11,346)	19,572
Free Cash Flow <sup>1</sup> .....	(19,926)	(2,655)
	<b>As at</b>	<b>As at</b>
	<b>September 30,</b>	<b>June 30, 2021</b>
	<b>2021</b>	<b>2021</b>
<b>Consolidated Balance Sheet Data:</b>		
Total assets .....	1,132,454	1,127,902
Total liabilities .....	832,985	824,989
Shareholders' equity .....	299,469	302,913

<sup>1</sup>Gross Margin, Adjusted EBITDA attributable to the Shareholders of the Company, and Free Cash Flow are non-GAAP financial measures, see "Non-GAAP Financial Measures" section of this MD&A for their respective definitions as well as a reconciliation to GAAP measures.

## SUMMARY OF SELECTED CONSOLIDATED QUARTERLY INFORMATION

WildBrain's results may vary on a quarterly basis due to the timing of production deliveries and distribution deals as well as seasonality in WildBrain Spark and our Consumer Products businesses. Historically, WildBrain's first quarter is the lightest (during summer months). WildBrain's second and third quarters tend to be stronger as our main markets are geared towards the fall and winter months, especially during the Christmas season.

	<b>Fiscal 2022</b>	<b>Fiscal 2021</b>				<b>Fiscal 2020</b>		
<b>(expressed in \$000s except per share data)</b>	<b>Q1 30-Sep</b>	<b>Q4 30-Jun</b>	<b>Q3 31-Mar</b>	<b>Q2 31-Dec</b>	<b>Q1 30-Sep</b>	<b>Q4 30-Jun</b>	<b>Q3 31-Mar</b>	<b>Q2 31-Dec</b>
Revenues .....	112,596	112,612	102,198	142,269	95,455	92,902	98,341	122,134
Gross margin <sup>1</sup> .....	51,543	45,938	43,934	61,764	43,251	39,559	44,399	54,519
Net (loss) income attributable to the Shareholders of the Company .....	(21,396)	11,410	(26,524)	11,344	(3,307)	4,013	(221,707)	(2,258)
Adjusted EBITDA attributable to the Shareholders of the Company <sup>1</sup> .....	19,857	19,186	17,207	29,125	17,537	18,666	17,891	25,589
Weighted average common shares outstanding (in 000s) .....								
Basic .....	171,969	171,761	171,354	171,001	170,776	171,058	171,012	150,242
Diluted .....	171,969	177,246	171,354	173,919	170,776	171,592	171,012	150,242
Basic (loss) earnings per common share .....	(0.12)	0.07	(0.15)	0.07	(0.02)	0.02	(1.30)	(0.02)
Diluted (loss) earnings per common share .....	(0.12)	0.06	(0.15)	0.07	(0.02)	0.02	(1.30)	(0.02)

<sup>1</sup>Gross Margin and Adjusted EBITDA attributable to the Shareholders of the Company are non-GAAP financial measures, see "Non-GAAP Financial Measures" section of this MD&A for their respective definitions as well as a reconciliation to GAAP measures.

**Results for the three-months ended September 30, 2021 ("Q1 2022") compared to the three-months ended September 30, 2020 ("Q1 2021")**

**Revenues**

Consolidated revenue increased \$17.1 million to \$112.6 million in Q1 2022 compared to Q1 2021. Revenue by business segment was comprised of the following:

(expressed in \$000s)	Q1 2022		Q1 2021		Variance	
	\$		\$		\$	%
Content Production and Distribution	37,568		36,340		1,228	3 %
WildBrain Spark	15,406		8,882		6,524	73 %
Consumer Products	48,471		38,830		9,641	25 %
Content Business	101,445		84,052		17,393	21 %
Canadian Television Broadcasting	11,151		11,403		(252)	(2)%
<b>Total Revenue</b>	<b>112,596</b>		<b>95,455</b>		<b>17,141</b>	<b>18 %</b>

*Content Production and Distribution:* Revenue increased \$1.3 million to \$37.6 million in Q1 2022, compared to Q1 2021 of \$36.3 million. The increase was driven by the growing pipeline of premium projects including, *Sonic Prime* and a robust slate of new content for Peanuts, which generate steady revenue throughout their production as revenue is recognized on percentage of completion basis.

*WildBrain Spark:* Revenue increased by \$6.5 million or 73% to \$15.4 million in Q1 2022, compared to Q1 2021, reflecting ongoing recovery in advertising revenue from YouTube's policy changes, the impacts of COVID-19 as well as growth in nascent revenue streams including direct-ad sales, paid media and digital production.

*Consumer Products:* Revenue increased \$9.6 million or 25% to \$48.5 million in Q1 2022, compared to Q1 2021. Higher revenue was mainly due to continued strength of our Peanuts franchise as well as increased commissions from our licensing agency, WildBrain CPLG, arising from synergies in representing Peanuts across Europe and the Middle East, expanding licensing rights for third-party partner IP and increasing volume of new deals.

*Canadian Television Broadcasting:* Revenue decreased \$0.3 million or 2% to \$11.2 million in Q1 2022, compared to Q1 2021, reflecting subscriber erosion in line with the broader linear TV market. Subscriber revenue as a percentage of total revenue was 88%, or \$9.8 million (Q1 2021 - 91%, or \$10.4 million), while advertising, promotion, digital and other revenues were 12%, or \$1.3 million (Q1 2021 - 9%, or \$1.0 million).

**Gross Margin**

Gross margin represents revenue less direct production costs and expense of film and television produced.

(expressed in \$000s, except percentages)	Q1 2022		Q1 2021	
	Gross Margin \$	Gross Margin %	Gross Margin \$	Gross Margin %
Content Business	43,760	43 %	35,872	43 %
Canadian Television Broadcasting	7,783	70 %	7,379	65 %
<b>Total Gross Margin</b>	<b>51,543</b>	<b>46 %</b>	<b>43,251</b>	<b>45 %</b>

Consolidated gross margin for Q1 2022 was \$51.5 million, an increase of \$8.2 million, compared to \$43.3 million for Q1 2021. Gross margin percentage for Q1 2022 was 46% of revenue, compared with 45% in Q1 2021.

Content Business gross margins were \$43.8 million in Q1 2022, compared with \$35.9 million in Q1 2021. The increase in gross margin was driven by higher revenue in the quarter stemming from a slate of higher-margin premium productions, return to growth at WildBrain Spark and a strong Consumer Products business. Gross margin percentage for Q1 2022 remained stable at 43%, compared to Q1 2021.

Canadian Television Broadcasting gross margin increased to \$7.8 million in Q1 2022, compared to \$7.4 million in Q1 2021. We continue our cost containment measures and utilize our large library to control content costs. Gross margin percentage for Q1 2022 increased to 70%, compared to 65% in Q1 2021, due to timing of programming amortization in the year based on term start dates.

## ***Operating Expenses (Income)***

### *Selling, General & Administrative ("SG&A")*

SG&A costs for Q1 2022 were \$23.0 million, compared to \$18.1 million for Q1 2021, an increase of \$4.9 million or 27%. Higher costs related to ongoing growth initiatives and variable compensation, travel and professional and consulting fees of \$4.3 million, \$0.2 million, \$0.2 million respectively. Q1 2021 included government wage subsidies received or receivable of \$1.2 million.

### *Share-Based Compensation*

Total share-based compensation was \$2.0 million in Q1 2022, a decrease of \$0.6 million, compared to \$2.6 million for Q1 2021. This was primarily driven by decreases in grants of Deferred Shared Units ("DSU"), and in Restricted Shared Units ("RSU").

### *Amortization*

Total amortization of acquired and library content, property and equipment ("P&E") including right-of-use assets, and intangible assets was \$9.8 million for Q1 2022, compared to \$8.3 million in Q1 2021.

Amortization of acquired and library content was \$2.6 million in Q1 2022, consistent with \$2.7 million in Q1 2021.

Amortization of P&E was \$4.6 million in Q1 2022, compared to \$3.0 million in Q1 2021. The increase was driven by the accelerated amortization of the remaining lease term for the Toronto corporate office leasehold, after the lease termination.

Amortization of intangible assets was \$2.7 million in Q1 2022, consistent with \$2.6 million in Q1 2021.

### *Reorganization, Development and Other*

Reorganization, development and other income were \$0.8 million in Q1 2022, compared to expenses of \$2.7 million in Q1 2021. Q1 2022 included recovery of \$4.1 million in legal fees related to the litigation settlement with former employees (among others), offset by termination and other benefits of \$1.6 million, relocation costs of \$0.9 million (includes net lease termination costs of \$0.6 million and \$0.3 million of moving cost) and other charges of \$0.7 million. (Q1 2021 - termination and other benefits of \$1.1 million, legal fees related to a dispute with former employees of \$0.8 million, systems upgrade and process enhancement initiatives of \$0.2 million, and other fees of \$0.6 million).

### *Reversal of right-of-use asset impairment*

In Q1 2022, there was a reversal of an impairment of right-of-use asset of \$0.7 million.

### *Finance Costs, net*

Net finance costs were consistent at \$10.0 million in Q1 2022, compared with \$9.8 million in Q1 2021.

### *Change in Fair Value of Embedded Derivatives*

The change in fair value of the embedded derivatives related to our convertible and exchangeable debentures was a loss of \$5.6 million in Q1 2022, compared to a loss of \$3.7 million in Q1 2021.

### *Foreign Exchange (Gain) Loss*

Foreign exchange was a loss of \$13.0 million in Q1 2022, compared to a gain of \$5.1 million in Q1 2021. The loss in Q1 2022 was driven by a weaker Canadian dollar compared to the US dollar in the current quarter, resulting in realized foreign exchange translation loss on our US dollar denominated term debt of \$9.8 million and unrealized foreign exchange translation losses on the Company's positive net working capital balances denominated in US dollar.

### *Adjusted EBITDA Attributable to the Shareholders of the Company*

Adjusted EBITDA attributable to the Shareholders of the Company was \$19.9 million in Q1 2022, compared to \$17.5 million in Q1 2021, an increase of \$2.4 million or 13%. This increase was driven by higher gross margin of \$8.3 million, offset by higher SG&A of \$4.9 million including initiatives for growth and a higher portion of Adjusted EBITDA attributable to non-controlling interests of \$1.0 million.

Adjusted EBITDA attributable to the Shareholders of the Company is a non-GAAP measure, refer to section "Non-GAAP Financial Measures" of this MD&A for the definition and detailed calculation of this non-GAAP measure.

### *Income Taxes*

Income tax expense for Q1 2022 was \$3.0 million, compared to \$0.2 million in Q1 2021. In Q1 2022 the income tax expense in each period reflects the mix of taxing jurisdictions in which pre-tax income and losses were recognized. The income

attributable to non-controlling interests is taxed outside the Company. Further items impacting the effective tax rate include the different statutory tax rates in the taxing jurisdictions, non-deductible items and the continued nonrecognition of certain deferred tax assets in Canada.

*Net (Loss) Income, Comprehensive Loss, and Loss Per Share*

Net loss attributable to the Shareholders of the Company for Q1 2022 was \$21.4 million, compared to a net loss of \$3.3 million for Q1 2021, an increase of \$18.1 million. The increase was primarily driven by higher foreign exchange loss and other expenses of \$18.3 million combined, higher SG&A of \$4.9 million, higher net income attributable to non-controlling interests of \$1.7 million, higher income tax expense of \$2.8 million, offset by higher gross margin of \$8.3 million, lower share-based compensation of \$0.6 million, and a reversal of a right-of-use asset impairment charge of \$0.7 million.

Comprehensive loss of \$0.8 million for Q1 2022, compared to comprehensive loss of \$4.0 million for Q1 2021.

Basic and diluted loss per share were both \$0.12 in Q1 2022, compared to both basic and diluted loss per share of \$0.02 in Q1 2021.

## Financial Condition

The following table summarizes certain information with respect to WildBrain's capitalization and financial position as at September 30, 2021 and June 30, 2021:

(expressed in \$000s, except ratio data)	September 30, 2021	June 30, 2021
	\$	\$
Cash (including restricted cash)	70,573	92,057
Amounts receivable	269,397	247,237
Investment in film and television programs	148,936	147,783
Acquired and library content	99,853	100,653
Intangible assets	441,634	433,595
Other assets	102,061	106,577
<b>Total assets</b>	<b>1,132,454</b>	<b>1,127,902</b>
Accounts payable and accrued liabilities	118,580	130,299
Interim production financing	73,752	65,403
Long-term debt	494,364	482,394
Lease liabilities	38,637	43,835
Deferred revenue	38,590	42,004
Other liabilities	69,062	61,054
<b>Total liabilities</b>	<b>832,985</b>	<b>824,989</b>
<b>Shareholders' equity</b>	<b>299,469</b>	<b>302,913</b>
Working capital <sup>1</sup>	196,120	190,620
Working capital ratio <sup>2</sup>	1.80	1.76
Net debt <sup>3</sup>	423,791	390,337

<sup>1</sup>Working capital is calculated as current assets less current liabilities.

<sup>2</sup>Working capital ratio is current assets divided by current liabilities.

<sup>3</sup>Net debt includes long-term debt and bank indebtedness less cash and excludes interim production financing.

Total assets were \$1,132.5 million as at September 30, 2021, an increase of \$4.6 million, compared to \$1,127.9 million as at June 30, 2021. The increase was primarily driven by an increase of \$22.2 million in amounts receivable largely due to production, an increase in investment in film and television programs of \$1.2 million, an increase in intangible assets of \$8.0 million, driven by the weaker Canadian dollar which resulted in an upward revaluation of US dollar denominated intangible assets, and continued amortization, and lower acquired and library content of \$0.8 million, offset by lower other assets of \$4.5 million.

Total liabilities were \$833.0 million as at September 30, 2021, an increase of \$8.0 million, compared to \$825.0 million as at June 30, 2021. The increase was primarily due to higher long-term debt of \$12.0 million driven by the weaker Canadian dollar which resulted in an upward revaluation of our US dollar denominated term debt, interim production financing, and other liabilities of \$8.3 million, \$8.0 million, respectively, offset by decreases in accounts payable and accrued liabilities, leases liabilities and deferred revenue of \$11.7 million, \$5.2 million, \$3.4 million respectively.

Shareholders' equity was \$299.5 million as at September 30, 2021, a decrease of \$3.4 million, compared to \$302.9 million as at June 30, 2021.

## Liquidity and Capital Resources

Summary of cash flow components:

	Three Months Ended	
	September 30, 2021	September 30, 2020
	\$	\$
Cash Inflows (Outflows) by Activity:		
Operating activities .....	(11,350)	19,572
Financing activities .....	(9,392)	(27,492)
Investing activities .....	(1,575)	(1,486)
Effect of foreign exchange rate changes on cash .....	833	(671)
Net cash inflows .....	(21,484)	(10,077)

### ***Changes in Cash (including Restricted Cash)***

Cash (including restricted cash) at September 30, 2021 was \$70.6 million, compared to \$92.1 million at June 30, 2021. The restricted cash balance of \$13.7 million as at September 30, 2021 related to funds raised on the issuance of exchangeable debentures to Fine Capital (the "Exchangeable Debentures") by a newly formed subsidiary of the Company. The Exchangeable Debentures are non-recourse to the Company and the funds are earmarked for investments in growth initiatives. For additional details, refer to the description under 'Exchangeable Debentures' below, the 'Related Party Transactions' section of this MD&A and notes 7 in the audited consolidated financial statements for the year ended June 30, 2021.

#### Operating Activities

During Q1 2022, cash used in operating activities was \$11.4 million, compared to \$19.6 million provided by operating activities in Q1 2021, a decrease of \$30.9 million. The decrease was primarily due to increases in amounts receivable resulting from higher revenues from production and consumer products and from timing of settlement of working capital balances.

#### Financing Activities

During Q1 2022, cash flows used in financing activities were \$9.4 million, compared to \$27.5 million in Q1 2021. The decrease of \$18.1 million was primarily due to the increase of \$14.1 million in interim production financing loans (net), and no repayment of indebtedness of \$5.0 million compared to Q1 2021.

#### Investing Activities

During Q1 2022, cash flows used in investing activities were \$1.6 million, consistent with \$1.5 million in Q1 2021.

### ***Bank Indebtedness and Long-Term Debt***

#### Term Loan and Revolving Facility

On March 26, 2021, the Company refinanced its term facility with a seven-year US\$285.0 million (\$358.4 million) senior secured term loan facility (the "Term Loan") maturing March 26, 2028. The Term Loan has no financial maintenance covenant and bears interest at LIBOR plus 4.25%. The net proceeds from the Term Loan were used to repay the previous US\$276.5 million (\$376.8 million) Term Facility. At the same time, we entered into a five-year US\$30.0 million Revolving Facility ("Revolver") with an interest rate of LIBOR plus 4.00%. These facilities do not carry a financial maintenance covenant, except when amounts are drawn and outstanding on the Revolver. As at September 30, 2021, \$nil (June 30, 2021 - \$nil million) was drawn on this facility. The Revolver matures on the earlier of March 26, 2026 or three months prior to the maturity of the Company's convertible debentures (September 30, 2024), except where converted.

The Term Loan is repayable in equal quarterly installment payments of US\$0.7 million or 0.25% of the initial principal commencing June 30, 2021.

The Term Loan 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, 2022, while the first lien net leverage ratio ("First Lien 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 is at or below 3.50 times and greater than 3.00 times, with the

remaining balance due on March 26, 2028. No payments were required under the Excess Cash Flow Payments calculation for the year ended June 30, 2021.

During Q4 2021, the Company entered into a 3-year term interest rate swap maturing on June 28, 2024, which secures US\$165.0 million of the Term Loan from an interest rate of LIBOR plus 4.25% to a fixed interest rate of 5.24%.

The LIBOR rate is scheduled to be discontinued at the end of calendar year 2021. As part of the refinancing of the Term Loan and Revolver, alternative replacement rates for LIBOR were included in the agreement based on the secured overnight financing rate ("SOFR"), which is a benchmark interest rate for dollar denominated loans.

For additional information on the Term Loan, refer to the Senior Secured Credit Agreement on SEDAR at [www.sedar.com](http://www.sedar.com).

#### Senior Unsecured Convertible Debentures

As at September 30, 2021, the senior unsecured convertible debentures ("Convertible Debentures") had a principal balance of \$140.0 million (June 30, 2021 - \$140.0 million), 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 (together, "Shares") of the Company at a price of \$7.729 per Share, subject to certain customary adjustments. The Convertible Debentures mature 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 derivative was recorded as a derivative liability. Changes in the estimated fair value of the embedded derivative is recorded through the Company's consolidated statement of (loss) income. As at September 30, 2021, the estimated fair value of the embedded derivative was \$7.2 million.

#### Exchangeable Debentures

On March 4, 2021, the Company drew the remaining US\$6.3 million (\$7.9 million) on the Exchangeable Debentures. As at September 30, 2021, the Exchangeable Debentures had a principal balance of US\$18.4 million, or \$23.2 million (June 30, 2020 - US\$12.2 million, or \$16.6 million) bearing interest at an annual rate of 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 Exchangeable Debentures mature June 24, 2023.

The Exchangeable Debentures were issued by a newly formed single purpose subsidiary of the Company and non-recourse to WildBrain. As a result, the Exchangeable Debentures are excluded from the security granted to the lenders under our Senior Secured Credit Agreement; and therefore, are also excluded from the calculation of the net leverage.

Concurrently in Q4 2020, we issued to Fine Capital warrants to purchase 5,000,000 Variable Voting Shares at a price of \$1.45 per Variable Voting Share. The warrants vest immediately and expire five years from the date of closing on June 24, 2025.

In Q2 2021, we completed two acquisitions using funds from the Exchangeable Debentures for an aggregate purchase price of US\$7.0 million, which have been recognized as acquired and library content assets in the audited consolidated balance sheet. As such, these assets serve as security against the Exchangeable Debentures.

The Exchangeable Debentures have a conversion option at a fixed US dollar 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 derivative was recorded as a derivative liability. Changes in the estimated fair value of the embedded derivative is recorded through the Company's consolidated statement of (loss) income. As at September 30, 2021, the estimated fair value of the embedded derivative was \$33.3 million.

See section "Related Party Transactions" of this MD&A and note 7 in the audited consolidated financial statements for the year ended June 30, 2021 for additional details.

#### ***Working Capital and Liquidity***

Working capital represents the Company's current assets less current liabilities, which was \$196.1 million as at September 30, 2021, compared to \$190.6 million at June 30, 2021.

All of our significant businesses are cash flow positive over the course of a year while they have quarterly fluctuations. We frequently review our cash flows by business unit and actions are taken if and as necessary.

### Technology Investments

Amounts required for investments in technology, primarily at our studio and WildBrain Spark, are principally paid for using leases and are paid over time from funds generated from operating cash flows.

### Production Investments

Productions are principally paid for with interim production credit facilities that are secured by licensing contracts receivable and film tax credits and are repaid as those receivables and tax credits are collected. When initiating new productions we typically require the significant majority of capital expenditures to be covered by licensing contract receivables and film tax credits, accordingly the Company's investment in excess of these receivables and tax credits is limited.

### Canadian Content Investments

As a Canadian broadcaster, we are required to invest in a certain amount of Canadian content for programming on our channels. The amount required to be spent is calculated as a percentage of our revenues generated by our broadcasting business. These expenditures are funded from operating cash flows.

### Acquisitions

When making other investments and acquisitions, we assess the expected returns, the risks and timing of those expected returns and consider whether to use the Company's existing funds or Revolver, the available funds from the Exchangeable Debentures, or the issuance of equity.

Based on our current revenue forecasts and expectations for Fiscal 2022 and 2023, we believe that our working capital is sufficient to meet our present requirements and near-term business plans for the next 12 months. We expect foreseeable cash needs to be funded through operating cash flows, existing cash resources, the Revolver, and the Exchangeable Debentures.

## Contractual Obligations<sup>1</sup>

The following table summarizes our outstanding cash commitments as of September 30, 2021:

<b>Payments Due by Period</b>	<b>Total</b>	<b>Less than 1 year</b>	<b>1 to 3 years</b>	<b>3 to 5 years</b>	<b>After 5 years</b>
(expressed in \$000s)	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	118,580	118,580	—	—	—
Interim production financing	73,752	73,752	—	—	—
Other long-term liabilities	15,479	—	14,318	1,161	—
Senior unsecured convertible debentures	165,351	8,901	8,225	148,225	—
Exchangeable debentures	26,660	—	26,660	—	—
Term facility	455,742	18,928	35,666	35,973	365,175
Lease liabilities	44,918	13,142	18,776	9,957	3,043
<b>Total Contractual Obligations</b>	<b>900,482</b>	<b>233,303</b>	<b>103,645</b>	<b>195,316</b>	<b>368,218</b>

<sup>1</sup> Contractual payments in the table above include fixed rate interest payments but exclude variable rate interest payments and are not discounted.

## Share Capital

As at September 30, 2021, our issued and outstanding share capital was as follows:

Common Voting Shares	34,528,453
Variable Voting Shares	137,462,321
<b>Total Common Shares</b>	<b>171,990,774</b>
Preferred Variable Voting Shares	500,000,000
Stock Options	4,943,800
Restricted Share Units	5,669,109
Performance Share Units	2,725,000
Deferred Share Units	2,479,925

Pursuant to WildBrain's articles of incorporation and the *Broadcasting Act (Canada)*, the Common Voting Shares may only be held and controlled by Canadians, and the Variable Voting Shares may only be held and controlled by non-Canadians. The dual-class share structure is required to enable the Company to comply with Canadian ownership rules as an operator of broadcast assets. The preferred variable voting shares were instituted prior to the Company's initial public offering and are maintained to ensure compliance with Canadian ownership requirements related to its business and continuing qualification for tax credits. For additional information on WildBrain's share capital, see our Fiscal 2021 AIF dated September 14, 2021 filed on [www.sedar.com](http://www.sedar.com).

## Off-Balance Sheet Arrangements

As of the date of this MD&A, we do not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of our operations or financial condition, including, and without limitation, such considerations as liquidity and capital resources.

## Related Party Transactions

### Exchangeable Debentures

As part of the Exchangeable Debentures issued described under "Recent Transactions - Issuance of Exchangeable Debentures" section of this MD&A, on June 24, 2020, we issued US\$12.2 million of Exchangeable Debentures to Fine Capital, our largest shareholder, with a further commitment of US\$6.3 million, which was subsequently drawn on March 4, 2021. The Exchangeable Debentures mature on June 24, 2023 and are convertible to Variable Voting Shares at a price of US\$1.072855 per Variable Voting Share. Concurrently, we issued Fine Capital warrants to purchase 5,000,000 Variable Voting Shares at a price of \$1.45 per share. The warrants vest immediately and expire five years from the date of closing on June 24, 2025.

## **Critical Accounting Estimates**

The preparation of the financial statements in conformity with IFRS requires Management to make estimates, judgments, and assumptions that Management believes are reasonable based upon the information available. These estimates, judgments, and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year or period. Actual results can differ from those estimates (refer to the section "Caution Regarding Forward-Looking Statements" of this MD&A for more information regarding forward-looking information). For a discussion of all of the Company's accounting policies, refer to note 3 of the audited consolidated financial statements for the year ended June 30, 2021 on [www.sedar.com](http://www.sedar.com) or WildBrain's website at [www.wildbrain.com](http://www.wildbrain.com).

## **Significant accounting judgments and estimation uncertainty**

The preparation of financial statements under IFRS require 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. The Company's significant accounting judgments and estimation uncertainty are as described in the Company's Fiscal 2021 notes to the consolidated financial statements.

## **Changes in Accounting Policies**

There were no changes in accounting policies in Q1 2022.

## **Financial Instruments and Risk Management**

The Company's financial instruments consist of cash and restricted cash, amounts receivable, bank indebtedness (when drawn), interim production financing, accounts payable and accrued liabilities, long-term debt, and certain items included within other liabilities. The Company, through its financial assets and liabilities, has exposure to the following risks from its use of financial instruments: credit risk, interest rate risk, liquidity risk, and currency risk. Management monitors risk levels and reviews risk management activities as they determine to be necessary.

### 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 (excluding government and film tax credit receivables) approximate the amount recorded on the consolidated balance sheets of \$273.5 million (June 30, 2021-\$273.7 million). We manage 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 by 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 6.2% 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 our trade receivables. To manage this risk, we have increased our 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 we are closely monitoring these receivables. The majority of our other customers are large Canadian and international broadcasters, or large international distribution companies, and we have not seen a significant deterioration in the credit quality of these customers and trade receivables to date.

We are unable to predict or anticipate the full extent or duration of the impact due to COVID-19 at this time. Based on collections subsequent to the current quarter, and discussions with customers, we believe that the loss provision is adequate as at September 30, 2021.

### Interest rate risk

The Company's interest rate risk primarily relates to its interim production financing, Revolving Facility, Term Debt 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.

During Q4, 2021, the Company entered into a 3-year term interest swap maturing on June 28, 2024, which secures US\$165.0 million of the Term Loan from an interest rate of LIBOR plus 4.25% to a fixed interest rate of 5.24%. Management will continue to monitor the interest rate risk closely and ensure appropriate measures are implemented.

### Liquidity risk

Liquidity risk is the risk that we will not be able to meet our financial obligations as they come due. We manage 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. A summary of the Company's financial liabilities and their contractual maturities can be found in the "Contractual Obligations" section of this MD&A.

We operate a diverse range of business lines, including animation and live-action production studios, linear and digital content distribution, consumer products licensing and representation, advertising sales and linear broadcasting. While the operating results may experience variability from period to period, operating cash flows are generally predictable based on our production and content pipeline, contract renewals, royalty agreements and associated minimum guarantees, and television subscriber fees. Significant cash outlays for investments are made after assessing return on investment and timing of cash flows.

As discussed above, all of our significant business units are cash flow positive over the course of a year, while there are quarterly fluctuations. We frequently review our cash flows by business unit and actions are taken if and when necessary.

Specifically, with respect to COVID-19, we closely monitored the cash flow needs of our businesses during the pandemic and took actions where necessary. When the pandemic hit in March 2020, we had sufficient liquidity including cash on hand and full availability on our US\$30.0 million revolving facility. In addition we took steps to conserve cash and decrease discretionary expenditures including travel and trade shows. As vaccines were rolled out and the negative effects waned we returned to our focus on continuing the Company's growth. However, management continues to evaluate the potential operational and financial risks as a result of COVID-19, as well as additional steps if any that may be required to ensure continuity of operations and the impact on the Company's growth plans. The circumstances and extent to which COVID-19 impacts our business operations are evolving, and therefore, the duration and impact on our future operations cannot be reasonably estimated.

As at September 30, 2021, we had cash balances of \$56.9 million and amounts receivable of \$269.4 million. Based on our 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.

Under our Revolver, when amounts are drawn and outstanding at the end any fiscal quarter, we are required to comply with a leverage covenant of 6.75x, declining to 6.25x for the quarter ending September 30, 2023 and thereafter. As at September 30, 2021, our Total Net Leverage Ratio was at 5.50x. We remain on track to be in the mid-4x level, or below, by the end of our Fiscal 2022.

### 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. We periodically enter into foreign exchange forward contracts to manage our foreign exchange risk across our portfolio of currencies which are primarily denominated in Canadian dollar, US dollar and GBP.

## **Risk Assessment**

The Company is exposed to a number of specific and general risks that could affect the Company that each reader should carefully consider. Additional risks and uncertainties not presently known to the Company or that we do not currently anticipate will be material, may impair our business and results of operations and as a result could materially impact our business, results of operations, prospects, and financial condition. The specific and general risks include, but are not limited to the following: the COVID-19 outbreak which could materially and adversely impact the Company's business, financial condition, and performance, competition and competitor activities, product development and acceptance, the ability of the Company to acquire, develop and exploit entertainment properties, the Company's ability to source IP and creative talent who can develop IP, consumer and customer preferences, the ability of the Company to execute on its strategy, the Company's leverage and indebtedness and failure to meet covenant requirements under the senior credit facility of the Company (as and where

applicable), the ability of the Company to execute on production and licensing arrangements, the ability of the Company to attract and retain talent, reliance on key personnel, risks relating to the Company's exposure to advertising revenues through YouTube and the ability of the Company to attract and realize on advertising revenues, including through YouTube and on other platforms, adverse publicity, risks related to doing business internationally and currency exchange rates, the reliance of the Company on the Internet and other technologies to continue to conduct its business, technology changes, intellectual property infringement and other claims, the ability of the Company to exploit its content library, access to capital, maintaining effective internal controls, equity capital markets risk and market share price fluctuations, loss of Canadian status, access to government incentives, loss of television licenses, the availability of acquisition and investment opportunities at acceptable valuations and the ability to execute on such opportunities, production risks, financial risks and dilution from the Company's capital requirements, labour relations, changes in the regulatory environment, general economic and market segment conditions, and catastrophic events and circumstances.

Beginning March 2020, COVID-19 began negatively affecting the advertising revenues of WildBrain Spark and this pandemic could have longer-term negative effects. WildBrain Spark generates the majority of its revenue through advertising-based video-on-demand ("AVOD"). The adverse impact of the new rules and policies on 'Made for Kids' content introduced by YouTube in January 2020, coupled with the subsequent impact of COVID-19 on the global advertising industry, resulted in a significant decline in the current operating results of WildBrain Spark. The Company took pro-active measures to cut costs and market conditions began to improve in the later part of Q1 Fiscal 2021. However, COVID-19 could result in a return to negative market conditions and may require the Company to take further actions.

Current disruptions caused by COVID-19 in global supply chains, are affecting the retail sector and could impact our consumer products business at retail. As supply chain interruptions recover, we expect our Peanuts franchise to remain resilient, supported by new content. Management continues to monitor market conditions and potential risks, however, the circumstances and extent to which COVID-19 impacts our operations are evolving and may require the Company to reinstate business protection measures.

A discussion of the specific and general risks affecting the Company and its business is set forth under the heading "Risk Factors" in the Company's Fiscal 2021 Annual Information Form which is available on SEDAR at [www.sedar.com](http://www.sedar.com). The descriptions of the risks in the Annual Information Form, together with the risks discussed in this MD&A, do not include all possible risks, and there may be other risks of which the Company is currently not aware or is not presently anticipating that may arise and have a material adverse effect on the Company's business, results of operations, prospects, financial condition, financial performance and cash flows.

## Disclosure Controls and Procedures and Internal Control over Financial Reporting

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that material information is gathered and reported to senior Management to permit timely decisions regarding public disclosure and to provide reasonable assurance that the information required to be disclosed in reports that are filed or submitted under Canadian securities legislation is recorded, processed, summarized, and reported within the time period specified in those rules.

The CEO and the CFO have also designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes.

In its annual filings dated November 9, 2021, the CEO and the CFO, after evaluating the effectiveness of the Company's disclosure controls and procedures, and internal control over financial reporting, concluded that as at September 30, 2021, both the Company's disclosure controls and procedures, and internal control over financial reporting were effective. It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected.

There were no changes in internal controls over financial reporting during the period ended September 30, 2021 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

### Non-GAAP Financial Measures

In addition to the results reported in accordance with IFRS as issued by the International Accounting Standards Board, the Company uses various non-GAAP financial measures, which are not recognized under IFRS, as supplemental indicators of our operating performance and financial position. These non-GAAP financial measures are provided to enhance the user's understanding of our historical and current financial performance and our prospects for the future. Management believes that these measures provide useful information in that they exclude amounts that are not indicative of our core operating results and ongoing operations and provide a consistent basis for comparison between periods. The following discussion explains the Company's use of certain non-GAAP financial measures, which are Adjusted EBITDA, Adjusted EBITDA attributable to the Shareholders of the Company, and Gross Margin.

Investors are cautioned that these non-GAAP financial measures should not be construed as an alternative measure to net income or loss, or other measures as determined in accordance with GAAP, or as an indicator of the Company's financial performance or a measure of liquidity and cash flows.

**"Adjusted EBITDA"** means earnings (loss) before net finance costs, income taxes, amortization of property & equipment and right-of-use and intangible assets, amortization of acquired and library content, equity-settled share-based compensation expense, changes in fair value of embedded derivatives, gain/loss on foreign exchange, reorganization, development and other expenses, impairment of certain investments in film and television programs/acquired and library content/P&E/intangible assets/goodwill, and also includes adjustments for other identified charges, as specified in the accompanying tables. Adjusted EBITDA is not an earnings measure recognized by GAAP and does not have a standardized meaning prescribed by GAAP; accordingly, Adjusted EBITDA may not be comparable to similar measures presented by other issuers. Management believes that certain lenders, investors and analysts use Adjusted EBITDA to measure a company's ability to service debt and meet other payment obligations, and as a common valuation measurement in the media and entertainment industry. Further, certain of our debt covenants use Adjusted EBITDA in the calculation. The most comparable GAAP measure is earnings before income taxes.

**"Adjusted EBITDA attributable to the Shareholders of the Company"** means Adjusted EBITDA excluding the portion of Adjusted EBITDA attributable to non-controlling interests.

**"Gross Margin"** means revenue less direct production costs and expense of film and television produced. Gross Margin is not an earnings measure recognized by GAAP and does not have a standardized meaning prescribed by GAAP; accordingly, Gross Margin may not be comparable to similar measures presented by other issuers. Management believes Gross Margin is a useful measure of profitability before considering operating and other expenses and can be used to assess the Company's ability to generate positive net earnings and cash flows. The most comparable GAAP measure is gross profit.

**"Free Cash Flow"** means operating cash flow less distributions to non-controlling interests, changes in interim production financing, cash interest paid on our long-term debt, bank indebtedness, and lease liabilities, and principal repayments on our lease liabilities. Free Cash Flow does not have a standardized meaning prescribed by GAAP; accordingly, Free Cash Flow may not be comparable to similar measures presented by other issuers. Management believes Free Cash Flow is a useful measure of the Company's ability to repay debt, finance strategic business acquisitions and investments, pay dividends, and repurchase shares.

## Reconciliation of Quarterly Results to Adjusted EBITDA and Adjusted EBITDA attributable to the Shareholders of the Company

The following table reconciles income (loss) before income taxes to Adjusted EBITDA, and to Adjusted EBITDA attributable to the Shareholders of the Company, for each three-month period ending:

(expressed in \$000s)	Fiscal 2022	Fiscal 2021				Fiscal 2020		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec
Income (loss) before income taxes .....	(10,355)	12,845	(23,308)	26,981	3,293	7,292	(210,675)	3,528
add back:								
Finance costs, net .....	9,989	9,943	12,958	9,481	9,757	9,465	10,022	18,192
Change in fair value of embedded derivatives .....	5,561	(6,593)	23,501	5,629	3,669	1,792	(1,833)	(3,114)
Foreign exchange .....	13,022	(5,436)	(97)	(14,302)	(5,144)	(10,264)	25,921	(6,867)
Amortization of P&E and intangible assets .....	7,270	5,733	6,002	5,584	5,605	6,049	6,526	5,929
Amortization of acquired and library content .....	2,562	2,789	2,851	2,750	2,710	3,084	3,030	2,993
Write-down of certain investment in film and television programs, acquired and library content, P&E, intangible assets, and goodwill .....	(719)	1,137	346	6,349	—	2,018	187,300	6,804
Share-based compensation .....	2,033	716	786	975	2,598	1,729	1,172	1,634
Reorganization, development and other (income) expenses .....	(842)	2,355	1,926	1,643	2,688	2,181	2,444	5,552
Adjusted EBITDA .....	<b>28,521</b>	<b>23,489</b>	<b>24,965</b>	<b>45,090</b>	<b>25,176</b>	<b>23,346</b>	<b>23,907</b>	<b>34,651</b>
Portion of Adjusted EBITDA attributable to non-controlling interests <sup>1</sup> .....	(8,664)	(4,303)	(7,758)	(15,965)	(7,639)	(4,680)	(6,016)	(9,062)
Adjusted EBITDA attributable to the Shareholders of the Company .....	<b>19,857</b>	<b>19,186</b>	<b>17,207</b>	<b>29,125</b>	<b>17,537</b>	<b>18,666</b>	<b>17,891</b>	<b>25,589</b>

<sup>1</sup>Portion of Adjusted EBITDA attributable to non-controlling interests is calculated as net income attributable to non-controlling interests, less interest, taxes, depreciation and amortization attributable to non-controlling interests.

## Reconciliation of Quarterly Results to Gross Margin

The following table reconciles revenue less direct production costs and amortization of film and television produced to gross margin, for each three-month period ending:

(expressed in \$000s)	Fiscal 2022	Fiscal 2021				Fiscal 2020		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec
Revenue .....	112,596	112,612	102,198	142,269	95,455	92,902	98,341	122,134
less: Direct production costs and amortization of film and television produced .....	(61,053)	(66,674)	(58,264)	(80,505)	(52,204)	(53,343)	(53,942)	(67,615)
Gross Margin .....	<b>51,543</b>	<b>45,938</b>	<b>43,934</b>	<b>61,764</b>	<b>43,251</b>	<b>39,559</b>	<b>44,399</b>	<b>54,519</b>

## Reconciliation of Quarterly Operating Cash Flow to Free Cash Flow

The following table reconciles cash flow from operating activities to Free Cash Flow, for each three-month period ending:

	Fiscal 2022	Fiscal 2021				Fiscal 2020		
	Q1 30-Sep	Q4 30-Jun	Q3 31-Mar	Q2 31-Dec	Q1 30-Sep	Q4 30-Jun	Q3 31-Mar	Q2 31-Dec
(expressed in \$000s)								
Cash flow provided by operating activities <sup>1</sup> .....	(11,350)	22,688	22,052	41,368	19,572	23,641	23,523	52,891
less: .....								
Distributions to non-controlling interests .....	(4,799)	(5,344)	(11,091)	(10,802)	(4,220)	(5,565)	(14,719)	(13,176)
Change in interim production financing .....	8,348	6,720	(3,754)	1,514	(5,765)	(862)	872	(17,611)
Interest paid .....	(9,606)	(7,771)	(8,064)	(6,234)	(9,937)	(5,791)	(10,575)	(6,257)
Repayment of lease liabilities .....	(2,519)	(2,416)	(2,413)	(2,308)	(2,305)	(2,140)	(2,255)	(2,571)
Free Cash Flow .....	<b>(19,926)</b>	<b>13,877</b>	<b>(3,270)</b>	<b>23,538</b>	<b>(2,655)</b>	<b>9,283</b>	<b>(3,154)</b>	<b>13,276</b>

<sup>1</sup>In Q1 2021, we reclassified cash interest paid on our long-term debt, bank indebtedness, and lease liabilities that were previously included as operating cash flows to financing cash flows, as these interest charges do not form part of our ongoing operating activities, performance and results. Realized foreign exchange gains and losses related to financing activities were also reclassified from operating activities to financing activities. All amounts in the table above have been adjusted for the impact of this change. Refer to "Liquidity and Capital Resources" and "Changes in Accounting Policies" sections of this MD&A for additional details. This same amount has been deducted from cash flow from operating activities to calculate Free Cash Flow.

### Additional Information

Additional information related to WildBrain, its business and subsidiaries, including its AIF is available on SEDAR at [www.sedar.com](http://www.sedar.com).