



WONDERFILM

THE WONDERFILM MEDIA CORPORATION. MANAGEMENT DISCUSSION AND ANALYSIS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

This management’s discussion and analysis (“MD&A”) presents an analysis of the financial position of The Wonderfilm Media Corporation (the “Company” or “Wonderfilm”) for the three months ended September 30, 2019 and 2018. The following information should be read in conjunction with the audited financial statements for the year ended June 30, 2019 and 2018, including the notes contained therein. These financial statements are presented in Canadian currency and were prepared in accordance with accounting policies consistent with International Financial Reporting Standards (“IFRS”) appropriate in the circumstances.

Date of Report

This MD&A is dated February 29, 2020.

Explanatory Note

This MD&A for the three months ended September 30, 2019 and 2018, has been prepared to assist readers in understanding the financial performance of the Company.

Forward Looking Statements

The information set forth in this MD&A contains statements concerning future results, future performance, intentions, objectives, plans and expectations that are, or may be deemed to be, forward-looking statements. These statements concerning possible or assumed future results of operations of the Company are preceded by, followed by or include the words ‘believes’, ‘expects’, ‘anticipates’, ‘estimates’, ‘intends’, ‘plans’, ‘forecasts’, or similar expressions. Forward-looking statements are not guarantees of future performance. These forward-looking statements are based on current expectations that involve numerous risks and uncertainties, including, but not limited to, those identified in the “Risks Factors” section. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate. These factors should be considered carefully, and readers should not place undue reliance on forward-looking statements. Unless required by securities legislation, the Company has no intention and undertakes no obligation to update or revise any forward-looking statements, whether written or oral, that may be made by or on the Company’s behalf.

OVERALL PERFORMANCE

At the start of 2020, compared to prior years, Wonderfilm is much better positioned to package more productions and to work towards long-term shareholder value. The company is focused on continuing to establish itself as a reliable supplier of content and indie films to domestic, international and US buyers through a content development strategy geared toward low risk, commercial productions able to access tax incentives and marketable to key content purchasers. We are also striving to improve our governance, board of directors, administration and financing teams.

Wonderfilm's experienced entertainment and media production team are not paid a salary, but rather gain remuneration from their productions, with the movie production business of Wonderfilm already operating at near break-even. More importantly, Wonderfilm has seeded growth opportunities to contribute to the success of the company in the years ahead and is looking to add incremental revenue generating projects to fuel further growth, including expansion into supplying the lucrative streaming market where Wonderfilm does not yet have a large footprint.

Four Theatrical Premieres in 2019

In 2019, Wonderfilm premiered four movies in North American theatres along with a primetime TV movie premiere for NBC/Universal's SyFy Channel, "Zombie Tidal Wave" (filmed in Thailand) and over the past four months has released one film per month featuring stars John Travolta, Nicolas Cage, Felicity Huffman and Steven Seagal - with more films being packaged for 2020 production.

Wonderfilm's pre-sale strategy mitigates Wonderfilm's exposure to financial risk and by evaluating every movie's (pre-sale) value based on star and genre. The budget usually doesn't exceed the pre-sales and tax credits amounts so the financing needed to make a film is already contracted or hedged through pre-sales and tax incentives before production is green lit. Upon delivery of the completed film all the contracted funds are collected while tax credits are usually returned within 12 months from the date of principal photography. This ensures production loans are generally paid back within 12 months.

Now three years old, the Company's management team continues to put in place the structure and Intellectual Property ("IP") necessary to build a successful company -- a story that can advance rapidly.

Streaming Sites Demand New Content

Streaming services like Apple TV, Google Play, Disney, Netflix, Amazon and others' demand for new content is viewed as the Company's most significant new growth potential coming in the next 12 to 24 months. Netflix just purchased a recent Wonderfilm movie.

The unprecedented worldwide thirst for new streamed media content is booming, with major players like Disney and Netflix directly battling each other for subscribers and third party producers. This leaves content creators such as Wonderfilm the real winners in this battle between streaming services. Wonderfilm is able to sell as many movies/series as it can afford to put into production and is positioned to significantly increase its existing \$58 million annual production slate (budgeted) to meet new demand from Netflix and other streaming sites.

Wonderfilm Intellectual Property

Wonderfilm's production slate and development IP assets offer a sizable revenue opportunity with the Producers at Wonderfilm able to produce content quickly, limited only by financing. The company currently owns 20 movie concepts and a TV series in various stages of development.

The bestselling book, "*Merchant of Death*" written by Pulitzer Prize winner Stephen Braun and Douglas Farah, is a gripping, suspenseful and thrilling real-life account of the investigations into one of the world's most notorious arms dealers, Viktor Bout. Some of Victor Bout's exploits were immortalized in the hit 2005 film, "*Lord of War*" starring Nicolas Cage, Ethan Hawke and Jared Leto.

“*Last Story of David Allen*” is an action movie starring Kellan Lutz, Ron Perlman, and Isabel Lucas. Kellan Lutz plays a hitman facing life and death complications on his final assassination assignment. Filming for the “*Last Story of David Allen*” is scheduled to begin March 2020.

The completed film “*Tammy Is Always Dying*” starring Felicity Huffman, Anastasia Phillips and Clark Johnson, and directed by Amy Jo Johnson, is a drama/comedy that premiered at the Toronto Film Festival in 2019.

The Company has a quality inventory of acquired screenplays and projects in development and is actively sourcing and consolidating production talent for the growth of additional feature films.

Wonderfilm launched a foreign sales division in May 2019 during the Cannes Film festival. Management views this division as an exciting strategic and important growth business for Wonderfilm.

INTERIM MD&A – QUARTERLY HIGHLIGHTS

The following financial data, which has been prepared in accordance with International Financial Reporting Standards, is derived from the unaudited consolidated condensed interim financial statements for the quarters that were prepared. The Company was not publicly traded prior to the Amalgamation and, in accordance with National Instrument 51-102, only that information that has been previously prepared is included herein.

	Three Months Ended September 30, 2019 (unaudited)	Three Months Ended June 30, 2019 (unaudited)	Three Months Ended March 31, 2019 (unaudited)	Three Months Ended December 31, 2018 (unaudited)
Total Revenue	-	\$6,656,996	\$38,080	\$Nil
Total Cost of sales	-	\$6,892,420	\$215,000	\$Nil
Expenses:				
Advertising/Promotion	\$546,436	1,474,876	-	-
Amortization	-	\$177,904	\$177,905	\$177,905
Bad debt expense	-	\$125,118	-	-
Office and travel	\$125,365	\$(1,190,504)	\$444,374	\$871,873
Management fees	\$30,000	\$25,049	\$30,000	\$147,500
Professional fees	\$271,783	\$109,555	\$75,705	\$305,340
Impairment of movie	-	\$(2,134,855)	-	-
Share based compensation	\$128,943			
Loss on acquisitions		\$(5,225,998)	-	-
Net comprehensive loss	\$(1,106,662)	\$(9,317,130)	\$(909,549)	\$(1,497,414)
Net loss per share (basic and diluted)	(0.03)	\$(0.33)	\$(0.03)	\$(0.06)

	Three Months Ended September 30, 2018 (unaudited)	Three Months Ended June 30, 2018 (unaudited)	Three Months Ended March 31, 2018 (unaudited)	Three Months Ended December 31, 2017 (unaudited)
Total Revenue	\$62,600	\$ 1,313,344	\$10,550,000	\$ -
Total Cost of sales	-	1,160,441	10,349,518	-
Expenses:				
Advertising/promotion	-	-	-	-
Amortization	\$177,905	948,825	-	-
Bad debt expense	-	29,406	-	-
Office and travel	\$353,612	131,595	75,324	233,542
Management fees	\$241,277	30,001	-	-
Professional fees	\$314,878	109,325	63,718	120,311

Listing cost	-	239,384	780,033	-
Net comprehensive loss	\$(1,018,660)	(1,561,217)	(731,437)	(121,065)
Net loss per share (basic and diluted)	\$(0.05)	\$ (0.05)	\$ (0.09)	\$ (0.03)

Net loss was highest during current quarter ended June 30, 2019 because there was a paper loss from three significant non-cash transactions during the year that according to audit rules must be written down even though the results of those transactions could be realized in the near future. These transactions were to acquire and secure IP for future productions, including attracting producers with valuable IP. The write-down of the movie inventory acquired and AVOD was based on the uncertainty of measuring the fair value of the assets.

Additionally, the film library or movie royalty asset with over 50 movies was written down to a nominal value when there is continued interest from various parties to license the content. The write-downs of the movie royalty assets film library was due to uncertainty of discounted future cash flows being able to support the carrying cost of the asset. The Company is continuing to work to generate future revenue and cash flows from this IP.

The nature of the film business requires a structural lag between when the money is invested and the revenue returns. This lag can be a year for the initial return and several years for overages and library sales. Wonderfilm has been actively growing its slate of movies and building its pipeline of productions with theatrical feature film releases now an integral part of the production slate.

FINANCIAL RESULTS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2019

Revenue and Cost of Sales was nominal due to the long development project timeline and significant quarter to quarter fluctuations that is typical of the entertainment industry.

Office and travel expenses mainly relate to travel, rent, personnel and general telecommunication and utility costs of maintaining Wonderfilm's main company office in Vancouver, British Columbia and operational office in Los Angeles, California. The increased activity has resulted in an increasing trend in G&A expenses.

Professional fee expenses relate to the increase of activity of the Company and the resulting legal professional services, investor relations and promotional fees associated with operating a public company and production and distribution services of motion pictures.

Share based compensation relates to stock option issued to directors, officers and consultants to which did not occur most prior periods.

FINANCIAL CONDITION AND LIQUIDITY

As at September 30, 2019, Wonderfilm had cash of \$15,022 and working capital deficit of \$1,526,145 (September 30, 2018 – cash of \$111,759 and working capital of \$1,523,175). The decrease in working capital was mainly due to ongoing costs of building the movie production business and the delay in receiving funds from ongoing projects. The Company has been financing the working capital deficit through short term loans from the companies controlled by the CEO or a relative of the CEO.

During the period ended September 30, 2019, the Company used approximately \$975,088 in cash from operating activities, provided approximately \$848,807 from financing activities, for net cash outflow of \$126,281, leaving cash balance of \$15,022 at September 30, 2019.

	Three months ended September 30, 2019	Three months ended September 30, 2018
Cash provided by (used in)		
Operating activities	\$ (975,088)	\$ (3,024,344)
Financing activities	848,807	2,659,195
Investing activities	-	-

Total	\$ (126,281)	\$ 365,149
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OUTSTANDING SHARE AND EQUITY INFORMATION

The Company's common shares trade on the Exchange under the symbol "WNDR". The following table summarizes the outstanding common shares, options, warrants.

Outstanding	
Shares	40,619,671
Warrants	2,660,737
Options	2,762,520

Performance based escrow shares

Of the 40,619,671 Common Shares issued and outstanding, 9,743,935 are currently under a performance escrow agreement.

On March 27, 2018, the Company issued 7,473,935 escrowed performance shares to certain former shareholders of Wonderfilm. The performance shares are released based on the Company's annual audited Earnings before Interest and Taxes ("EBIT") divided by a deemed value of \$0.50 per common share. The measurement date for the performance shares release are on June 30, 2018, 2019 and 2020. Any remaining escrowed performance shares not attained by June 30, 2020 shall expire and be cancelled by the Company. To date, EBIT has not been positive and as such no performance shares have been authorized for release to the Producers.

On April 8, 2019, the Company issued 3,290,000 compensation shares in connection with a joint venture agreement with Impossible Dream Entertainment Inc. ("IDE"). Of these shares, 1,020,000 shares vested immediately with the remainder released based on a performance-based escrow. The escrow is released based on a formula of one common share for each \$0.60 of revenue of the Company derived from the joint venture project. To date, no such performance shares have been issued as the Company has not yet selected any movie projects to develop with IDE.

On July 16, 2019, Wonderfilm acquired 50.1% ownership in the joint venture named "Wonderfilm Global Sales Limited". Pursuant to the terms of the agreement, 2,000,000 common shares with a deemed price of \$0.25 per share were issued to five arm's length parties to the joint venture agreement and an additional 2,000,000 common shares are to be issued on a performance milestone of achieving \$1,000,000 in audited EBITDA.

On September 9, 2019, Wonderfilm closed a non-brokered private placement, issuing non-transferable, unsecured convertible debentures in the aggregate principal amount of \$1,000,000. The Debentures are convertible as set forth below into common of the Company at a conversion price of \$0.17 per share. The Debentures mature 3 years from the date of the closing of the financing and bear interest at the rate of 8% per annum, payable quarterly. If the Company's common shares trade on the Exchange at a volume weighted average price of \$0.40 or more for forty-five (45) consecutive trading days, the Company will have the right (but not the obligation) at any time thereafter during the remaining term of the debentures to cause each debenture to be convertible into that number of shares computed on the basis of the principal amount of the debenture plus accrued but unpaid interest divided by the conversion price.

On September 16, 2019, Wonderfilm granted incentive stock options to the directors of the Company and the incoming CFO (starting November 1, 2019) to acquire an aggregate of 900,000 common shares of the Company with an exercise price of \$0.20 per share expiring September 12, 2020. In addition, the Board of Directors has authorized the granting of incentive stock options to various consultants of the Company to acquire an aggregate of 1,425,000 common shares of the Company with an exercise price of \$0.20 per share expiring September 12, 2020.

On November 1, 2019, the board of directors approved the cancellation of 104,205 stock options previously granted to former directors of the Company

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

Wonderfilm has no existing contractual obligations other than as described in this MD&A. There are no off-balance sheet arrangements.

TRANSACTIONS BETWEEN RELATED PARTIES

Related parties include shareholders with a significant ownership interest in the Company and the Company's key management personnel. The transactions are in the normal course of operations and have been valued in these financial statements at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

(a) Balances with related parties:

	Three months ended September 30, 2019	Three months ended September 30, 2018
Accounts receivable and other receivable	\$ -	\$ 2,912,625
Prepaid project development	-	3,926,079
Trade, other payables and accrued liabilities	30,000	111,546
Due to related party	435,721	2,918,900
Deferred revenue	-	2,912,625

(b) Transactions during the period with companies related through common significant shareholder or key management personnel:

	Three months ended September 30, 2019	Three months ended September 30, 2018
Production consulting and distribution income	\$ -	\$ 32,600
Production cost of sales	-	-
General and administration - overhead	114,838	184,059
General and administration – professional fees	87,000	-
General and administration – advertising and promotion	476,714	128,439
Management fees	30,000	30,000
Professional fees	-	312,479

SIGNIFICANT ACCOUNTING POLICIES

Please refer to the Company's audited annual financial statements for year ended June 30, 2019, for a complete list of the Company's current accounting policies.

DIVIDENDS

There are no restrictions that could prevent the Company from paying dividends on its common shares. Wonderfilm has not paid any dividends on its common shares as it not contemplated that the Company will pay any dividends in the immediate or foreseeable future. It is the Company's intention to use all available cash flow to finance further movie production projects.

RISK FACTORS

The following risk factors relate to the business of Wonderfilm

Wonderfilm Currently Has Limited Financial History and Operating Cash Flow

Since incorporation on January 10, 2014, Wonderfilm has had limited financial activity and negative cash flow. There can be no certainty that Wonderfilm will ever achieve or sustain profitability or positive cash flow from its operating activities. In addition, Wonderfilm's working capital and funding needs may vary significantly depending upon a number of factors including, but not limited to:

- progress of Wonderfilm's production, financing, and distribution activities;
- collaborative license agreements with third parties;
- opportunities to in-license beneficial productions or potential acquisitions;
- potential milestone or other payments that Wonderfilm may make to licensors or corporate partners;
- technological and market consumption and distribution models or alternative forms of entertainment delivery that affect Wonderfilm's potential revenue levels or competitive position in the marketplace;
- the level of sales and gross profit;
- costs associated with production, labour and services costs, and Wonderfilm's ability to realize operation and production efficiencies;
- fluctuations in certain working capital items, including library assets, short-term loans, and accounts receivable, that may be necessary to support the growth of Wonderfilm's business;
- expenses associated with litigation; and
- management of debt and repayment of such debt

Early Stage

Wonderfilm is an early stage company and as such, Wonderfilm is subject to many risks including undercapitalization, cash shortages, and limitations with respect to personnel, financial and other resources and the lack of revenue. There is no assurance that Wonderfilm will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of its early stage of operations. Wonderfilm's prospects must be considered speculative in light of the risks, expenses, and difficulties frequently encountered by companies in their early stages of operations, particularly in the highly competitive and rapidly evolving markets in which Wonderfilm operates. To attempt to address these risks, Wonderfilm must, among other things, successfully implement its business plan, marketing, and commercialization strategies, respond to competitive developments, and attract, retain, and motivate qualified personnel. A substantial risk is involved in investing in Wonderfilm because, as a smaller commercial enterprise that has fewer resources than an established company, Wonderfilm's management may be more likely to make mistakes, and Wonderfilm may be more vulnerable operationally and financially to any mistakes that may be made, as well as to external factors beyond Wonderfilm's control.

Wonderfilm May Not be Able to Successfully Execute its Business Plan

The execution of Wonderfilm's business plan poses many challenges and is based on a number of assumptions. Wonderfilm may not be able to successfully execute its business plan. If Wonderfilm experiences significant cost overruns, or if its business plan is more costly than it anticipates, certain activities may be delayed or eliminated, resulting in changes or delays to its current plans, or Wonderfilm may be compelled to secure additional funding (which may or may not be available) to execute its business plan. Wonderfilm cannot predict with certainty its future revenues or results from its operations. If the assumptions on which its revenues or expenditures forecasts are based change, the benefits of Wonderfilm's business plan may change as well. In addition, Wonderfilm may consider expanding its business beyond what is currently contemplated in its business plan. Depending on the financing requirements of a potential business expansion, Wonderfilm may be required to raise additional capital through the issuance of equity or debt. If Wonderfilm is unable to raise additional capital on acceptable terms, it may be unable to pursue a potential business expansion.

Wonderfilm Faces Substantial Capital Requirements and Financial Risks

The business requires a substantial investment of capital. The production, acquisition, and distribution of motion picture and television content requires substantial capital. A significant amount of time may elapse between Wonderfilm's expenditure of funds and the receipt of revenues after release or distribution of such content. This may require a significant portion of funds from equity, credit, and other financing sources to fund the business. Although

the risks of production exposure are reduced through tax credit programs, government and industry programs, other studios and co-financiers and other sources, there can be no assurance that these arrangements will continue to be successfully implemented or will not be subject to substantial financial risks relating to the production, acquisition, and distribution of future indie film and television content. In addition, if the production slate or the production budgets increase through internal growth or acquisition, there may be an increase to overhead and/or larger up-front payments for talent acquisition and, consequently, these increases bear greater financial risks. Any of the foregoing could have a material adverse effect on Wonderfilm's business, financial condition, operating results, liquidity, and prospects.

Additional Capital Requirements

Wonderfilm may need to engage in equity or debt financings to secure additional funds. If Wonderfilm raises additional funds through further issuances of equity or convertible debt securities, Wonderfilm's existing shareholders could suffer significant dilution, and any new equity securities Wonderfilm issues could have rights, preferences, and privileges superior to those of holders of Wonderfilm Shares. Any debt financing secured by Wonderfilm in the future could involve restrictive covenants relating to its capital raising activities and other financial and operational matters, which might make it more difficult for it to obtain additional capital and to pursue business opportunities.

Wonderfilm can provide no assurance that sufficient debt or equity financing will be available on reasonable terms or at all to support its business growth and to respond to business challenges and failure to obtain sufficient debt or equity financing when required could have a material adverse effect on its business, prospects, financial condition, results of operations, and cash flows.

Wonderfilm expects to incur short-term losses and generate negative cash flow until it can produce sufficient revenues to cover its costs. Wonderfilm may never become profitable. Even if it does achieve profitability, Wonderfilm may be unable to sustain or increase its profitability in the future. For the reasons discussed in more detail below, there are substantial uncertainties associated with Wonderfilm achieving and sustaining profitability. Wonderfilm expects its cash reserves will be reduced due to future operating losses and working capital requirements, and it cannot provide certainty as to how long its cash reserves will last or that it will be able to access additional capital if and when necessary.

Wonderfilm May Need to Raise Additional Capital in the Future to Fund its Operations

Wonderfilm may require substantial additional capital resources to further its production-packaging business model. Future cash requirements may vary materially from those expected if Wonderfilm elects to produce indie films, acquire indie films or experiences operational production delays or unexpected increases in costs related to the maintenance, defense, and enforcement of proprietary intellectual properties and tax credit refunds.

Sources of additional funding include collaborations and licensing arrangements, public or private equity, or debt financing.

If Wonderfilm's commercialization activities do not show positive results, or if capital market conditions in general, or with respect to entertainment motion picture companies in particular, are unfavorable, Wonderfilm may be unable to raise funds when needed or on acceptable terms.

Any Additional Equity Financings May Be Dilutive to Wonderfilm's Existing Stockholders

If sufficient capital is not available, Wonderfilm may be required to delay, reduce the scope of, eliminate or divest one or more of its library assets or productions or suspend operations, any of which could have a material adverse effect on Wonderfilm's business, financial condition, prospects, or results of operations.

Wonderfilm Has Broad Discretion Over the Use of Net Proceeds

Wonderfilm will have broad discretion over the use of the net proceeds from any future capital raises. Because of the number and variability of factors that will determine Wonderfilm's use of such proceeds, the ultimate use might vary substantially from the planned use. Investors may not agree with how Wonderfilm allocates or spends the proceeds from future capital raises. Wonderfilm may pursue collaborations that ultimately do not result in an increase in the

market value of the common shares and that instead increase Wonderfilm's losses.

Budget Overruns May Adversely Affect Wonderfilm's Business

While Wonderfilm's business model requires efficiency in the production of indie films and television content, actual production costs may exceed their budgets. The production, completion, and distribution of such content can be subject to a number of uncertainties, including delays and increased expenditures due to disruptions or events beyond Wonderfilm's control. As a result, if each production incurs substantial budget overruns, additional financing may need to be sourced. There are no assurances regarding the availability of such additional financing or on mutually acceptable terms, or that such costs will be recouped. Budget overruns could also prevent a picture from being completed or released, thereby having a material adverse effect on the business, financial condition, operating results, liquidity and prospects of Wonderfilm.

Wonderfilm's Results of Operations are Difficult to Predict and Depend on a Variety of Factors

Results may fluctuate due to the timing, mix, number, and availability of indie films produced or acquired and home entertainment releases, as well as license periods for content. The operating results may increase or decrease during a particular period or fiscal year due to differences in the number and/or mix of films released compared to the corresponding period in the prior fiscal year. Moreover, the results of operations may be impacted by the commercial success of all of Wonderfilm's indie films and televisions productions. There is no assurance that the production, acquisition, and distribution of all current and future motion pictures will be managed successfully to receive critical acclaim or perform well commercially. Any inability to achieve such commercial success could have a material adverse effect on Wonderfilm's business, financial condition, operating results, liquidity, and prospects. Operating results also fluctuate due to accounting practices which may recognize the acquisition and sale of indie films in different periods than the recognition of related revenues, which may occur in later periods. In addition, the comparability of results may be affected by changes in accounting guidance or changes in Wonderfilm's ownership of certain assets. Accordingly, the results of operations from year to year may not be directly comparable to prior reporting periods. As a result of the foregoing and other factors, the results of operations may fluctuate significantly from period to period, and the results of any one period may not be indicative of the results for any future period.

Many Production or Co-Financing Partners Do Not Have Long-Term Arrangements

Wonderfilm typically does not enter into long-term production contracts with the creative producers of motion picture and television content that it produces, acquires or distributes. Moreover, Wonderfilm generally has certain derivative rights that provide for distribution rights to, for example, prequels, sequels, and remakes of certain content that Wonderfilm may produce, acquire or distribute. However, there is no guarantee that Wonderfilm will produce, acquire or distribute future content by any creative producer or co-financing partner, and a failure to do so could adversely affect the business, financial condition, operating results, liquidity, and prospects of Wonderfilm.

There are No Long-Term Agreements with Retailers

There is no assurance that favourable relationships with retailers and distributors will develop or, if developed, will be maintained or that they will not be adversely affected by economic conditions. If any retailer or distributor reduces or cancels a significant order or becomes bankrupt, it could have a material adverse effect on the business, financial condition, operating results, liquidity and prospects of Wonderfilm.

Wonderfilm's Success Depends on the Commercial Success of Motion Pictures and Television Programming, which is Unpredictable

Generally, the popularity of Wonderfilm's programs depends on many factors, including the critical acclaim they receive, the format of their initial release, their talent, their genre and their specific subject matter, audience reaction, the quality and acceptance of motion pictures or television content that Wonderfilm's competitors release into the marketplace at or near the same time, critical reviews, the availability of alternative forms of entertainment and leisure activities, general economic conditions, and other tangible and intangible factors, many of which Wonderfilm does not control and all of which may change.

Wonderfilm cannot predict the future effects of these factors with certainty. In addition, because a performance in

ancillary markets, such as home video and pay and free television, is often directly related to its box office performance or television ratings, poor box office results or poor television ratings may negatively affect future revenue streams. Wonderfilm's success will depend on the experience and judgment of its management to select and develop new investment and production opportunities. Wonderfilm cannot assure that its motion pictures and television programming will obtain favourable reviews or ratings, that its motion pictures will perform well at the box office or in ancillary markets, or that broadcasters will license the rights to broadcast any of its television programs in the development or renewal of licenses to broadcast programs in its library. Additionally, Wonderfilm cannot assure that any original programming content will appeal to its distributors and subscribers.

Wonderfilm's Business Involves Risks of Liability Claims for Content of Material, Which Could Adversely Affect its Business, Results of Operations, and Financial Condition

As a distributor of media content, Wonderfilm may face potential liability for defamation, invasion of privacy, negligence, copyright or trademark infringement, and other claims based on the nature and content of the materials distributed. These types of claims have been brought, sometimes successfully, against producers and distributors of media content. Any imposition of liability that is not covered by insurance or is in excess of insurance coverage could have a material adverse effect on Wonderfilm's business, financial condition, operating results, liquidity, and prospects.

Piracy of Films and Television Programs Could Adversely Affect Wonderfilm's Business Over Time

Piracy is extensive in many parts of the world and is made easier by the availability of digital copies of content and technological advances allowing conversion of films and television content into digital formats. This trend facilitates the creation, transmission, and sharing of high quality unauthorized copies of motion pictures and television content. The proliferation of unauthorized copies of these products has had and will likely continue to have an adverse effect on Wonderfilm's business, because these products reduce the revenue it receives from its products. In order to contain this problem, Wonderfilm may have to implement elaborate and costly security and anti-piracy measures, which could result in significant expenses and losses of revenue.

There is No Assurance that Even the Highest Levels of Security and Anti-Piracy Measures Will Prevent Piracy

In particular, unauthorized copying and piracy are prevalent in countries outside of the United States, Canada, and Western Europe, whose legal systems may make it difficult for Wonderfilm to enforce its intellectual property rights. While the United States government has publicly considered implementing trade sanctions against specific countries that, in its opinion, do not make appropriate efforts to prevent copyright infringements of United States-produced motion pictures and television content, there can be no assurance that any such sanctions will be enacted or, if enacted, will be effective. In addition, if enacted, such sanctions could impact the amount of revenue that Wonderfilm realizes from the international exploitation of its content.

Protecting and Defending Against Intellectual Property Claims May Have a Material Adverse Effect on Wonderfilm's Business

Wonderfilm's ability to compete depends, in part, upon successful protection of its intellectual property. Wonderfilm attempt to protect proprietary and intellectual property rights to its productions through available copyright and trademark laws and licensing and distribution arrangements with reputable international companies in specific territories and media for limited durations. Despite these precautions, existing copyright and trademark laws afford only limited practical protection in certain countries where Wonderfilm distributes its products. As a result, it may be possible for unauthorized third parties to copy and distribute Wonderfilm's productions or certain portions or applications of its intended productions, which could have a material adverse effect on its business, financial condition, operating results, liquidity, and prospects.

Litigation may also be necessary to enforce Wonderfilm's intellectual property rights, to protect its trade secrets, or to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement or invalidity. Any such litigation, infringement or invalidity claims could result in substantial costs and the diversion of resources and could have a material adverse effect on Wonderfilm's business, financial condition, operating results, liquidity, and prospects.

Wonderfilm's more successful and popular film or television products or franchises may experience higher levels of infringing activity, particularly around key release dates. Alleged infringers have claimed and may claim that their products are permitted under fair use or similar doctrines, that they are entitled to compensatory or punitive damages because Wonderfilm's efforts to protect its intellectual property rights are illegal or improper, and that its key trademarks or other significant intellectual property are invalid. Such claims, even if meritless, may result in adverse publicity or costly litigation. Wonderfilm will vigorously defend its copyrights and trademarks from infringing products and activity, which can result in litigation. Wonderfilm may receive unfavorable preliminary or interim rulings in the course of litigation, and there can be no assurance that a favorable final outcome will be obtained in all cases. Additionally, one of the risks of the film and television production business is the possibility that others may claim that Wonderfilm's productions and production techniques misappropriate or infringe the intellectual property rights of third parties with respect to their previously developed films and television series, stories, characters, other entertainment or intellectual property. Regardless of the validity or the success of the assertion of any such claims, Wonderfilm could incur significant costs and diversion of resources in enforcing its intellectual property rights or in defending against such claims, which could have a material adverse effect on its business, financial condition, operating results, liquidity, and prospects.

Wonderfilm Faces Risks From Doing Business Internationally

Wonderfilm distributes content outside the United States and derive revenues from international sources.

As a result, Wonderfilm's business is subject to certain risks inherent in international business, many of which are beyond its control.

These risks may include:

- laws and policies affecting trade, investment and taxes, including laws and policies relating to the repatriation of funds and withholding taxes, and changes in these laws;
- anti-corruption laws and regulations such as the Corruption of Foreign Public Officials Act (Canada), the Foreign Corrupt Practices Act (U.S.A.), and the Bribery Act (U.K.) that impose strict requirements on how Wonderfilm conducts its foreign operations and changes in these laws and regulations;
- changes in local regulatory requirements, including restrictions on content and differing cultural tastes and attitudes;
- international jurisdictions where laws are less protective of intellectual property and varying attitudes towards the piracy of intellectual property;
- financial instability and increased market concentration of buyers in foreign television markets, including in European pay television markets;
- the instability of foreign economies and governments;
- fluctuating foreign exchange rates;
- the spread of communicable diseases in such jurisdictions, which may impact business in such jurisdictions; and
- war and acts of terrorism.

Events or developments related to these and other risks associated with international trade could adversely affect Wonderfilm's revenues from non-U.S. sources, which could have a material adverse effect on its business, financial condition, operating results, liquidity, and prospects. Protection of electronically stored data is costly and if Wonderfilm's data is compromised in spite of this protection, Wonderfilm may incur additional costs, lost opportunities, and damage to its reputation.

Wonderfilm maintains information in digital form as necessary to conduct its business, including confidential and proprietary information, copies of films, television programs and other content, and personal information regarding its employees.

Data maintained in digital form is subject to the risk of intrusion, tampering, and theft. Wonderfilm develops and maintains systems to prevent this from occurring, but it is costly and requires ongoing monitoring and updating as technologies change and efforts to overcome security measures become more sophisticated. Moreover, despite Wonderfilm's efforts, the possibility of intrusion, tampering, and theft cannot be eliminated entirely, and risks associated with each of these acts remain. In addition, Wonderfilm provides confidential information, digital content and personal information to third parties when it is necessary to pursue business objectives. While Wonderfilm obtains assurances that these third parties will protect this information and, where appropriate, monitor the protections employed by these third parties, there is a risk that data systems of these third parties may be compromised. If

Wonderfilm's data systems or data systems of these third parties are compromised, Wonderfilm's ability to conduct its business may be impaired, it may lose profitable opportunities or the value of those opportunities may be diminished and it may lose revenue as a result of unlicensed use of its intellectual property. A breach of Wonderfilm's network security or other theft or misuse of confidential and proprietary information, digital content or personal employee information could subject Wonderfilm to business, regulatory, litigation, and reputation risk, which could have a materially adverse effect on its business, financial condition, and results of operations.

Wonderfilm Incurs Expenditures in Foreign Currency and Does Not Hedge Against Foreign Currency Risks

Wonderfilm operates in Canada and the United States and is therefore exposed to foreign exchange risk arising from transactions denominated in a foreign currency. The operating results and the financial position of Wonderfilm are reported in Canadian dollars. The fluctuations of the operating currencies in relation to the Canadian dollar will, consequently, have an impact upon the reporting results of Wonderfilm and may also affect the value of Wonderfilm's assets and liabilities.

Wonderfilm Faces Substantial Competition in All Aspects of Its Business

Wonderfilm is smaller and less diversified than many of its competitors.

Unlike Wonderfilm, an independent distributor and producer, most of the major United States studios are part of large diversified corporate groups with a variety of other operations that can provide both the means of distributing their products and stable sources of earnings that may allow them to better offset fluctuations in the financial performance of their motion picture and television operations. The major studios also have more resources with which to compete for ideas, storylines, and scripts created by third parties as well as for actors, directors, and other personnel required for production. These resources may also give them an advantage in acquiring other businesses or assets, including film libraries, that Wonderfilm might also be interested in acquiring.

The Motion Picture Industry is Highly Competitive

The number of motion pictures released by Wonderfilm's competitors may create an oversupply of product in the market, reduce its share of box office receipts, and make it more difficult for Wonderfilm's films to succeed commercially. The limited supply of motion picture screens compounds this product oversupply problem, which may be most pronounced during peak release times such as holidays, when theater attendance is expected to be highest. As a result of changes in the theatrical exhibition industry, including reorganizations and consolidations, and major studio releases occupying more screens, the number of screens available to Wonderfilm when it wants to release a picture may decrease. If the number of motion picture screens decreases, box office receipts, and the correlating future revenue streams, such as from home entertainment and pay and free television, of Wonderfilm's motion pictures may also decrease. Moreover, Wonderfilm cannot guarantee that it can release all of its films when they are otherwise scheduled due to production or other delays, or a change in the schedule of a major studio. Any such change could adversely impact a film's financial performance. In addition, if Wonderfilm cannot change its schedule after such a change by a major studio because it is too close to the release date, the major studio's release and its typically larger promotion budget may adversely impact the financial performance of Wonderfilm's film.

The Home Entertainment Industry is Highly Competitive

Wonderfilm competes with all of the major United States studios which distribute their theatrical, television, and titles acquired from third parties on DVDs/Blu-ray discs and other media and have marketing budgets greater than Wonderfilm's budgets. Wonderfilm not only competes for ultimate consumer sales, but also with these parties and independent home entertainment distributors for location and shelf space placement at retailers and other distributors. The quality and quantity of titles as well as the quality of Wonderfilm's marketing programs determines how much shelf space it is able to garner at any given time as retailers and other distributors look to maximize sales. Wonderfilm also competes with United States studios and other distributors that may have certain competitive advantages over the company to acquire the rights to sell or rent DVDs/Blu-ray discs and other media. Wonderfilm's ability to license and produce quality content in sufficient quantities has a direct impact on its ability to acquire shelf space at retail locations and on websites. In addition, certain of Wonderfilm's content is obtained through agreements with other parties that have produced or own the rights to such content, while other United States studios may produce most of the content they distribute.

Wonderfilm's DVDs/Blu-ray discs sales and other media sales are also impacted by myriad choices consumers have to view entertainment content, including over-the-air broadcast television, cable television networks, online services, mobile services, radio, print media, motion picture theaters, and other sources of information and entertainment. The increasing availability of content from these varying media outlets may reduce Wonderfilm's ability to sell DVDs/Blu-ray discs and other media in the future, particularly during difficult economic conditions.

Wonderfilm Must Successfully Respond to Rapid Technological Changes and Alternative Forms of Delivery or Storage to Remain Competitive

The entertainment industry continues to undergo significant developments as advances in technologies and new methods of product delivery and storage (including the emergence of alternative distribution platforms), and certain changes in consumer behaviour driven by these developments emerge. New technologies affect the demand for Wonderfilm's content, the manner in which its content is distributed to consumers, the sources and nature of competing content offerings, and the time and manner in which consumers acquire and view its content. New technologies also may affect Wonderfilm's ability to maintain or grow its business and may increase its capital expenditures.

Wonderfilm and its Distributors Must Adapt its Businesses to Shifting Patterns of Content Consumption and Changing Consumer Behavior and Preferences Through the Adoption and Exploitation of New Technologies

For instance, such changes may impact the revenue Wonderfilm is able to generate from traditional distribution methods by decreasing the viewership of its networks on systems of cable operators, satellite television providers, and telecommunication companies, or by decreasing the number of households subscribing to services offered by those distributors. If Wonderfilm cannot successfully exploit these and other emerging technologies, its appeal to targeted audiences might decline which could have a material adverse effect on its business, financial condition, operating results, liquidity, and prospects.

Dependence on Management and Key Personnel

Wonderfilm's success depends largely upon the continued services of its executive officers and other key employees. From time to time, there may be changes in Wonderfilm's executive management team resulting from the hiring or departure of executives, which could disrupt its business. If Wonderfilm is unable to attract and retain top talents, its ability to compete may be harmed. Wonderfilm's success is also highly dependent on its continuing ability to identify, hire, train, retain and motivate highly qualified personnel. Competition for highly skilled entertainment executives and other employees is high in Wonderfilm's industry, and Wonderfilm may not be successful in attracting and retaining such personnel. Failure to attract and retain qualified executive officers and other key employees could have a material adverse effect on its business, prospects, financial condition, results of operations, and cash flows.

Wonderfilm's Success Depends on Attracting and Retaining Talent

Wonderfilm's success depends upon the continued efforts, abilities, and expertise of key employees, including production, creative, and technical personnel. Wonderfilm's success also depends on its ability to identify, attract, hire, train, and retain such personnel. Wonderfilm has entered into agreements with production executives but does not currently have significant "key person" life insurance policies for any employees. Although it is standard in the industry to rely on employment agreements as a method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. In addition, competition for the limited number of business, production, and creative personnel necessary to create and distribute Wonderfilm's entertainment content is intense and may grow in the future. Wonderfilm may not be successful in identifying, attracting, hiring, training, and retaining such personnel in the future, and its inability to do so could have a material adverse effect on its business, financial condition, operating results, liquidity, and prospects.

Wonderfilm Could Be Adversely Affected by Strikes or Other Union Job Actions

Wonderfilm is directly or indirectly dependent upon highly specialized union members who are essential to the production of motion pictures and television content. A strike by, or a lockout of, one or more of the unions that provide personnel essential to the production of motion pictures or television content could delay or halt Wonderfilm's ongoing production activities, or could cause a delay or interruption in its release of new motion pictures and television

content. A strike may result in increased costs and decreased revenue, which could have a material adverse effect on Wonderfilm's business, financial condition, operating results, liquidity, and prospects.

Conflicts of Interest

Certain of the directors, officers, and other members of management of Wonderfilm serve (and may in the future serve) as directors, officers, and members of management of other companies and therefore, it is possible that a conflict may arise between their duties as a director, officer or member of management of Wonderfilm and their duties as a director, officer or member of management of such other companies. The directors and officers of Wonderfilm are aware of the existence of laws governing accountability of directors and officers for corporate opportunity and requiring disclosures by directors of conflicts of interest and Wonderfilm will rely upon such laws in respect of any directors' and officers' conflicts of interest or in respect of any breaches of duty by any of its directors or officers. All such conflicts will be disclosed by such directors or officers in accordance with the British Columbia *Business Corporations Act* and they will govern themselves in respect thereof to the best of their ability in accordance with the obligations imposed upon them by law.

It May Not Be Possible for Foreign Investors to Enforce Actions Against the Company, and its Directors and Officers

Wonderfilm is a corporation organized under the laws of the Province of British Columbia. All of Wonderfilm's directors and executive officers reside principally in Canada. Because all or a substantial portion of Wonderfilm's assets and the assets of these persons are located in Canada, it may not be possible for foreign investors to effect service of process from outside of Canada upon Wonderfilm or those persons. Furthermore, it may not be possible to enforce against Wonderfilm foreign judgments obtained in courts outside of Canada based upon the civil liability provisions of the securities laws or other laws in those jurisdictions.

Any Disruption at Wonderfilm's Places of Business Could Delay Revenues or Increase its Expenses

All of Wonderfilm's operations are conducted at locations in Vancouver and Los Angeles. A natural disaster, such as a fire, flood or earthquake, could cause substantial delays in Wonderfilm's operations, damage or destroy its offices, and cause Wonderfilm to incur additional expenses.

In addition, because Wonderfilm does not maintain "key person" life insurance on any of its executive officers, employees or consultants, any delay in replacing such persons, or an inability to replace them with persons of similar expertise, would have a material adverse effect on Wonderfilm's business, financial condition, and results of operations.

Wonderfilm's Systems are Vulnerable to Damage and Failure

Despite the implementation of security measures, Wonderfilm's internal computer systems are vulnerable to damage from computer viruses, unauthorized access, natural disasters, terrorism, war, and telecommunication and electrical failure. Any system failure, accident or security breach that causes interruption in Wonderfilm's operations could result in a material disruption of its projects. To the extent that any disruption or security breach results in a loss or damage to Wonderfilm's data or applications, or inappropriate disclosure of confidential or proprietary information, Wonderfilm may incur liability as a result. In addition, Wonderfilm's technology program may be adversely affected and the further development of its technology may be delayed. Wonderfilm may also incur additional costs to remedy the damages caused by these disruptions or security breaches.

Business Interruptions Could Adversely Affect Head Office Operations

Wonderfilm's operations are vulnerable to outages and interruptions due to fire, floods, power loss, telecommunications failures, and similar events beyond its control. Wonderfilm's headquarters are located in Southern California, which is subject to earthquakes. Although Wonderfilm has developed certain plans to respond in the event of a disaster, there can be no assurance that they will be effective in the event of a specific disaster. In the event of a short-term power outage, Wonderfilm has installed uninterrupted power source equipment designed to protect its equipment. A long-term power outage, however, could disrupt Wonderfilm's operations. Although Wonderfilm currently carries business interruption insurance for potential losses (including earthquake-related losses), there can be no assurance that such insurance will be sufficient to compensate Wonderfilm for losses that may occur or that

such insurance may continue to be available on affordable terms. Any losses or damages incurred by Wonderfilm could have a material adverse effect on its business and results of operations.

Wonderfilm is Subject to Risks Associated with Possible Acquisitions, Business Combinations, or Joint Ventures

From time to time, Wonderfilm could be engaged in discussions and activities with respect to possible acquisitions, sale of assets, business combinations, or joint ventures intended to complement or expand the business. The anticipated benefit from any of the transactions Wonderfilm pursues may not be realized. Regardless of whether any such transaction is consummated, the negotiation of a potential transaction and the integration of the acquired business could incur significant costs and cause diversion of management's time and resources. Any such transaction could also result in impairment of goodwill and other intangibles, development write-offs, and other related expenses. Such transactions may pose challenges in the consolidation and integration of information technology, accounting systems, personnel, and operations. Wonderfilm may also have difficulty managing the combined entity in the short term if it experiences a significant loss of management personnel during the transition period after a significant acquisition. No assurance can be given that expansion or acquisition opportunities will be successful, completed on time, or that Wonderfilm will realize expected operating efficiencies, cost savings, revenue enhancements, synergies or other benefits. Any of the foregoing could have a material adverse effect on the business, financial condition, operating results, liquidity, and prospects of Wonderfilm.

Claims Against Wonderfilm Relating to Any Acquisition or Business Combination May Necessitate Seeking Claims Against the Seller for which the Seller May Not Indemnify Wonderfilm or that May Exceed the Seller's Indemnification Obligations

There may be liabilities assumed in any acquisition or business combination that Wonderfilm did not discover or that it underestimated in the course of performing its due diligence. Although a seller generally will have indemnification obligations to Wonderfilm under an acquisition or merger agreement, these obligations usually will be subject to financial limitations, such as general deductibles and maximum recovery amounts, as well as time limitations. There is no assurance that Wonderfilm's right to indemnification from any seller will be enforceable, collectible or sufficient in amount, scope or duration to fully offset the amount of any undiscovered or underestimated liabilities that Wonderfilm may incur. Any such liabilities could have a material adverse effect on the business, financial condition, operating results, liquidity, and prospects of Wonderfilm.

Growth May Cause Pressure on Wonderfilm's Management and Systems

Wonderfilm's future growth may cause significant pressure on its management, and its operational, financial, and other resources and systems. Wonderfilm's ability to manage its growth effectively will require the company to implement and improve its operational, financial, manufacturing, and management information systems, hire new personnel and then train, manage, and motivate these new employees. These demands may require the hiring of additional management personnel and the development of additional expertise within the existing management team. Any increase in resources devoted to production, business development, and distribution efforts without a corresponding increase in Wonderfilm's operational, financial, and management information systems could have a material adverse effect on its business, financial condition, and results of operations.

Wonderfilm Has Never Declared or Paid a Dividend

Wonderfilm has never declared or paid any dividends on the common shares. Wonderfilm currently intends to retain its future earnings, if any, to finance further research and the expansion of Wonderfilm's business. As a result, the return on an investment in the Wonderfilm Shares will depend upon any future appreciation in value. There is no guarantee that the common shares will appreciate in value or even maintain the price at which shareholders have purchased their shares.

Global Economic Turmoil and Regional Economic Conditions in the United States Could Adversely Affect its Business

Global economic turmoil may cause a general tightening in the credit markets, lower levels of liquidity, increases in the rates of default and bankruptcy, levels of intervention from the United States federal government and other foreign governments, decreased consumer confidence, overall slower economic activity, and extreme volatility in credit, equity, and fixed income markets. A decrease in economic activity in the United States or in other regions of the world

in which Wonderfilm does business could adversely affect demand for its content, thus reducing its revenues and earnings. A decline in economic conditions could reduce performance of Wonderfilm's theatrical, television, and home entertainment releases. In addition, an increase in price levels generally could result in a shift in consumer demand away from the entertainment that Wonderfilm offers, which could also adversely affect its revenues and, at the same time, increase its costs. For instance, lower household income and decreases in United States consumer discretionary spending, which is sensitive to general economic conditions, may affect cable television and other video service subscriptions.

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ADDITIONAL INFORMATION

Additional information about the Company is available for viewing on SEDAR at www.sedar.com.