

WildBrain Ltd.

Interim Condensed Consolidated Financial Statements
(unaudited)

December 31, 2023

(expressed in thousands of Canadian dollars)

February 8, 2024

Management's Responsibility for Financial Reporting

The accompanying 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 interim condensed consolidated financial statements. The Board carries out this responsibility through its Audit Committee. The Audit Committee reviews the Company's 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 Company's management and reviews internal control and financial reporting matters to ensure that management is properly discharging its responsibilities before submitting the interim condensed consolidated financial statements to the Board for approval.

The 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 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 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) "*Josh Scherba*"

President and Chief Executive Officer
Toronto, Ontario

(signed) "*Nicholas Gawne*"

Chief Financial Officer
Toronto, Ontario

WildBrain Ltd.

Interim Condensed Consolidated Balance Sheets (unaudited)

As at December 31, 2023 and June 30, 2023

(expressed in thousands of Canadian dollars)

	December 31, 2023	June 30, 2023
	\$	\$
Assets		
Current assets		
Cash	62,548	80,348
Amounts receivable and derivative assets (note 5)	286,147	303,378
Prepaid expenses and other	9,154	7,624
Investment in film and television programs (note 6)	185,988	175,692
	543,837	567,042
Long-term amounts receivable (note 5)	38,872	57,711
Acquired and library content (note 7)	81,149	85,470
Property and equipment	31,226	34,237
Derivative assets (note 14)	—	337
Intangible assets (note 4)	446,879	447,754
Goodwill (note 4)	27,019	21,435
	1,168,982	1,213,986
Liabilities		
Current liabilities		
Bank indebtedness (note 8)	13,800	7,000
Accounts payable, accrued and derivative liabilities	166,881	171,464
Deferred revenue	47,085	75,549
Interim production financing (note 8)	68,714	86,891
Current portion of lease liabilities	8,899	9,132
Current portion of long-term debt (note 8)	139,472	3,773
	444,851	353,809
Long-term debt (note 8)	355,092	490,205
Long-term lease liabilities	20,746	22,917
Derivative liabilities (note 14)	177	339
Other long-term liabilities	8,877	14,444
Deferred income taxes	6,251	6,949
	835,994	888,663
Shareholders' Equity		
Equity attributable to shareholders of the Company	77,594	76,041
Non-controlling interest	255,394	249,282
	332,988	325,323
	1,168,982	1,213,986

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

WildBrain Ltd.

Interim Condensed Consolidated Statements of Income (Loss) (unaudited)

For the three and six month periods ended December 31, 2023 and 2022

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

	Three months ended		Six months ended	
	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
	\$	\$	\$	\$
Revenues (note 17)	126,283	140,480	231,789	267,132
Expenses (note 13)				
Direct production costs and expense of film and television produced	67,037	79,208	120,750	150,583
Amortization of acquired and library content (note 7)	2,179	2,410	4,337	4,759
Amortization of property and equipment and intangible assets	6,380	6,034	12,645	12,308
Selling, general and administrative	25,225	26,538	49,814	52,266
Share-based compensation (note 10)	1,123	4,373	2,680	5,700
Finance costs, net (note 12)	14,473	12,822	28,200	21,625
Change in fair value of embedded derivatives	(77)	17,752	(339)	11,718
Foreign exchange (gain) loss	(3,647)	(8,794)	2,478	3,662
Reorganization, development and other expense (note 13)	3,561	2,722	8,553	4,290
	116,254	143,065	229,118	266,911
Income (loss) before taxes	10,029	(2,585)	2,671	221
(Recovery of) provision for income taxes (note 11)				
Current	(1,233)	3,830	(2,376)	4,443
Deferred	(1,112)	(3,302)	372	(4,847)
	(2,345)	528	(2,004)	(404)
Net income (loss) for the period	12,374	(3,113)	4,675	625
Net income attributable to non-controlling interests	7,377	9,839	15,193	21,149
Net income (loss) attributable to shareholders of the Company	4,997	(12,952)	(10,518)	(20,524)
Basic earnings (loss) per common share (note 15)	0.02	(0.07)	(0.05)	(0.12)
Diluted earnings (loss) per common share (note 15)	0.02	(0.07)	(0.05)	(0.12)

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

WildBrain Ltd.

Interim Condensed Consolidated Statements of Comprehensive Income (Loss) (unaudited) For the three and six month periods ended December 31, 2023 and 2022

(expressed in thousands of Canadian dollars)

	Three months ended		Six months ended	
	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
	\$	\$	\$	\$
Net income (loss) for the period	12,374	(3,113)	4,675	625
Other comprehensive (loss) income				
Items that may be subsequently reclassified to the consolidated statements of income (loss)				
Foreign currency translation adjustment:				
Attributable to non-controlling interests	(5,824)	(3,138)	(488)	12,458
Attributable to shareholders of the Company	(5,793)	2,305	(614)	10,012
	(11,617)	(833)	(1,102)	22,470
Comprehensive income (loss) for the period	757	(3,946)	3,573	23,095

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

WildBrain Ltd.**Interim Condensed Consolidated Statements of Changes in Equity (unaudited)
For the six month periods ended December 31, 2023 and 2022**

(expressed in thousands of Canadian dollars)

	Common shares	Contributed surplus	Accumulated other comprehensive loss	Deficit	Non- controlling interest	Total
	\$	\$	\$	\$	\$	\$
Balance - July 1, 2022	368,734	43,978	(22,500)	(310,784)	235,975	315,403
Net (loss) income for the period	—	—	—	(20,524)	21,149	625
Other comprehensive income for the period	—	—	10,012	—	12,458	22,470
Comprehensive income (loss) for the period	—	—	10,012	(20,524)	33,607	23,095
Common shares issued, net of issuance costs and deferred taxes	3,118	(2,138)	—	—	—	980
Share-based compensation	—	5,700	—	—	—	5,700
Distributions to non-controlling interests	—	—	—	—	(8,019)	(8,019)
Balance - December 31, 2022	371,852	47,540	(12,488)	(331,308)	261,563	337,159
Balance - July 1, 2023	405,612	42,542	(15,776)	(356,337)	249,282	325,323
Net (loss) income for the period	—	—	—	(10,518)	15,193	4,675
Other comprehensive loss for the period	—	—	(614)	—	(488)	(1,102)
Comprehensive (loss) income for the period	—	—	(614)	(10,518)	14,705	3,573
Common shares issued, net of issuance costs and payroll taxes remitted	1,911	434	—	—	—	2,345
Common shares issued to settle business acquisition	7,660	—	—	—	—	7,660
Share-based compensation	—	2,680	—	—	—	2,680
Distributions to non-controlling interests	—	—	—	—	(8,593)	(8,593)
Balance - December 31, 2023	415,183	45,656	(16,390)	(366,855)	255,394	332,988

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

WildBrain Ltd.

Interim Condensed Consolidated Statements of Cash Flows (unaudited) For the six month periods ended December 31, 2023 and 2022

(expressed in thousands of Canadian dollars)

	December 31, 2023	December 31, 2022
Cash provided by (used in)	\$	\$
Operating activities		
Net income for the period	4,675	625
Charges (credits) not involving cash		
Amortization of property and equipment	6,248	5,579
Amortization of intangible assets	6,397	6,729
Amortization of acquired and library content	4,337	4,759
Accretion expense and amortization of deferred financing fees	4,861	7,254
Unrealized foreign exchange (gain) loss	(940)	16,376
Share-based compensation	2,680	5,700
Change in fair value of embedded derivatives	(339)	11,718
Change in fair value of interest rate swap and forward foreign exchange contract	4,931	(3,122)
Interest income	(1,877)	(1,229)
Interest expense	20,285	18,722
Deferred tax expense (recovery)	372	(4,847)
Net investment in film and television programs (note 16)	(9,563)	(4,532)
Net change in non-cash balances related to operations (note 16)	(10,028)	(23,944)
Cash provided by operating activities	32,039	39,788
Financing activities		
Common shares issued, net of issuance costs and payroll taxes remitted	2,345	979
Distributions to non-controlling interests	(8,593)	(8,019)
Proceeds from bank indebtedness	6,800	12,134
Repayment of long-term debt	(1,906)	(1,942)
Payment of debt issue costs	(86)	(482)
Interest paid on long-term debt and lease liabilities	(20,270)	(19,481)
Realized foreign exchange on long term debt repayment	2	53
Repayment of lease liabilities	(4,971)	(4,881)
Net (repayment of) proceeds from interim production financing (note 16)	(18,177)	10,079
Cash used in financing activities	(44,856)	(11,560)
Investing activities		
Business acquisition, net of cash acquired (note 4)	(3,533)	—
Acquisition of acquired and library content	—	(1,841)
Acquisition of property and equipment	(176)	(447)
Acquisition of intangible assets	(773)	(3,572)
Cash used in investing activities	(4,482)	(5,860)
Effect of foreign exchange rate changes on cash	(501)	176
Net change in cash during the period	(17,800)	22,544
Cash - Beginning of the period	80,348	68,734
Cash - End of the period	62,548	91,278

Supplemental information (note 16)

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

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Notes to the Interim Condensed Consolidated Financial Statements (unaudited) For the periods ended December 31, 2023 and 2022

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

1 Nature of business

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

The Company develops, produces and distributes films and television programs for domestic and international markets; licenses its brands in the domestic and international markets; broadcasts films and television programs in the domestic market; sells advertising on various ad-supported video-on-demand platforms; and manages copyrights, licensing and brands for third parties. The address of the Company's head office is 25 York Street, Unit 1201, Toronto, Ontario, M5J 2V5.

2 Basis of preparation

These interim condensed consolidated financial statements were prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"), applicable to the preparation of the International Accounting Standards ("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. These interim condensed consolidated financial statements do not include all the disclosures included in the Company's audited annual consolidated financial statements. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements.

These interim condensed consolidated financial statements have been authorized for issuance by the Board of Directors on February 8, 2024.

3 Summary of material accounting policies, judgments and estimation uncertainty

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

New Accounting Standards

The following amendments to standards and interpretations became effective for the annual periods beginning on or after January 1, 2023. The application of these amendments and interpretations had no significant impact on the Company's interim condensed consolidated financial statements.

i) Disclosure of Accounting Policies (Amendments to IAS 1)

The amendments to IAS 1 require an entity to disclose its material accounting policies instead of its significant accounting policies. The amendments clarify that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements.

ii) Definition of Accounting Estimates (Amendments to IAS 8)

The amendments to IAS 8 provide guidance to assist entities in distinguishing between accounting policies and accounting estimates. The amendments replace the definition of a change in accounting estimates with the definition of accounting estimates. Under the new definition, accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error. In

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Notes to the Interim Condensed Consolidated Financial Statements (unaudited) For the periods ended December 31, 2023 and 2022

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addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.

iii) Deferred Tax on Assets and Liabilities Arising from Lease and Decommissioning Obligation Transactions (Amendments to IAS 12)

The amendments to IAS 12 provide clarifications in accounting for deferred tax on certain transactions such as leases and decommissioning obligations. The amendments clarify that the initial recognition exemption does not apply to transactions such as leases and decommissioning obligations. As a result, entities may need to recognize both a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of leases and decommissioning obligations.

4 Business Combination

a) Acquisition of business

On July 19, 2023, the Company acquired 100% of the outstanding shares of House of Cool ("HOC"), a privately held pre-production company. In accordance with IFRS 3, the substance of this acquisition constituted a business combination as the group of assets acquired, along with the processes and outputs, were determined to have met the definition of a business under the standard. Accordingly, the assets acquired, have been recorded at their respective estimated fair values as of the acquisition date.

The Company financed the transaction through the issuance of 4,479,406 WildBrain Ltd. shares (the "Share Consideration") and \$5,195 in cash (subject to a customary working capital adjustment). Additionally, the Company is required to repay the seller for certain tax credits relating to in process productions as at the date of acquisition and completed productions which have yet to receive their final tax credit. \$6,000 has been recorded as a liability to the seller based on the estimated value of tax credits on acquisition.

Recognized goodwill is attributable to HOC's assembled workforce combined with its considerable expertise, product development knowledge and skills, and synergies by integrating its operations with the Company's existing production processes. No portion of goodwill is deductible for tax purposes.

Due to the timing of the acquisition and the ongoing collection of data necessary to value the acquired assets and liabilities, the identifiable assets acquired and liabilities assumed have been determined provisionally and the purchase price allocation has not yet been finalized. This includes working capital balances and acquired customer lists and brand name. Changes in the assumptions used in the valuation of these assets may affect the fair value resulting in a reallocation of purchase price to or from the amount recognized for goodwill. Any changes in these amounts will also result in a change in the relevant deferred tax liabilities recognized on the intangibles. The Company expects to finalize its purchase price allocation by the third quarter of fiscal 2024. Further to this, the Company has estimated the amount of tax credits to be paid to the seller for in process productions as at the date of acquisition and completed productions which have yet to receive their final tax credit. This amount is subject to change upon final determination of eligible expenses and tax credits as at the date of acquisition.

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Notes to the Interim Condensed Consolidated Financial Statements (unaudited) For the periods ended December 31, 2023 and 2022

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

The preliminary fair value of consideration transferred for the acquisition of HOC consists of the following:

	<u>July 19, 2023</u>
	Purchase price
	\$
Consideration paid in cash ⁽¹⁾	5,195
Consideration paid in common shares	7,660
Consideration for outstanding tax credits receivable	6,000
Total Consideration	18,855

⁽¹⁾ Consideration paid in cash for business acquisition in Interim Condensed Consolidated Statements of Cash Flows excludes \$1,662 cash acquired.

During the six-month period ended December 31, 2023, the company recorded the following preliminary purchase price allocation for the acquired assets and liabilities:

	<u>July 19, 2023</u>
	Preliminary amounts
	\$
Current assets	
Cash	1,662
Amounts receivable ⁽¹⁾	14,941
Prepaid expenses and other	63
Investment in film and television programs	633
	<u>17,299</u>
Non-current assets	
Property and equipment	402
Intangible assets	5,000
Goodwill	5,609
	<u>11,011</u>
Current liabilities	
Accounts payable	(8,040)
Current portion of lease liabilities	(90)
	<u>(8,130)</u>
Non-current liabilities	
Deferred tax liability	(1,325)
	<u>(1,325)</u>
Total net assets acquired	18,855

⁽¹⁾ Amounts receivable include outstanding tax credits receivable of \$6,000.

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Notes to the Interim Condensed Consolidated Financial Statements (unaudited) For the periods ended December 31, 2023 and 2022

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

5 Amounts receivable and derivative assets

	December 31, 2023	June 30, 2023
	\$	\$
Trade receivables	222,723	227,371
Less: ECL allowance on trade receivables	(6,739)	(8,935)
Trade receivables, net of loss allowance	215,984	218,436
Interest rate swap ⁽¹⁾	4,627	9,385
Sales tax receivable	2,425	1,113
Federal and provincial film tax credits	63,111	74,444
Short-term amounts receivable	286,147	303,378
Long-term amounts receivable	38,872	57,711
Total amounts receivable	325,019	361,089

⁽¹⁾ During the fourth quarter of fiscal 2021, the Company entered into a 3-year term interest rate swap maturing on June 28, 2024, which secures US\$165,000 of Term Facility from an interest rate of SOFR plus 4.25% to a fixed interest rate of 5.24% (note 14).

6 Investment in film and television programs

	December 31, 2023	June 30, 2023
	\$	\$
Development costs	11,154	5,971
Productions in progress		
Cost, net of government and third party assistance	43,588	47,741
Productions completed and released		
Cost, net of government and third party assistance	865,075	831,829
Accumulated expense	(691,156)	(668,262)
Accumulated write-down of investment in film and television programs	(60,357)	(60,357)
	113,562	103,210
Program and film rights - broadcasting⁽¹⁾		
Cost	185,514	182,631
Accumulated expense	(162,093)	(158,124)
Accumulated write-down of program and film rights	(5,737)	(5,737)
	17,684	18,770
	185,988	175,692

⁽¹⁾ All program and film rights - broadcasting relate to WildBrain Television.

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Notes to the Interim Condensed Consolidated Financial Statements (unaudited) For the periods ended December 31, 2023 and 2022

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

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

	December 31, 2023	June 30, 2023
	\$	\$
Net opening investment in film and television programs	175,692	163,563
Increase in development costs	5,183	1,099
Cost of productions (completed and released and productions in progress), net of assistance	28,993	112,832
Expense of investment in film and television programs	(22,894)	(100,242)
Write-down of investment in film and television programs	—	(6,568)
Increase of program and film rights - broadcasting	2,883	7,080
Expense of program and film rights - broadcasting	(3,969)	(8,696)
Foreign exchange	100	6,624
	185,988	175,692

During the six-month period ended December 31, 2023, interest of \$2,631 (December 31, 2022 - \$1,870) was capitalized to investment in film and television programs.

During the six-month period ended December 31, 2023, additions to investment in film and television programs were reduced by \$1,171 (December 31, 2022 - \$5,615) in respect of production tax credits.

7 Acquired and library content

	December 31, 2023	June 30, 2023
	\$	\$
Net opening acquired and library content	85,470	92,732
Additions	—	1,841
Write-down of acquired and library content	—	(1,827)
Amortization	(4,337)	(9,701)
Foreign exchange	16	2,425
Net closing acquired and library content	81,149	85,470

WildBrain Ltd.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited) For the periods ended December 31, 2023 and 2022

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

8 Credit facilities

	December 31, 2023	June 30, 2023
	\$	\$
Bank indebtedness ⁽¹⁾	13,800	7,000
Interim production financing ⁽²⁾	68,714	86,891
Term Facility, net of unamortized issue costs of \$7,689 (June 30, 2023 - \$7,849)	358,914	360,976
Convertible Debentures, net of unamortized issue costs and conversion option of \$4,350 (June 30, 2023 - \$6,998) ⁽³⁾	135,650	133,002
Total	577,078	587,869
Amount due within 12 months	(221,986)	(97,664)
Amount due beyond 12 months	355,092	490,205

⁽¹⁾ Under the Revolving Facility, when amounts are drawn and outstanding at the end of any fiscal quarter, the Company is required to comply with a leverage covenant of 6.25x. As at December 31, 2023, the Company's Total Net Leverage Ratio was 4.45x.

⁽²⁾ Assignment and direction of specific production financing, licensing contracts receivable and film tax credits receivable have been pledged as security. As at December 31, 2023, the Canadian dollar bank prime rate was 6.95% (June 30, 2023 - 3.70%).

⁽³⁾ The Convertible Debentures mature on September 30, 2024 and have been included in the current portion of long-term debt on the interim condensed consolidated balance sheet.

9 Share capital

	December 31, 2023		June 30, 2023	
	Number #	Amount \$	Number #	Amount \$
Preferred variable voting shares				
Opening balance	500,000,000	—	500,000,000	—
Ending balance	500,000,000	—	500,000,000	—
Common shares⁽¹⁾				
Opening balance	199,994,229	405,612	173,108,668	368,734
Options exercised	—	—	171,600	426
PSU exercised	—	—	880,167	798
Employee share purchase plan	—	—	18,542	45
RSU settled	418,278	745	5,640,333	5,630
DSU settled	979,646	1,166	197,692	411
Shares for business acquisition	4,479,406	7,660	—	—
Conversion of exchangeable debentures	—	—	19,977,227	29,568
Ending balance	205,871,559	415,183	199,994,229	405,612
Common Voting Shares	29,120,906		28,995,711	
Variable Voting Shares	176,750,653		170,998,518	
	205,871,559		199,994,229	

⁽¹⁾ The common shares of the Company are inclusive of Common Voting Shares, Variable Voting Shares and Non-Voting Shares.

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Notes to the Interim Condensed Consolidated Financial Statements (unaudited) For the periods ended December 31, 2023 and 2022

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

10 Share-based compensation

Omnibus equity incentive plan ("Omnibus Plan")

As at December 31, 2023, the total amount available for issuance under the Omnibus Plan subject to the 10% maximum was 20,274,717 (December 31, 2022 - at 10% - 17,326,636).

During the three and six-month periods ended December 31, 2023, the Company recognized the following share-based compensation expense (income) with a corresponding adjustment to contributed surplus:

	Three months ended		Six months ended	
	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
	\$	\$	\$	\$
Options	—	4	—	43
Performance share unit plan ("PSUs")	253	211	(139)	283
Restricted share unit plan ("RSUs")	799	3,090	1,754	4,150
Deferred share unit plan ("DSUs")	71	1,106	1,065	1,211
Long-term incentives plan ("LTIP")	—	1	—	6
Employee stock purchase plan ("ESPP")	—	4	—	7
	1,123	4,416	2,680	5,700

Options

As at December 31, 2023 and 2022, the Company had the following stock options outstanding:

	Number of options #	Weighted average exercise price per stock option \$
Outstanding at June 30, 2022	4,308,800	3.96
Expired	(442,500)	7.94
Exercised	(148,500)	1.89
Outstanding at December 31, 2022	3,717,800	3.57
Exercisable at December 31, 2022	3,711,425	4.33
Outstanding at June 30, 2023	3,517,800	3.52
Expired	(606,800)	5.30
Outstanding at December 31, 2023	2,911,000	3.14
Exercisable at December 31, 2023	2,911,000	3.14

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Notes to the Interim Condensed Consolidated Financial Statements (unaudited) For the periods ended December 31, 2023 and 2022

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

The range of exercise prices for options outstanding at December 31, 2023 and 2022, is presented below.

Range of exercise prices	Number outstanding at December 31, 2023 #	Weighted average remaining contractual life years	Weighted average exercise price \$	Number outstanding at December 31, 2022 #	Weighted average exercise price \$
\$1.50 - \$3.49	1,841,000	1.75	1.58	2,314,500	1.63
\$3.50 - \$5.49	100,000	0.75	5.47	100,000	5.47
\$5.50 - \$7.49	970,000	0.36	5.87	1,476,800	6.26
Total	2,911,000	1.25	3.14	3,891,300	3.57

Performance share unit plan ("PSUs")

The following table illustrates the movements in the number of PSUs during the period.

	Six months ended	
	December 31, 2023 PSU #	December 31, 2022 PSU #
Outstanding, beginning of period	1,850,968	2,737,467
Granted	696,695	—
Forfeited	(100,000)	—
Outstanding, end of period	2,447,663	2,737,467

Restricted share unit plan ("RSUs")

The following table illustrates the movements in the number of RSUs during the period.

	Six months ended	
	December 31, 2023 RSU #	December 31, 2022 RSU #
Outstanding, beginning of period	2,483,778	4,691,764
Granted	784,097	—
Forfeited	(150,129)	(35,623)
Exercised	(276,648)	—
Outstanding, end of period	2,841,098	4,656,141

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Notes to the Interim Condensed Consolidated Financial Statements (unaudited) For the periods ended December 31, 2023 and 2022

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Deferred share unit plan ("DSUs")

The following table illustrates the movements in the number of DSUs during the period.

	Six months ended	
	December 31, 2023	December 31, 2022
	DSU	DSU
	#	#
Outstanding, beginning of period	3,245,260	2,582,342
Granted	618,958	42,721
Redeemed	(979,646)	—
Outstanding, end of period	2,884,572	2,625,063

11 Income taxes

For the three and six-month period ended December 31, 2023, the Company recorded income tax recovery rate of 23.4% and 75.0%, respectively (December 31, 2022 - income tax expense rate of 20.4% and recovery rate of 182.8%). The income tax (recovery) 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, the utilization of certain unrecognized tax losses and the continued nonrecognition of certain deferred tax assets in Canada.

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12 Finance costs, net

Net finance costs comprise the following:

	Three months ended		Six months ended	
	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
	\$	\$	\$	\$
Finance costs				
Change in fair value of interest rate swap and forward contract	2,370	(103)	4,931	(3,122)
Interest income	(777)	74	(1,877)	(1,229)
Interest expense on bank indebtedness	446	1,008	853	1,322
Interest on long-term debt	8,902	7,450	17,902	16,153
Interest on completed and released productions	808	616	1,530	1,247
Amortization of deferred financing fees	1,185	775	1,791	1,437
Accretion on convertible debentures, exchangeable debentures, lease liabilities and other	1,539	3,002	3,070	5,817
	14,473	12,822	28,200	21,625

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

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13 Expenses by nature and employee benefit expense

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

	Three months ended		Six months ended	
	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
	\$	\$	\$	\$
Direct production and new media costs	52,935	47,282	93,887	97,969
Expense of film and television programs	12,168	29,737	22,894	48,184
Expense of film and broadcast rights for broadcasting	1,934	2,189	3,969	4,430
Amortization of property and equipment and intangible assets	6,380	6,034	12,645	12,308
Amortization of acquired and library content	2,179	2,410	4,337	4,759
Office and administrative	5,764	5,464	8,772	10,347
Investor relations and marketing	364	817	1,029	2,059
Professional and regulatory	2,566	3,388	4,569	5,870
Reorganization, development and other expenses, excluding employee benefits	2,013	2,044	4,833	2,505
Finance costs, net	14,473	12,822	28,200	21,625
Change in fair value of embedded derivatives	(77)	17,752	(339)	11,718
Foreign exchange	(3,647)	(8,794)	2,478	3,662
	97,052	121,145	187,274	225,436
Employee benefits expense:				
Salaries and employee benefits	16,531	16,869	35,444	33,990
Share-based compensation (note 10)	1,123	4,373	2,680	5,700
Termination and other benefits	1,548	678	3,720	1,785
	19,202	21,920	41,844	41,475
	116,254	143,065	229,118	266,911

The following sets out the expenses included in reorganization, development and other expenses:

	Three months ended		Six months ended	
	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
	\$	\$	\$	\$
System implementation costs	854	647	2,589	647
Development write-off	681	922	1,257	922
Relocation costs	—	234	—	491
Other	478	241	987	445
	2,013	2,044	4,833	2,505

WildBrain Ltd.

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14 Management of financial risks and financial instruments

The financial risks arising from the Company's operations include credit, interest rate, liquidity, currency 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 in the audited annual consolidated financial statements. Management monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

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

	Total	Less than	1 to 3	3 to 5	After 5
	\$	1 year	years	years	years
		\$	\$	\$	\$
Bank indebtedness	13,800	13,800	—	—	—
Accounts payable and accrued liabilities	166,880	166,880	—	—	—
Interim production financing	68,714	68,714	—	—	—
Other long-term liabilities	10,986	—	10,986	—	—
Senior unsecured convertible Debtentures	146,152	146,152	—	—	—
Term facility	431,373	19,288	38,096	373,989	—
Finance lease obligations	25,757	10,053	12,137	2,635	932
	863,662	424,887	61,219	376,624	932

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

Fair value of financial instruments

Financial instruments recorded at fair value on the interim condensed consolidated balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

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.

WildBrain Ltd.

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Financial assets and (liabilities) measured at fair value

	As at			
	December 31, 2023		June 30, 2023	
	Fair value hierarchy	Fair value ⁽¹⁾	Fair value hierarchy	Fair value ⁽¹⁾
		\$		\$
Embedded derivatives ⁽²⁾	Level 2	(1)	Level 2	(339)
Foreign currency forwards ⁽³⁾	Level 2	(177)	Level 2	337
Interest rate swap ⁽⁴⁾	Level 2	4,627	Level 2	9,385

⁽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⁾ Embedded derivatives at December 31, 2023 include convertible debentures (December 31, 2022 - convertible debentures and exchangeable debentures), measured using valuation models. This is classified under Accounts payable, accrued and derivative liabilities in the interim condensed consolidated balance sheet as the maturity date is within the next 12 months.

⁽³⁾ The fair value of foreign currency contracts is determined using prevailing exchange rates. These are classified as Derivative assets and Derivative liabilities, respectively, in the interim condensed consolidated balance sheet.

⁽⁴⁾ Includes a 3-year term interest rate swap agreement, maturing on June 28, 2024, entered to secure US\$165,000 of total Term Facility at an interest rate of 5.24%. The fair value is determined using the prevailing interest rates. This is classified under Amounts receivable and derivative assets in the interim condensed consolidated balance sheet as the maturity date is within the next 12 months.

As at December 31, 2023, the Company held forward contract options with the following notional value and average contractual exchange rates:

US\$ exchange for GBP

Less than one year	US\$1,782 to US\$2,573
Weighted average rate	1.2729

US\$ exchange for Canadian dollars

Less than one year	US\$5,253 to US\$9,323
Weighted average rate	1.3257

Chinese Yuan ("RMB") exchange for Canadian dollars

Less than one year	\$269 to \$280
Weighted average rate	5.2000

Japanese Yen ("Yen") exchange for US\$

Less than one year	US\$2,248 to US\$2,347
Weighted average rate	146.4417

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Financial assets and liabilities not measured at fair value

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

	As at					
	December 31, 2023			June 30, 2023		
	Fair value hierarchy	Fair value liability	Carrying value	Fair value hierarchy	Fair value liability	Carrying value
		\$	\$		\$	\$
Convertible Debentures ⁽¹⁾	Level 1	129,500	135,650	Level 1	132,286	133,002

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

During the three and six-month period ended December 31, 2023, the Company recorded a gain of \$77 and \$339, respectively, as a change in fair value of the embedded derivative (December 31, 2022 - an expense of \$2,770 and \$2,262, respectively), and the estimated fair value of the embedded derivative as at December 31, 2023 was \$1 (June 30, 2023 - \$339).

15 Earnings or loss per common share

a) Basic

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

	Three months ended		Six months ended	
	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
	\$	\$	\$	\$
Net income (loss) attributable to shareholders of the Company	4,997	(12,952)	(10,518)	(20,524)
Weighted average number of common shares outstanding (in 000's)	206,309	173,847	205,678	173,564
Basic earnings (loss) per common share	0.02	(0.07)	(0.05)	(0.12)

WildBrain Ltd.

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b) Diluted

During the three and six-month period ended December 31, 2023, the weighted average number of potentially dilutive instruments was 7,440 and nil, respectively, (December 31, 2022 - the diluted weighted average number of common shares outstanding was the same as the basic weighted average number of common shares outstanding, as the Company had a net loss and all potential dilutive instruments were anti-dilutive).

	Three months ended		Six months ended	
	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
	\$	\$	\$	\$
Net income (loss) attributable to shareholders of the Company	4,997	(12,952)	(10,518)	(20,524)
Adjusted net earnings (loss) attributable to shareholders of the Company	4,997	(12,952)	(10,518)	(20,524)
Weighted average number of common shares (in 000's)	206,309	173,847	205,678	173,564
Dilutive effect of share-based compensation and warrants (in 000's)	7	—	—	—
Weighted average number of diluted shares outstanding (in 000's)	206,316	173,847	205,678	173,564
Diluted earnings (loss) per common share	0.02	(0.07)	(0.05)	(0.12)

16 Interim Condensed Consolidated statement of cash flows - supplementary information

Net change in non-cash balances related to operations

	December 31, 2023	December 31, 2022
	\$	\$
Amounts receivable	28,206	(50,709)
Prepaid expenses and other	(1,467)	1,327
Long-term amounts receivable	18,839	16,871
Accounts payable and accrued liabilities	(27,142)	3,514
Deferred revenue	(28,464)	5,053
	(10,028)	(23,944)

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Net change in film and television programs

	December 31, 2023	December 31, 2022
	\$	\$
Development ⁽¹⁾	(4,550)	(518)
Productions in progress	4,153	(9,941)
Productions completed and released	(33,146)	(42,387)
Film and television programs	22,894	48,184
Program and film rights - broadcasting	(2,883)	(4,300)
Film and broadcast rights - broadcasting	3,969	4,430
	<u>(9,563)</u>	<u>(4,532)</u>

⁽¹⁾ Includes \$633 investment in film and television programs acquired as part of business combination.

Net change in interim production financing

	December 31, 2023	December 31, 2022
	\$	\$
Proceeds from interim production financing	34,281	45,179
Repayment of interim production financing	(52,458)	(35,100)
	<u>(18,177)</u>	<u>10,079</u>

Supplemental cash flow information

	December 31, 2023	December 31, 2022
	\$	\$
Taxes paid	(1,561)	(874)
Taxes refunded	597	2,099
	<u>(964)</u>	<u>1,225</u>

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

	Term facility	Senior unsecured convertible debentures	Lease liabilities	Exchangeable debentures	Total
	\$	\$	\$	\$	\$
Balance - June 30, 2022	353,387	128,089	36,239	22,662	540,377
Repayments	(1,942)	—	(4,881)	—	(6,823)
Payment of debt issue costs	(482)	—	—	—	(482)
Total financing cash flow activities	(2,424)	—	(4,881)	—	(7,305)
Amortization of deferred financing costs	866	445	—	126	1,437
Lease liabilities additions	—	—	2,934	—	2,934
Interest paid on lease liabilities	—	—	(997)	—	(997)
Accretion expense	12	1,950	997	2,870	5,829
Foreign exchange	18,523	—	447	1,206	20,176
Total other activities	19,401	2,395	3,381	4,202	29,379
Balance - December 31, 2022	370,364	130,484	34,739	26,864	562,451

	Term facility	Senior unsecured convertible debentures	Lease liabilities	Total
	\$	\$	\$	\$
Balance - June 30, 2023	360,976	133,002	32,049	526,027
Repayments	(1,906)	—	(4,971)	(6,877)
Payment of debt issue costs	(1,187)	—	—	(1,187)
Total financing cash flow activities	(3,093)	—	(4,971)	(8,064)
Amortization of deferred financing costs	1,346	445	—	1,791
Lease liabilities additions	—	—	2,573	2,573
Interest paid on lease liabilities	—	—	(867)	(867)
Accretion expense	—	2,203	867	3,070
Foreign exchange	(315)	—	(6)	(321)
Total other activities	1,031	2,648	2,567	6,246
Balance - December 31, 2023	358,914	135,650	29,645	524,209

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17 Revenues and segmented information

The Company operates production entities and offices throughout Canada, the United States, Europe and Asia.

	Three months ended December 31, 2022		
	Content and Licensing	Television	Consolidated
	\$	\$	\$
Revenues	129,477	11,003	140,480
Direct production costs and expense of film and television produced, share based compensation and selling, general and administrative	96,862	5,272	102,134
Segment profit	32,615	5,731	38,346
Corporate selling, general and administrative			7,985
Amortization of property and equipment and intangible assets			6,034
Amortization of acquired and library content			2,410
Finance costs, net			12,822
Change in fair value of embedded derivatives			17,752
Foreign exchange gain			(8,794)
Reorganization, development and other expenses			2,722
Loss before income taxes			(2,585)

	Three months ended December 31, 2023		
	Content and Licensing	Television	Consolidated
	\$	\$	\$
Revenues	117,563	8,720	126,283
Direct production costs and expense of film and television produced, share based compensation and selling, general and administrative	82,389	4,704	87,093
Segment profit	35,174	4,016	39,190
Corporate selling, general and administrative			6,292
Amortization of property and equipment and intangible assets			6,380
Amortization of acquired and library content			2,179
Finance costs, net			14,473
Change in fair value of embedded derivatives			(77)
Foreign exchange gain			(3,647)
Reorganization, development and other expenses			3,561
Income before income taxes			10,029

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	Six months ended December 31, 2022		
	Content and Licensing	Television	Consolidated
	\$	\$	\$
Revenues	245,956	21,176	267,132
Direct production costs and expense of film and television produced, share based compensation and selling, general and administrative	182,898	10,603	193,501
Segment profit	63,058	10,573	73,631
Corporate selling, general and administrative			15,048
Amortization of property and equipment and intangible assets			12,308
Amortization of acquired and library content			4,759
Finance costs, net			21,625
Change in fair value of embedded derivatives			11,718
Foreign exchange loss			3,662
Reorganization, development and other expenses			4,290
Income before income taxes			221

	Six months ended December 31, 2023		
	Content and Licensing	Television	Consolidated
	\$	\$	\$
Revenues	214,268	17,521	231,789
Direct production costs and expense of film and television produced, share based compensation and selling, general and administrative	153,280	9,580	162,860
Segment profit	60,988	7,941	68,929
Corporate selling, general and administrative			10,384
Amortization of property and equipment and intangible assets			12,645
Amortization of acquired and library content			4,337
Finance costs, net			28,200
Change in fair value of embedded derivatives			(339)
Foreign exchange loss			2,478
Reorganization, development and other expenses			8,553
Income before income taxes			2,671

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The following table presents the Company's disaggregated revenues recognized from contracts with customers:

	Three months ended		Six months ended	
	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
	\$	\$	\$	\$
Content and Licensing				
Content creation and audience engagement ⁽¹⁾	56,666	72,096	103,915	136,474
Global licensing	60,897	57,381	110,353	109,482
	117,563	129,477	214,268	245,956
Television				
Canadian Television Broadcasting	8,720	11,003	17,521	21,176
	126,283	140,480	231,789	267,132

⁽¹⁾ During the first quarter of fiscal 2024, the Company integrated WildBrain Spark into Content creation and audience engagement to better align the nature of this revenue with other similar revenue streams within the same category. For the transition period of fiscal 2024, the Company will provide legacy WildBrain Spark revenue for comparable results. Legacy WildBrain Spark revenue for the three and six-month period ended December 31, 2023 was \$14,777 and \$25,919, respectively (December 31, 2022 - \$16,046 and \$27,663, respectively).

18 Commitments and contingencies

As at December 31, 2023, the Company has entered into various contracts to buy broadcast rights with future commitments totaling \$2,516.

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