

Condensed Interim Consolidated Financial Statements of

NETWORK MEDIA GROUP INC.

For the three and nine months ended August 31, 2017 and 2016

(Unaudited – prepared by management)

N E T W O R K

www.networkentertainment.ca

**NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Professional Accountants for a review of interim financial statements by an entity's auditor.

NETWORK MEDIA GROUP INC.
Condensed Interim Consolidated Statements of Financial Position
As at August 31, 2017 and November 30, 2016
Expressed in Canadian dollars (unaudited)

	Note	August 31, 2017	November 30, 2016
ASSETS			
Current			
Cash and cash equivalents		\$ 559,279	\$ 443,302
Accounts receivable	4	266,065	434,597
Tax credits receivable		2,184,667	2,466,695
Prepaid expenses and deposits		40,716	39,739
		3,050,727	3,384,333
Tax credits receivable		555,308	127,144
Property and equipment	5	300,768	340,617
Investment in film and television properties	6	4,067,415	2,682,970
		\$ 7,974,218	\$ 6,535,064

SHAREHOLDERS' EQUITY AND LIABILITIES

Current			
Accounts payable and accrued liabilities	16	\$ 1,612,559	\$ 1,717,780
Interim production financing	7(a)	2,656,294	1,812,855
Deferred revenue	8	1,349,177	800,315
Current portion of debt payable	7(b), 16	1,197,930	341,864
Current portion of financing lease obligations	9	11,829	23,069
		6,827,789	4,695,883
Debt payable	7(b)	-	1,007,005
Financing lease obligations	9	-	5,952
		6,827,789	5,708,840
Share capital	10	7,667,688	7,335,688
Contributed surplus		418,973	676,299
Deficit		(6,940,232)	(7,101,594)
Total equity attributable to shareholders of the Company		1,146,429	910,393
Non-controlling interest	10(d)	-	(84,169)
Shareholders' equity		1,146,429	826,224
		\$ 7,974,218	\$ 6,535,064

Nature of Operations (Note 1)
Contingent liabilities (Note 15)

Approved on behalf of the Board of Directors

“Frank Anderson”

Frank Anderson, Director

“Derik Murray”

Derik Murray, Director

See accompanying notes to these condensed interim consolidated financial statements

NETWORK MEDIA GROUP INC.

Condensed Interim Consolidated Statements of Income and Comprehensive Income

For the three and nine months ended August 31, 2017 and 2016

Expressed in Canadian dollars (unaudited)

	Note	Three months ended		Nine months ended	
		August 31, 2017	August 31, 2016	August 31, 2017	August 31, 2016
Total revenue	18	\$ 150,454	\$ 2,048,895	\$ 4,310,143	\$ 7,639,138
Production costs		92,095	1,248,720	2,770,256	4,749,838
Amortization of film and television properties	6	72,886	390,798	641,055	902,007
Amortization of acquired program rights	6	-	-	-	26,667
Amortization of property and equipment	5	27,117	20,329	79,930	60,306
General and administrative	19	138,319	218,056	345,902	539,664
Impairment of investment in film and television properties	6	-	-	34,440	13,853
Selling and distribution		44,055	6,266	89,752	25,049
Share-based compensation	10(c), 16	16,774	51,774	45,325	59,642
Foreign exchange loss		7,033	18,892	18,462	57,253
Forgiveness of debt and reversal of accounts payable		-	(1,482)	-	(1,482)
		398,279	1,953,353	4,025,122	6,432,797
Earnings/(Losses) before financing expense		(247,825)	95,542	285,021	1,206,341
Financing expense, net	11(b)	59,884	39,558	122,141	125,121
Income and comprehensive income for the period		(307,709)	55,984	162,880	1,081,220
Income attributed to non-controlling interest	10(d)	-	(9,282)	(1,518)	(52,499)
Income/(Loss) attributed to shareholders of the Company		\$ (307,709)	\$ 46,702	\$ 161,362	\$ 1,028,721
Income/(Loss) per share					
- basic		\$ (0.01)	\$ 0.00	\$ 0.00	\$ 0.02
- diluted		\$ (0.01)	\$ 0.00	\$ 0.00	\$ 0.02
Weighted average number of shares outstanding					
- basic		55,935,373	54,400,373	55,657,800	54,400,373
- diluted		56,979,614	59,540,410	61,020,106	56,887,671

See accompanying notes to these condensed interim consolidated financial statements

NETWORK MEDIA GROUP INC.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

For the nine months ended August 31, 2017 and 2016

Expressed in Canadian dollars (unaudited)

	Note	Number of Shares	Issued Capital	Contributed Surplus	Accumulated Deficit	Total	Non- Controlling Interest	Total
Balance as at November 30, 2015		54,400,370	\$ 7,335,688	\$ 612,501	\$ (7,601,591)	\$ 346,598	\$ (115,256)	\$ 231,342
Issuance of stock options	10(c)	-	-	51,217	-	51,217	-	51,217
Income and comprehensive income for the period		-	-	-	1,028,721	1,028,721	52,499	1,081,220
Balance as at August 31, 2016		54,400,370	7,335,688	663,718	(6,572,870)	1,426,536	(62,757)	1,363,779
Balance as at November 30, 2016		54,400,370	\$ 7,335,688	\$ 676,299	\$ (7,101,594)	910,393	\$ (84,169)	826,224
Exercise of stock option	10(c)	735,000	112,000	-	-	112,000	-	112,000
Issuance of stock options	10(c)	-	-	45,325	-	45,325	-	45,325
Share exchange for Network Entertainment Inc. shares	10(b), 10(d)	800,000	220,000	(302,651)	-	(82,651)	82,651	-
Loss and comprehensive loss for the period		-	-	-	161,362	161,362	1,518	162,880
Balance as at August 31, 2017		55,935,370	\$ 7,667,688	\$ 418,973	\$ (6,940,232)	\$ 1,146,429	\$ -	\$ 1,146,429

See accompanying notes to these condensed interim consolidated financial statements

NETWORK MEDIA GROUP INC.
Condensed Interim Consolidated Statements of Cash Flows
For the three and nine months ended August 31, 2017 and 2016
Expressed in Canadian dollars (unaudited)

	Three months ended		Nine months ended	
	August 31, 2017	August 31, 2016	August 31, 2017	August 31, 2016
Operating activities				
Income (loss) for the period	\$ (307,709)	\$ 46,702	\$ 161,362	\$ 1,028,721
Items not involving cash:				
Non-controlling interest	-	9,282	1,518	52,499
Amortization of acquired program rights	-	-	-	26,667
Amortization of property and equipment	27,117	20,329	79,930	60,306
Amortization of film and television properties	72,886	390,799	641,055	902,008
Impairment of investment in film and television properties	-	-	34,440	13,853
Share-based compensation	16,774	51,774	45,325	59,642
Forgiveness of debt and reversal of accounts payable	-	(1,482)	-	(1,482)
	(190,932)	517,404	963,630	2,142,214
Net changes in non-cash working capital items				
Accounts receivable	624,662	(542,503)	168,532	438,845
Tax credits receivable	246,010	141,977	(146,136)	(960,055)
Prepaid expenses and deposits	3,356	(7,873)	(977)	(20,190)
Accounts payable and accrued liabilities	(377,935)	671,426	(83,957)	1,708,067
Accrued interest	17,142	(21,872)	58,106	79,920
Deferred revenue	559,848	(610,169)	548,862	(1,572,137)
Net cash provided by operating activities	882,151	148,390	1,508,060	1,816,664
Financing activities				
Issuance of shares for cash	-	-	112,000	-
Interim production financing	388,002	747,000	1,670,793	747,000
Repayment of interim production financing	(345,000)	(627,000)	(824,000)	(798,000)
Repayment of financing lease obligations	(5,803)	(5,517)	(17,192)	(16,347)
Repayment of debt	(30,000)	(14,444)	(212,400)	(75,157)
Advances from short-term debt	-	-	-	100,000
Net cash provided by (used in) financing activities	7,199	100,039	729,201	(42,504)
Investing activities				
Purchase of property and equipment	(6,311)	(3,035)	(40,081)	(297,619)
Investment in film and television properties, net of tax credits	(412,472)	(187,117)	(1,553,678)	(1,216,195)
Advances for properties under development	-	-	(19,911)	9,391
Investment in properties under development	(149,067)	(34,835)	(507,614)	(123,888)
Net cash used in investing activities	(567,850)	(224,987)	(2,121,284)	(1,628,311)
Net increase in cash	321,500	23,442	115,977	145,849
Cash and cash equivalents, beginning of period	237,779	293,221	443,302	170,814
Cash and cash equivalents, end of period	\$ 559,279	\$ 316,663	\$ 559,279	\$ 316,663

SUPPLEMENTAL DISCLOSURE (Note 20)

See accompanying notes to these condensed interim consolidated financial statements

NETWORK MEDIA GROUP INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended August 31, 2017 and 2016

Expressed in Canadian dollars (unaudited)

1. Nature of operations

Network Media Group Inc. (“Network Media” or the “Company”) was incorporated on July 12, 2010 under the Business Corporation Act of the Province of British Columbia. Network Media together with its subsidiaries, develops, produces and exploits film and television properties in addition to providing production services to third parties.

The Company has a working capital deficiency of \$3,777,062 and accumulated deficit of \$6,940,232. These conditions indicate the existence of material uncertainties which may cast significant doubt about the Company’s ability to continue as a going concern. The Company’s ability to continue as a going concern is dependent upon its ability to access sufficient capital until it has profitable operations. These unaudited condensed interim consolidated financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of operations and at amounts different from those in these condensed interim consolidated financial statements.

The Company’s registered office is Suite 1500, 1055 West Georgia Street, Vancouver, British Columbia, V6E 4N7.

2. Basis of presentation

(a) *Statement of compliance*

The Company prepares its unaudited interim condensed consolidated financial statements (the “financial statements”) in accordance with Canadian generally accepted accounting principles (“GAAP”) as set out in the Chartered Professional Accountants of Canada Handbook - Accounting - Part 1 (“CPA Canada Handbook”), which incorporates International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”) as issued by the International Accounting Standards Board and on a basis consistent with the accounting policies disclosed in the annual audited consolidated financial statements for the year ended November 30, 2016. They do not include all of the information required for annual financial statements and should be read in conjunction with the annual audited consolidated financial statements for the year ended November 30, 2016.

The condensed interim consolidated financial statements of the Company for the three and nine months periods ended August 31, 2017 were approved for issue by the Board of Directors on October 27, 2017.

(b) *Basis of measurement*

These condensed interim consolidated financial statements have been prepared on a going concern basis under the historical cost convention.

(c) *Functional currency*

The condensed interim consolidated financial statements are presented in Canadian dollars, the functional currency of the Company.

NETWORK MEDIA GROUP INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended August 31, 2017 and 2016

Expressed in Canadian dollars (unaudited)

3. Significant accounting policies

Except as otherwise indicated hereunder, these condensed interim consolidated financial statements have been prepared using the same policies and methods as the consolidated financial statements of the Company for the year ended November 30, 2016. Refer to note 3 of the Company's consolidated financial statements for the year ended November 30, 2016 for more information on new accounting standards and amendments not yet effective.

Basis of consolidation

The condensed interim consolidated financial statements comprise the financial statements of Network Media and its subsidiaries. The active companies within the condensed interim consolidated financial statements are as follows:

- Network Media Group Inc.
- Network Entertainment Inc.
- Network Films Six Inc.
- Network Films Seven Inc.
- Network Films Eight Inc.
- Network Films Nine Inc.
- Network Films Ten Inc.
- Network Films Eleven Inc.
- Network Films Twelve Inc.
- Network Films Thirteen Inc.
- Network Films Fourteen Inc.
- Network Films Fifteen Inc.
- Network Films Sixteen Inc.
- Network Pictures Fourteen Inc.
- Network Pictures Fifteen Inc.
- Network Entertainment Corp.

During the nine month period ended August 31, 2017, Network Media acquired the remaining 4% of Network Entertainment Inc. it did not hold by issuing 800,000 common shares of Network at a fair value of \$0.275 per share in exchange for 800,000 shares of Network Entertainment Inc. See Note 10(b) and Note 10(d).

All intercompany balances, transactions, income and expenses are eliminated on consolidation.

Investment in film and television – amortization of completed productions

Effective December 1, 2016, the Company adopted the amendment to IAS 38, Intangible Assets, which restricts the use of revenue-based amortization. Previously, the Company's policy was to amortize its investment in film and television programs using a revenue-based model. Productions completed and released are now amortized using a straight line method at rates ranging from 40 - 70% at the time of initial delivery and at rates ranging from 5 - 10% annually thereafter. The amendment to IAS 38 has been adopted on a prospective basis.

NETWORK MEDIA GROUP INC.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended August 31, 2017 and 2016
Expressed in Canadian dollars (unaudited)

4. Accounts receivable

	August 31, 2017	November 30, 2016
Receivables from broadcasters	\$ 207,730	\$ 387,774
Input tax credits and other receivables	58,335	46,823
	\$ 266,065	\$ 434,597

5. Property and equipment

	Computer Equipment	Computer Software	Furniture and Office Equipment	Leasehold Improvements	Total
Cost					
Balance at November 30, 2015	\$ 503,708	\$ 2,542	\$ 66,459	\$ -	\$ 572,709
Additions	283,265	-	8,495	12,000	303,760
Balance at November 30, 2016	786,973	2,542	74,954	12,000	876,469
Additions	40,081	-	-	-	40,081
Balance at August 31, 2017	827,054	2,542	74,954	12,000	916,550
Accumulated amortization					
Balance at November 30, 2015	391,135	1,271	61,715	-	454,121
Amortization expense	76,261	1,271	1,799	2,400	81,731
Balance at November 30, 2016	467,396	2,542	63,514	2,400	535,852
Amortization expense	76,414	-	1,716	1,800	79,930
Balance at August 31, 2017	\$ 543,810	\$ 2,542	\$ 65,230	\$ 4,200	\$ 615,782
Carrying amount					
November 30, 2016	\$ 319,577	\$ -	\$ 11,440	\$ 9,600	\$ 340,617
August 31, 2017	\$ 283,244	\$ -	\$ 9,724	\$ 7,800	\$ 300,768

There were no impairment write-downs or any reversals of previous write-downs during the periods presented.

NETWORK MEDIA GROUP INC.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended August 31, 2017 and 2016
Expressed in Canadian dollars (unaudited)

6. Investment in film and television properties

	Projects in development	Projects in progress	Program rights acquired	Productions completed and released	Total
Balance, November 30, 2015	\$ 104,746	\$ 598,055	\$ 26,667	\$ 1,678,445	\$ 2,407,913
Additions	238,745	676,241	-	1,284,245	2,199,231
Tax credits / Grant received	-	(278,900)	-	(542,938)	(821,838)
Transferred to projects in progress	(12,089)	12,089	-	-	-
Allocated to direct production costs	(20,501)	-	-	-	(20,501)
Funding taken into income	9,391	-	-	-	9,391
Transferred to productions completed and released	-	(598,055)	-	598,055	-
Amounts written off and impaired	(67,358)	-	-	-	(67,358)
Amortization	-	-	(26,667)	(997,201)	(1,023,868)
Balance, November 30, 2016	252,934	409,430	-	2,020,606	2,682,970
Additions	507,614	1,297,426	-	958,176	2,763,216
Tax credits received	-	(456,934)	-	(266,254)	(723,188)
Funding taken into income	19,911	-	-	-	19,911
Transferred to productions completed and released	-	(260,203)	-	260,203	-
Amounts written off and impaired	(34,440)	-	-	-	(34,440)
Amortization	-	-	-	(641,055)	(641,055)
Balance, August 31, 2017	\$ 746,019	\$ 989,719	\$ -	\$ 2,331,677	\$ 4,067,415
As at August 31, 2017					
Cost	\$ 746,019	\$ 989,719	\$ 400,000	\$ 7,483,779	\$ 9,619,518
Accumulated amortization	-	-	(400,000)	(5,152,102)	(5,552,102)
Net book value	\$ 746,019	\$ 989,719	\$ -	\$ 2,331,677	\$ 4,067,415
As at November 30, 2016					
Cost	\$ 252,934	\$ 409,430	\$ 400,000	\$ 6,531,654	\$ 7,594,018
Accumulated amortization	-	-	(400,000)	(4,511,048)	(4,911,048)
Net book value	\$ 252,934	\$ 409,430	\$ -	\$ 2,020,606	\$ 2,682,970

During the three and nine month periods ended August 31, 2017, interest of \$9,043 and \$20,601 (2016 - \$4,535 and \$20,580) has been capitalized to investment in film and television properties.

Projects in development

During the three and nine months ended August 31, 2017, investments in certain projects in development were considered impaired and the carrying amount was reduced by \$nil and \$34,440 (2016 - \$nil and \$13,853). This impairment has been disclosed separately in the consolidated statements of comprehensive income.

7. Interim production financing and debt payable

a) Interim production financing

Certain subsidiaries of the Company have secured interim bank loans to finance the cost of producing their respective productions. These loans bear interest at rates ranging from prime plus 1.50% to prime plus 2.50% per annum and are repayable on demand. Each loan is secured by the tax credits receivable and accounts receivable of the respective subsidiary and a general security agreement over the assets of the Company, as well as a postponement of claims by an Officer and Director of the Company.

NETWORK MEDIA GROUP INC.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended August 31, 2017 and 2016
Expressed in Canadian dollars (unaudited)

7. Interim production financing and debt payable (continued)

b) Debt payable

As at August 31, 2017, the Company had issued unsecured promissory notes to a Director of the Company with principal and interest totalling \$119,045. These promissory notes accrue interest at 8% per annum, which is payable semi-annually.

The Company has also issued debentures to a third party and a Director of the Company for an original face value of \$1,100,000. These debentures accrue interest at a rate of 8% per annum, payable semi-annually, and grant the holders a royalty on net profits from certain film properties completed prior to the date of the debenture as well as from all film properties greenlit during the term of the debenture. The Company is required to pay the holders of the debentures a royalty in respect of each \$1.00 of the principal outstanding, both before and after maturity, equal to 0.00000091% of the net profits of the film properties. The debenture held by a Director of the Company has a maturity date of December 31, 2017.

The continuity schedule of debt payable is below:

	Promissory Notes	Debentures	Total debt
Total debt payable, November 30, 2015	\$ 135,827	\$ 1,136,888	\$ 1,272,715
Principal repaid	(83,392)	-	(83,392)
Advances received	100,000	-	100,000
Interest paid	(3,341)	(37,813)	(41,154)
Accrued interest for the year	11,379	89,321	100,700
Total debt payable, November 30, 2016	160,473	1,188,396	1,348,869
Principal repaid	(50,000)	(162,400)	(212,400)
Interest paid	-	(2,600)	(2,600)
Accrued interest for the period	8,572	55,489	64,061
Total debt payable, August 31, 2017	\$ 119,045	\$ 1,078,885	\$ 1,197,930
Classified as:			
Current portion of debt payable	\$ 119,045	\$ 1,078,885	\$ 1,197,930
Long-term portion of debt payable	-	-	-
Total debt payable	\$ 119,045	\$ 1,078,885	\$ 1,197,930

NETWORK MEDIA GROUP INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended August 31, 2017 and 2016

Expressed in Canadian dollars (unaudited)

8. Deferred revenue

Deferred revenue represents distribution and development advances as well as contracted license fees received or receivable prior to the contracted work being completed.

Distribution advances will be taken into income upon completion of projects in progress. Development advances are from unrelated third parties for development of current and future projects. Repayment of the advances is contingent upon commencement of principal photography. In the event that the projects are not produced, the development advances are typically forgiven by the third party.

As at August 31, 2017, the Company had received distribution advances and license fees prior to the delivery of the project of \$1,242,777 (2016 - \$777,635) and payments from customers in excess of work completed of \$106,400 (2016 - \$22,680). These amounts have been recognized in the statement of financial position as deferred revenue.

9. Financing lease obligations

The Company leased certain operating equipment under a finance lease. The Company's obligations under the finance lease are secured by the lessor's title to the leased assets. The interest rate is fixed at 5.05% per annum with a lease term of three years. At the end of the lease term, the Company has an option to purchase the equipment for \$1.

Future minimum lease payments under these finance leases are as follows:

	Total	< 1 year	> 1 year
Future minimum lease payments	\$ 12,004	\$ 12,004	\$ -
Less: imputed interest	175	175	-
Carrying value	\$ 11,829	\$ 11,829	\$ -

The carrying value of the leased equipment as at August 31, 2017 is \$30,885 (November 30, 2016 – \$39,851).

NETWORK MEDIA GROUP INC.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended August 31, 2017 and 2016
Expressed in Canadian dollars (unaudited)

10. Share capital and reserves

(a) *Authorized*

The Company has an unlimited number of authorized common shares and preferred shares with no par value.

(b) *Issued share capital*

During the nine month period ended August 31, 2017, the Company issued:

- i. 735,000 common shares with the exercise of stock options for proceeds of \$112,000, and;
- ii. 800,000 common shares in relation to the share exchange acquiring the remaining 4% of Network Entertainment Inc. at a fair value of \$0.275 per shares.

(c) *Share based payment reserve*

Pursuant to the Company's equity settled stock option plan, Directors may, from time to time, authorize the granting of options to Directors, employees and consultants of the Company to a maximum of 20% of the outstanding shares of the Company which was calculated to be 10,880,074 as at May 2, 2016. Options granted under the plan have contractual option terms not exceeding 10 years and vesting periods as determined by the Company's Board of Directors.

	As at August 31, 2017		As at November 30, 2016	
	Number of Options	Weighted Ave. Exercise Price	Number of Options	Weighted Ave. Exercise Price
Outstanding, beginning of period	6,326,280	\$ 0.18	5,440,037	\$ 0.18
Granted	4,047,000	\$ 0.14	1,186,243	\$ 0.20
Expired	(1,820,000)	\$ 0.20	(300,000)	\$ 0.10
Cancelled	(50,000)	\$ 0.20	-	\$ -
Exercised	(735,000)	\$ 0.15	-	\$ -
Outstanding, end of period	<u>7,768,280</u>	<u>\$ 0.16</u>	<u>6,326,280</u>	<u>\$ 0.18</u>

As at August 31, 2017, the following stock options are outstanding and exercisable:

<i>Number of options outstanding</i>	<i>Number of options exercisable</i>	<i>Exercise price</i>	<i>Remaining life (yrs)</i>	<i>Expiry</i>
250,000	250,000	\$ 0.07	1.45	February 12, 2019
2,060,037	2,060,037	\$ 0.20	1.87	July 16, 2019
300,000	300,000	\$ 0.10	2.49	February 26, 2020
439,963	52,463	\$ 0.20	1.87	July 16, 2019
671,280	447,521	\$ 0.20	3.91	July 28, 2021
4,047,000	337,250	\$ 0.14	4.91	July 27, 2022
<u>7,768,280</u>	<u>3,447,271</u>	<u>\$ 0.18</u>	<u>3.64</u>	

NETWORK MEDIA GROUP INC.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended August 31, 2017 and 2016
Expressed in Canadian dollars (unaudited)

10. Share capital and reserves (continued)

(c) *Share based payment reserve (continued)*

The Company uses the Black-Scholes option-pricing model to determine the estimated fair value of the options issued. In all the calculations the expected life was five years and the annual dividend yield was assumed to be \$nil. All other assumptions are summarized below:

Grant Date	Options Granted	Exercise Price	Share Price	Annual Volatility Rate	Risk Free Interest Rate	Fair Value at Grant Date	Expected Life
Oct. 29, 2015	947,537	\$ 0.20	\$ 0.06	146%	0.82%	\$ 0.04	3.7
Mar 21, 2016	300,000	\$ 0.20	\$ 0.08	147%	0.66%	\$ 0.06	3.3
July 28, 2016	746,280	\$ 0.20	\$ 0.20	143%	0.65%	\$ 0.17	5.0
July 28, 2016	139,963	\$ 0.20	\$ 0.20	143%	0.65%	\$ 0.16	3.0
July 27, 2017	4,047,000	\$ 0.14	\$ 0.14	139%	1.58%	\$ 0.12	5.0

For the three and nine month periods ended August 31, 2017, the Company recognized compensation expense in relation to these options of \$16,774 and \$45,325 (2016 - \$51,774 and \$59,642), which is disclosed separately in the consolidated statements of comprehensive income.

(d) *Non-controlling interest*

Previously one shareholder of Network Entertainment Inc. elected not to participate in the share exchange with Network Media Group Inc. As a result, 800,000 common shares (approximately 4% of the share capital) of Network Entertainment Inc. was not converted to shares of the Company and were held privately by a third party.

On January 11, 2017, the Company and the shareholders of Network Entertainment Inc. entered into a share exchange agreement whereby the shareholders received 800,000 common shares of the Company in exchange for 800,000 shares of Network Entertainment Inc., which resulted in Network Entertainment Inc. being 100% owned by the Company and eliminated any non-controlling interest.

The non-controlling interest balances are comprised of the following:

Balance, November 30, 2015	\$ (115,256)
Non-controlling interest's share of income for Network Entertainment Inc. for the year	31,087
Balance, November 30, 2016	(84,169)
Non-controlling interest's share of income for Network Entertainment Inc. up to January 11, 2017	1,518
Acquisition of outstanding shares of Network Entertainment Inc.	82,651
Balance, August 31, 2017	\$ -

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11. Supplemental statement of comprehensive income disclosure

(a) *Employee benefit expenses*

Total salaries and wages recognized in the condensed interim statement of comprehensive income for three and nine month periods ended August 31, 2017 is \$48,365 and \$539,382 (2016 – \$18,678 and \$313,750) of which \$470,411 was recorded as direct production costs (2016 - \$250,209) and \$68,971 (2016 - \$63,541) was recognized as general and administrative expenses.

(b) *Financing income and expenses*

Financing income and expenses are comprised of the following:

	Three months ended		Nine months ended	
	August 31, 2017	August 31, 2016	August 31, 2017	August 31, 2016
Interest income	\$ (1,427)	\$ -	\$ (1,628)	\$ -
Interest expense on debt (Note 7)	61,311	39,558	123,769	125,121
Net financing expense	\$ 59,884	\$ 39,558	\$ 122,141	\$ 125,121

12. Government assistance

Refundable tax credits relating to production activities of the Company are claimed from the Canadian federal and provincial governments. The refundable tax credits for the three and nine month periods ended August 31, 2017 were recorded as follows:

- Reduction to direct production costs of \$284,566 and \$732,103 (2016 - \$464,190 and \$552,737), and;
- Reduction to investment in film and television production of \$6,669 and \$356,937 (2016 - \$237,611 and \$411,294).

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13. Financial instruments

The Company is exposed to various risks related to its financial instruments as follows:

(i) *Foreign exchange risk*

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company has not entered into foreign exchange purchase contracts to manage its foreign exchange risk, because, in management's view, the cost of setting up the contracts is in excess of the risks associated with a sudden drop in the exchange rates. Management continually monitors the exchange rates and will enter into risk prevention measures when warranted.

A five percent fluctuation in the US dollar closing rate at August 31, 2017 would result in a change to comprehensive income of \$205,448 for the nine month period ended August 31, 2017 (2016 - \$375,792).

As at August 31, 2017, the Company is also exposed to foreign exchange risk on its cash, accounts receivable, and accounts payable balances that are denominated in US dollars, as at August 31, 2017 being \$510,663 (2016 - \$224,129), \$29,206 (2016 - \$767,678), and \$1,061,619 (2016 - \$1,219,988) respectively.

A five percent fluctuation in the US dollar closing rate at August 31, 2017 would result in a change to comprehensive income of \$26,088 for the nine month period ended August 31, 2017 (2016 - \$14,946).

(ii) *Credit risk*

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company is subject to credit risk with respect to cash and accounts receivable. The Company's maximum exposure to credit risk at the end of the reporting period is the carrying value of these assets.

Substantially all of the Company's customers are in the entertainment industry and are subject to normal industry credit risks. Credit risk is managed through a credit approval process and monitoring procedures.

All cash balances are held at a major Canadian banking institution.

(iii) *Interest rate risk*

Interest rate risk arises on interest-bearing financial instruments recognised in the statement of financial position such as interim production financing.

If the market interest rates had changed 100 basis points, the Company's cost of capital would have fluctuated \$15,181 during the nine months ended August 31, 2017 (2016 - \$14,520).

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13. Financial instruments (continued)

(iv) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company's liquidity needs can be met through a variety of sources. The Company generates cash from operations and by borrowing against earned tax credits and contracted revenue through operating lines of credit and issuances of common shares. The Company manages liquidity risk by continuously monitoring actual and forecast cash flows.

The Company will require additional capital in order to meet the payment expectations related to its debts. Accounts payable and accrued liabilities are due on standard commercial terms.

14. Capital management

The Company's objectives when managing capital are to safeguard its assets, maintain a competitive cost structure, continue as a going concern in order to pursue the development of its film properties, and provide a return to its shareholders in the form of capital appreciation.

The Company's capital is comprised of the following:

	August 31, 2017	November 30, 2016
Debt payable	\$ 1,197,930	\$ 1,348,869
Financing lease obligations	11,829	29,021
Less: Cash and cash equivalents	(559,279)	(443,302)
Net debt	650,480	934,588
Total shareholders' equity	1,146,429	826,224
	\$ 1,796,909	\$ 1,760,812

In order to facilitate management of capital, the Company prepares annual expenditure budgets that are updated as necessary and dependent on various factors, including successful deployment of capital and industry conditions. The annual and updated budgets are approved by the Board of Directors.

The Company believes that through operations and production financing of its proprietary projects it will generate sufficient liquidity to meet cash requirements for the next twelve months.

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15. Contingent liabilities

The Company and its subsidiaries may from time to time, be a party to certain legal disputes and claims arising from employment, environmental or commercial issues in the normal course of business.

As of August 31, 2017, the Company is involved in a business dispute with a former customer regarding services provided by the Company. The Company has also entered into a legal action against the former customer. Due to scheduling issues, the previously set trial date for hearing of the legal matter was set aside; and since no further action has been taken to adjudicate the matter, it is not practical to make an estimate of the settlement at this time, thus no amounts have been accrued or allowed for in the condensed interim consolidated financial statements as at August 31, 2017.

The Company and its subsidiaries may, from time to time, enter into royalty or rights agreements for the use of images, stock footage, names and similar items. The Company is liable to pay for the use of these rights contingent on achieving particular production milestones. As these milestones are achieved, the Company accrues the related accounts payable which are no longer contingent.

16. Related parties

Related parties are defined as Officers and Directors of the Company as well as any companies that are controlled by Officers or Directors of the Company. During the nine month period ended August 31, 2017, the Company:

- Paid or accrued wages to key management personnel in the following manner:

	August 31, 2017	August 31, 2016
Short-term employee benefits	\$ 430,861	\$ 559,209
Recorded as:		
General and administration	\$ -	\$ 101,697
Direct production costs	168,685	77,250
Investment in film and television properties	262,176	380,262
	\$ 430,861	\$ 559,209

- Recorded share-based compensation as general and administrative expenses upon the issuance of 3,502,000 stock options (2016 – 640,000) under the Company’s stock option plan to directors and officers of the Company - \$37,109 (2016 - \$25,890).
- Incurred interest of \$68,700 (2016 - \$65,462) on short term debt provided by a Director of the Company.
- Repaid \$50,000 of principal on promissory notes held by a Director of the Company.

At August 31, 2017, the Company owed \$143,444 (November 30, 2016 - \$214,551) to Directors and Officers of the Company. Amounts due to related parties are unsecured, non-interest bearing and due on demand.

At August 31, 2017, the Company had secured promissory notes and debentures outstanding, including accrued interest, of \$119,045 and \$1,067,132 (November 30, 2016 - \$160,472 and \$1,007,005), respectively, owing to a Director of the Company. The secured promissory notes bear interest at 8% per annum, and are due on demand. See Note 7(b).

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17. Commitments

The Company has entered into a lease commitment for office space which will require the following payments:

- \$46,580 in the fiscal year ended November 30, 2017
- \$190,707 in the fiscal year ended November 30, 2018
- \$123,600 in the fiscal year ended November 30, 2019
- \$100,587 in the fiscal year ended November 30, 2020
- \$33,893 in the fiscal year ended November 30, 2021

18. Revenue

	Three months ended	Three months ended	Nine months ended	Nine months ended
	August 31,	August 31,	August 31,	August 31,
	2017	2016	2017	2016
Contract production services revenue	\$ 87,600	\$ 1,248,529	\$ 3,314,096	\$ 5,837,263
Production revenue	-	647,475	804,714	1,485,941
Distribution and royalty revenue	62,197	151,895	170,708	303,954
Other revenue	657	996	20,625	11,980
	\$ 150,454	\$ 2,048,895	\$ 4,310,143	\$ 7,639,138

19. General and administrative expenses

		Three months ended	Three months ended	Nine months ended	Nine months ended
		August 31,	August 31,	August 31,	August 31,
		2017	2016	2017	2016
Interest and bank charges		\$ 6,551	\$ 5,831	\$ 20,783	\$ 13,355
Office and general		12,923	14,022	43,240	121,057
Insurance		5,565	8,188	17,278	14,428
Professional fees		25,295	42,275	60,454	110,392
Rent and utilities		11,480	3,304	16,919	57,658
Salaries and wages	16	26,150	118,678	99,634	163,541
Transfer agent and filing fees		4,653	9,702	19,798	20,260
Travel		45,703	16,056	67,797	38,973
		\$ 138,319	\$ 218,056	\$ 345,902	\$ 539,664

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20. Non-cash investing and financing activities

i. Non-cash investing and financing activities

	Three months ended August 31, 2017	Three months ended August 31, 2016	Nine months ended August 31, 2017	Nine months ended August 31, 2016
Amount included in prior year projects in progress transferred to productions completed and released	\$ (20,620)	\$ 247,357	\$ 260,203	\$ 598,055
Accounts payable included in production costs	\$ (9,876)	\$ (214,863)	\$ 21,264	\$ (465,596)
Issuance of shares in exchange for Network Entertainment Inc. common shares	\$ -	\$ -	\$ 220,000	\$ -

ii. Cash and cash equivalents

As at August 31, 2017, the Company held \$nil of cash equivalents (November 30, 2016 – \$35,000).

iii. Interest paid

Interest paid during the three and nine month periods ended August 31, 2017 was \$39,255 and \$79,752 (2016 – \$14,225 and \$59,232).