

Condensed Interim Consolidated Financial Statements of

**NETWORK MEDIA GROUP INC.**

For the three and nine months ended August 31, 2018 and 2017

(Unaudited – prepared by management)

**N E T W O R K**

[www.networkmediagroup.ca](http://www.networkmediagroup.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, 2018 and November 30, 2017

Expressed in Canadian dollars (unaudited)

	Note	August 31, 2018	November 30, 2017
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents		\$ 4,738,477	\$ 93,310
Accounts receivable	4	753,662	675,304
Tax credits receivable		2,417,277	3,059,894
Prepaid expenses and deposits		47,859	36,789
		<b>7,957,275</b>	<b>3,865,297</b>
<b>Tax credits receivable</b>		<b>964,893</b>	-
<b>Property and equipment</b>	5	<b>454,522</b>	<b>274,586</b>
<b>Investment in film and television properties</b>	6, 13	<b>7,305,168</b>	<b>3,811,084</b>
		<b>\$ 16,681,858</b>	<b>\$ 7,950,967</b>

## SHAREHOLDERS' EQUITY AND LIABILITIES

<b>Current</b>			
Line of Credit	7	\$ 140,000	\$ 70,000
Accounts payable and accrued liabilities	18	1,622,109	1,781,559
Interim production financing	8(a)	2,738,424	2,477,324
Deferred revenue	9	8,297,428	1,166,050
Current portion of debt payable	8(b)	-	8,459
Current portion of financing lease obligations	10	14,833	5,952
		<b>12,812,794</b>	<b>5,509,344</b>
<b>Financing lease obligations</b>	10	<b>166,129</b>	-
		<b>12,978,923</b>	<b>5,509,344</b>
<b>Share capital</b>	11	<b>10,236,330</b>	<b>7,741,259</b>
<b>Subscriptions received in advance</b>	11(b)	-	<b>1,612,500</b>
<b>Contributed surplus</b>	11(e)	<b>682,496</b>	<b>228,659</b>
<b>Deficit</b>		<b>(7,215,891)</b>	<b>(7,140,795)</b>
<b>Shareholders' equity</b>		<b>3,702,935</b>	<b>2,441,623</b>
		<b>\$ 16,681,858</b>	<b>\$ 7,950,967</b>

Nature of Operations (Note 1)

Contingent liabilities (Note 16)

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 (Loss) and Comprehensive Income (Loss)

For the three and nine months ended August 31, 2018 and 2017

Expressed in Canadian dollars (unaudited)

	Note	Three months ended		Nine months ended	
		August 31, 2018	August 31, 2017	August 31, 2018	August 31, 2017
<b>Total revenue</b>	19	\$ 889,221	\$ 150,454	\$ 1,824,744	\$ 4,310,143
Production costs	12(a)	7,174	92,095	80,602	2,770,256
Amortization of film and television properties	6	424,904	72,886	787,504	641,055
Amortization of property and equipment	5	49,964	27,117	95,891	79,930
General and administrative	12(a), 20	125,831	138,319	348,699	345,902
Impairment of investment in film and television properties	6	-	-	27,978	34,440
Selling and distribution		22,294	44,055	119,699	89,752
Share-based compensation	11(c), 18	188,922	16,774	455,437	45,325
Foreign exchange loss (gain)		9,955	7,033	(61,107)	18,462
Forgiveness of debt and reversal of accounts payable		(940)	-	(9,402)	-
		<b>828,104</b>	<b>398,279</b>	<b>1,845,301</b>	<b>4,025,122</b>
<b>Earnings (losses) before financing expense</b>		<b>61,117</b>	<b>(247,825)</b>	<b>(20,557)</b>	<b>285,021</b>
Financing expense, net	12(b)	19,325	59,884	56,139	122,141
<b>Income (loss) and comprehensive income (loss) for the period</b>		<b>41,792</b>	<b>(307,709)</b>	<b>(76,696)</b>	<b>162,880</b>
Income attributed to non-controlling interest	11(d)	-	-	-	(1,518)
<b>Income (loss) attributed to shareholders of the Company</b>		<b>\$ 41,792</b>	<b>\$ (307,709)</b>	<b>\$ (76,696)</b>	<b>\$ 161,362</b>
<b>Income (loss) per share</b>					
- basic		\$ 0.00	\$ (0.01)	\$ (0.00)	\$ 0.00
- diluted		\$ 0.00	\$ (0.01)	\$ (0.00)	\$ 0.00
<b>Weighted average number of shares outstanding</b>					
- basic		72,670,371	55,935,373	71,714,641	55,657,800
- diluted		72,670,371	55,935,373	71,714,641	61,020,106

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, 2018 and 2017

Expressed in Canadian dollars (unaudited)

	Note	Number of Shares	Issued Capital	Subscriptions received in Advance	Contributed Surplus (restated)	Accumulated Deficit (restated)	Total	Non- Controlling Interest	Total
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 options	11(c)	735,000	112,000	-	-	-	112,000	-	112,000
Issuance of stock options		-	-	-	45,325	-	45,325	-	45,325
Share exchange for Network Entertainment Inc. shares		800,000	220,000	-	(302,651)	-	(82,651)	82,651	-
Income and comprehensive income for the period		-	-	-	-	1,028,721	1,028,721	52,499	1,081,220
<b>Balance as at August 31, 2017</b>		<b>55,935,370</b>	<b>\$ 7,667,688</b>	<b>\$ -</b>	<b>\$ 418,973</b>	<b>\$ (6,072,873)</b>	<b>\$ 2,013,788</b>	<b>\$ 50,981</b>	<b>\$ 2,064,769</b>
Balance as at November 30, 2017		55,935,370	\$ 7,741,259	\$ 1,612,500	\$ 228,659	\$ (7,140,795)	2,441,623	\$ -	2,441,623
Issuance of shares	11(b)	16,665,001	2,485,271	(1,612,500)	-	-	872,771	-	872,771
Exercise of stock options	11(b)	70,000	9,800	-	-	-	9,800	-	9,800
Issuance of stock options		-	-	-	455,437	-	455,437	-	455,437
Reclassification of fair value of expired/cancelled stock options		-	-	-	(1,600)	1,600	-	-	-
Loss and comprehensive loss for the period		-	-	-	-	(76,696)	(76,696)	-	(76,696)
<b>Balance as at August 31, 2018</b>		<b>72,670,371</b>	<b>\$ 10,236,330</b>	<b>\$ -</b>	<b>\$ 682,496</b>	<b>\$ (7,215,891)</b>	<b>\$ 3,702,935</b>	<b>\$ -</b>	<b>\$ 3,702,935</b>

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, 2018 and 2017

Expressed in Canadian dollars (unaudited)

	Three months ended		Nine months ended	
	August 31, 2018	August 31, 2017	August 31, 2018	August 31, 2017
<b>Operating activities</b>				
Income (Loss) for the period	\$ 41,792	\$ (307,709)	\$ (76,696)	\$ 162,880
Items not involving cash:				
Amortization of property and equipment	49,964	27,117	95,891	79,930
Amortization of film and television properties	424,904	72,886	787,504	641,055
Impairment of investment in film and television properties	-	-	27,978	34,440
Share-based compensation	188,922	16,774	455,437	45,325
Forgiveness of debt and reversal of accounts payable	(940)	-	(9,402)	-
	<b>704,642</b>	<b>(190,932)</b>	<b>1,280,712</b>	<b>963,630</b>
Net changes in non-cash working capital items				
Accounts receivable	(365,066)	624,662	(78,358)	168,532
Tax credits receivable	-	246,010	1,238,653	(146,136)
Prepaid expenses and deposits	1,702	3,356	(11,069)	(977)
Accounts payable and accrued liabilities	82,020	(377,935)	(101,622)	(83,957)
Accrued interest	52,484	17,142	95,945	58,106
Deferred revenue	2,896,755	559,848	7,131,378	548,862
<b>Net cash provided by operating activities</b>	<b>3,372,537</b>	<b>882,151</b>	<b>9,555,639</b>	<b>1,508,060</b>
<b>Financing activities</b>				
Issuance of shares for cash	-	-	2,495,071	112,000
Subscriptions received in advance	-	-	(1,612,500)	-
Interim production financing	431,000	388,002	1,481,000	1,670,793
Line of Credit	50,000	-	70,000	-
Repayment of interim production financing	(168,726)	(345,000)	(1,315,635)	(824,000)
Financing lease received	141,261	-	180,962	-
Repayment of financing lease obligations	-	(5,803)	(5,952)	(17,192)
Repayment of debt payable	-	(30,000)	(8,669)	(212,400)
<b>Net cash provided by financing activities</b>	<b>453,535</b>	<b>7,199</b>	<b>1,284,277</b>	<b>729,201</b>
<b>Investing activities</b>				
Purchase of property and equipment	(207,974)	(6,311)	(275,827)	(40,081)
Investment in film and television properties, net of tax credits	(1,390,256)	(412,472)	(2,252,184)	(1,553,678)
Advances for properties under development	-	-	(96,378)	(19,911)
Investment in properties under development	(1,601,274)	(149,067)	(3,570,360)	(507,614)
<b>Net cash used in investing activities</b>	<b>(3,199,504)</b>	<b>(567,850)</b>	<b>(6,194,749)</b>	<b>(2,121,284)</b>
<b>Net increase in cash</b>	<b>626,568</b>	<b>321,500</b>	<b>4,645,167</b>	<b>115,977</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>4,111,909</b>	<b>237,779</b>	<b>93,310</b>	<b>443,302</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 4,738,477</b>	<b>\$ 559,279</b>	<b>\$ 4,738,477</b>	<b>\$ 559,279</b>

#### SUPPLEMENTAL DISCLOSURE (Note 21)

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, 2018 and 2017

Expressed in Canadian dollars (unaudited)

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### 1. Nature of operations

Network Media Group Inc. (“Network” or the “Company”) was incorporated on July 12, 2010 under the Business Corporation Act of the Province of British Columbia. Network 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 deficit of \$4,855,519 and deficit of \$7,215,891 which give rise to 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 and generate 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 consolidated interim 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, 2017. 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, 2017.

The condensed interim consolidated financial statements of the Company for the three and nine month periods ended August 31, 2018 were approved for issue by the Board of Directors on October 29, 2018.

#### (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, 2018 and 2017

Expressed in Canadian dollars (unaudited)

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### 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, 2017. Refer to Note 3 of the Company's consolidated financial statements for the year ended November 30, 2017 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 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 Pictures Sixteen Inc.
- Network Pictures Seventeen Inc.
- Network Entertainment Corp.

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

The comparative financial statements have been reclassified where applicable in order to conform to the presentation used in the current period. The reclassifications are not of a material nature.

**NETWORK MEDIA GROUP INC.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
For the three and nine months ended August 31, 2018 and 2017  
Expressed in Canadian dollars (unaudited)

**4. Accounts receivable**

	<b>August 31, 2018</b>	November 30, 2017
Receivables from broadcasters	<b>\$ 669,850</b>	\$ 643,983
Input tax credits and other receivables	<b>83,812</b>	31,321
	<b><u>\$ 753,662</u></b>	<u>\$ 675,304</u>

**5. Property and equipment**

	Computer Equipment	Computer Software	Furniture and Office Equipment	Production Equipment	Leasehold Improvements	Total
<b>Cost</b>						
Balance at November 30, 2016	\$ 786,973	\$ 2,542	\$ 74,954	\$ -	\$ 12,000	\$ 876,469
Additions	18,451	-	-	22,172	-	40,623
Balance at November 30, 2017	805,424	2,542	74,954	22,172	12,000	917,092
Additions	224,083	-	660	24,831	26,253	275,827
<b>Balance at August 31, 2018</b>	<b>\$ 1,029,507</b>	<b>\$ 2,542</b>	<b>\$ 75,614</b>	<b>\$ 47,003</b>	<b>\$ 38,253</b>	<b>\$ 1,192,919</b>
<b>Accumulated amortization</b>						
Balance at November 30, 2016	\$ 467,396	\$ 2,542	\$ 63,514	\$ -	\$ 2,400	\$ 535,852
Amortization expense	98,640	-	2,288	3,326	2,400	106,654
Balance at November 30, 2017	566,036	2,542	65,802	3,326	4,800	642,506
Amortization expense	79,071	-	1,423	7,034	8,363	95,891
<b>Balance at August 31, 2018</b>	<b>\$ 645,107</b>	<b>\$ 2,542</b>	<b>\$ 67,225</b>	<b>\$ 10,360</b>	<b>\$ 13,163</b>	<b>\$ 738,397</b>
<b>Carrying amount</b>						
November 30, 2017	\$ 239,388	\$ -	\$ 9,152	\$ 18,846	\$ 7,200	\$ 274,586
<b>August 31, 2018</b>	<b>\$ 384,400</b>	<b>\$ -</b>	<b>\$ 8,389</b>	<b>\$ 36,643</b>	<b>\$ 25,090</b>	<b>\$ 454,522</b>

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, 2018 and 2017  
Expressed in Canadian dollars (unaudited)

**6. Investment in film and television properties**

	Projects in development	Projects in progress	Productions completed and released	Total
<b>Balance, November 30, 2016</b>	\$ 252,934	\$ 409,430	\$ 2,020,606	\$ 2,682,970
Additions	429,421	833,954	2,133,552	3,396,927
Tax credits / Grant received	-	(297,566)	(697,863)	(995,429)
Funding taken into income	19,911	-	-	19,911
Transferred to productions completed and released	-	(308,893)	308,893	-
Amounts written off and impaired	(81,787)	-	-	(81,787)
Amortization	-	-	(1,211,508)	(1,211,508)
<b>Balance, November 30, 2017</b>	<b>620,479</b>	<b>636,925</b>	<b>2,553,680</b>	<b>3,811,084</b>
Additions	404,926	3,667,790	1,799,216	5,871,932
Tax credits received	-	(964,893)	(597,473)	(1,562,366)
Transferred to projects in progress	(39,461)	39,461	-	-
Transferred to productions completed and released	-	(630,729)	630,729	-
Amounts written off and impaired	(27,978)	-	-	(27,978)
Amortization	-	-	(787,504)	(787,504)
<b>Balance, August 31, 2018</b>	<b>\$ 957,966</b>	<b>\$ 2,748,554</b>	<b>\$ 3,598,648</b>	<b>\$ 7,305,168</b>
<b>As at August 31, 2018</b>				
<b>Cost</b>	<b>\$ 957,966</b>	<b>\$ 2,748,554</b>	<b>\$ 10,108,708</b>	<b>\$ 13,815,228</b>
<b>Accumulated amortization</b>	<b>-</b>	<b>-</b>	<b>(6,510,060)</b>	<b>(6,510,060)</b>
<b>Net book value</b>	<b>\$ 957,966</b>	<b>\$ 2,748,554</b>	<b>\$ 3,598,648</b>	<b>\$ 7,305,168</b>
<b>As at November 30, 2017</b>				
<b>Cost</b>	<b>\$ 620,479</b>	<b>\$ 636,925</b>	<b>\$ 8,276,236</b>	<b>\$ 9,533,640</b>
<b>Accumulated amortization</b>	<b>-</b>	<b>-</b>	<b>(5,722,556)</b>	<b>(5,722,556)</b>
<b>Net book value</b>	<b>\$ 620,479</b>	<b>\$ 636,925</b>	<b>\$ 2,553,680</b>	<b>\$ 3,811,084</b>

During the three and nine month periods ended August 31, 2018, interest of \$16,183 and \$30,475 (2017 - \$9,043 and \$20,601) has been capitalized within the projects in progress and productions completed and released balances.

*Projects in development*

During the three and nine month periods ended August 31, 2018, investments in certain projects in development were considered impaired as they were no longer deemed to have commercial viability and the carrying amount was reduced by \$nil and \$27,978 (2017 - \$nil and \$34,440). The impairment has been included in profit or loss.

**7. Line of credit**

The Company has available a line of credit agreement with a Canadian chartered bank which provides that the Company may borrow up to \$150,000. Borrowing under the line of credit bare interest, payable monthly, at the bank's prime plus 1.8% and are secured by a general security agreement over the property of the Company. The balances payable under this agreement are due on demand. As of August 31, 2018, outstanding borrowings were \$140,000 (November 30, 2017 - \$70,000).

**NETWORK MEDIA GROUP INC.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
For the three and nine months ended August 31, 2018 and 2017  
Expressed in Canadian dollars (unaudited)

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**8. Interim production financing, short-term debt and long-term debt**

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 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.

b) Debt payable

The Company had on issue unsecured promissory notes held by a former Director of the Company. These promissory notes were fully repaid in the prior year.

The Company had also issued debentures to a third party and a former Director of the Company for a face value of \$1,100,000. These debentures accrued 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 debentures. 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. These debentures were fully repaid in the second quarter, thus extinguishing the debt.

The continuity schedule of debt payable is below:

	<b>Debentures</b>
<b>Total debt payable, November 30, 2016</b>	\$ 1,188,396
Principal repaid	(1,100,000)
Interest paid	(160,720)
Accrued interest for the year	80,783
<b>Total debt payable, November 30, 2017</b>	<u>\$ 8,459</u>
Interest paid	(8,669)
Accrued interest for the period	210
<b>Total debt payable, August 31, 2018</b>	<u>\$ -</u>

**NETWORK MEDIA GROUP INC.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
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**9. Deferred revenue**

Deferred revenue represents distribution and development advances as well as contracted 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, 2018, the Company had received distribution advances of \$8,297,428 (November 30, 2017 - \$1,166,050). These amounts have been recognized in the statement of financial position as deferred revenue.

**10. Financing lease obligations**

The Company leased certain operating equipment under two financing leases. The Company's obligations under the finance lease are secured by the lessor's title to the leased assets. The interest rates are fixed at 5.09% and 5.43% per annum respectively and have 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 the finance lease are as follows:

	Total	< 1 year	> 1 year
Future minimum lease payments	\$ 195,560	\$ 17,193	\$ 178,367
Less: imputed interest	14,598	2,360	12,238
Carrying value	\$ 180,962	\$ 14,833	\$ 166,129

The carrying value of the leased equipment as of August 31, 2018 is \$185,551.

**11. 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, 2018, the Company issued 70,000 common shares with the exercise of stock options for proceeds of \$9,800 when the Company's stock price was \$0.24.

In addition, the Company completed two non-brokered private placements whereby it collectively issued 16,650,001 common shares at \$0.15 per share for gross proceeds of \$2,497,500. \$1,612,500 of the private placement was received prior to November 30, 2017 and was recorded as subscriptions received in advance.

**NETWORK MEDIA GROUP INC.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
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**11. Share capital and reserves (continued)**

(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. 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, 2018		As at November 30, 2017	
	Number of Options	Weighted Ave. Exercise Price	Number of Options	Weighted Ave. Exercise Price
Outstanding, beginning of period	7,752,720	\$ 0.16	6,326,280	\$ 0.18
Granted	4,095,000	\$ 0.16	4,047,000	\$ 0.14
Expired	-	\$ -	(1,820,000)	\$ 0.20
Cancelled	(3,314,800)	\$ 0.19	(65,560)	\$ 0.20
Exercised	(70,000)	\$ 0.14	(735,000)	\$ 0.15
Outstanding, end of period	<u>8,462,920</u>	<u>\$ 0.15</u>	<u>7,752,720</u>	<u>\$ 0.16</u>

As at August 31, 2018, 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	0.45	February 12, 2019
300,000	300,000	\$ 0.10	1.49	February 26, 2020
500,920	500,920	\$ 0.20	2.91	July 28, 2021
3,362,000	3,362,000	\$ 0.14	3.91	July 27, 2022
1,000,000	1,000,000	\$ 0.20	4.28	December 12, 2022
2,650,000	883,333	\$ 0.15	4.64	April 19, 2023
400,000	20,000	\$ 0.12	4.96	August 15, 2023
<u>8,462,920</u>	<u>6,316,253</u>	<u>\$ 0.15</u>	<u>3.98</u>	

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**11. 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, at the grant date, of the options issued. In all the calculations the annual dividend yield was assumed to be \$nil, and expected volatility was based on historical volatility. 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
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
Dec 12, 2017	1,000,000	\$ 0.20	\$ 0.18	135%	1.82%	\$ 0.16	5.0
Apr 19, 2018	2,695,000	\$ 0.15	\$ 0.14	117%	2.18%	\$ 0.14	5.0
Aug 15, 2018	400,000	\$ 0.12	\$ 0.12	120%	2.25%	\$ 0.10	5.0

For the three and nine months periods ended August 31, 2018, the Company recognized compensation expense in relation to these options of \$188,922 and \$455,437 (2017 - \$16,774 and \$45,325), which is included in profit or loss.

(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 interests are comprised of the following:

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
<b>Balance, November 30, 2017</b>	<b>\$ -</b>

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**11. Share capital and reserves (continued)**

(e) *Contributed surplus*

Contributed surplus consists of the following amounts:

	<b>August 31, 2018</b>	November 30, 2017
Outstanding options	<b>\$ 850,821</b>	\$ 396,984
Convertible debt	<b>134,326</b>	134,326
Share exchange for Network Entertainment Inc.	<b>(302,651)</b>	(302,651)
	<b><u>\$ 682,496</u></b>	<u>\$ 228,659</u>

**12. Supplemental statement of comprehensive income disclosure**

(a) *Employee benefit expenses*

Total salaries and wages recognized in the statement of income (loss) and comprehensive income (loss) for the three and nine months periods ended August 31, 2018 is \$15,743 and \$36,186 (2017 – \$48,365 and \$539,382) of which \$nil and \$nil was recorded as direct production costs (2017 - \$nil and \$470,411) and \$15,743 and \$36,186 was recorded as general and administration (2017 - \$26,150 and \$99,634).

(b) *Financing expenses*

Financing expenses are comprised of the following:

Note	Three months ended		Nine months ended	
	<b>August 31, 2018</b>	August 31, 2017	<b>August 31, 2018</b>	August 31, 2017
Interest income	\$ -	\$ (1,427)	\$ (13,675)	\$ (1,628)
Interest expense on debt	7, 8 <b>19,325</b>	61,311	<b>69,814</b>	123,769
<b>Net financing expense</b>	<b><u>\$ 19,325</u></b>	<u>\$ 59,884</u>	<b><u>\$ 56,139</u></b>	<u>\$ 122,141</u>

**13. 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 months periods ended August 31, 2018 were recorded as follows:

- Reduction to direct production costs of \$nil and \$nil (2017 - \$284,566 and \$732,103), and;
- Reduction to investment in film and television production of \$733,971 and \$1,562,366 (2017 - \$6,669 and \$356,937).

# NETWORK MEDIA GROUP INC.

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### 14. Financial instruments

The fair values of the Company's financial instruments approximate the carrying values. The Company is exposed to various risks related to its financial instruments as follows:

#### *Risks arising from financial instruments*

##### (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 change 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 rate impacting US dollar revenues during the nine month period ended August 31, 2018 would result in a change to income of \$72,191 (2017 - \$205,448) impacting profit or loss.

The Company is also exposed to foreign exchange risk on its cash, accounts receivable and accounts payable balances that are denominated in US dollars, being, respectively, \$4,422,434 as at August 31, 2018 (2017 - \$510,663), \$509,221 as at August 31, 2018 (2017 - \$29,206) and \$404,820 as at August 31, 2018 (2017 - \$1,219,988).

A five percent fluctuation in the US dollar closing rate at August 31, 2018 would result in a net change to profit or loss of \$226,342 for the nine months ended August 31, 2018 (2017 - \$26,088).

##### (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 cash equivalents 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 and cash equivalent balances are held at a major Canadian banking institution.

At August 31, 2018, there are \$503,052 of accounts receivable past due, over 30 days, but not considered impaired (November 30, 2017 - \$190,674).

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**14. Financial instruments (continued)**

*(iii) Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest rate risk arises on interest-bearing financial instruments recognized 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 \$21,598 during the nine months ended August 31, 2018 (2017 - \$15,181).

*(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 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.

**15. 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 television, and provide a return to its shareholders in the form of capital appreciation.

The Company's capital is comprised of the following:

	<b>August 31, 2018</b>	November 30, 2017
Line of credit	<b>\$ 140,000</b>	\$ 70,000
Debt payable	-	8,459
Financing lease obligations	<b>180,962</b>	5,952
Less: Cash and cash equivalents	<b>(4,738,477)</b>	(93,310)
Net surplus	<b>(4,417,515)</b>	(8,899)
Total shareholders' equity	<b>3,702,935</b>	2,441,623
	<b>\$ (714,580)</b>	\$ 2,432,724

In order to facilitate management of capital, the Company continues to prepare 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.

# NETWORK MEDIA GROUP INC.

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### 16. Contingent liabilities

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

As of August 31, 2018:

- 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, 2018.

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.

### 17. Commitments

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

- \$48,000 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

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**18. 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 period ended August 31, 2018, the Company:

- Paid or accrued wages and recognized share-based compensation to key management personnel in the following manner:

	<b>August 31, 2018</b>	August 31, 2017
Short-term employee benefits	<b>\$ 345,600</b>	\$ 430,861
Share-based compensation	<b>126,942</b>	-
	<b>\$ 472,542</b>	<b>\$ 430,861</b>
Recorded as:		
Share-based compensation	<b>\$ 126,942</b>	\$ -
Direct production costs	-	168,685
Investment in film and television properties	<b>345,600</b>	262,176
	<b>\$ 472,542</b>	<b>\$ 430,861</b>
Options issued	<b>2,380,000</b>	-

- Incurred interest of \$nil (2017 - \$68,700) on short-term debt provided by a former Director of the Company (Note 8(b)).

At August 31, 2018, the Company owed \$nil (November 30, 2017 - \$26,829) to a Director and Officer of the Company. Amounts due to related parties are unsecured, non-interest bearing and due on demand. In addition, the Company was also due \$14,229 (November 30, 2017 - \$4,714) from Directors.

**19. Revenue**

	<b>Three months ended August 31, 2018</b>	Three months ended August 31, 2017	<b>Nine months ended August 31, 2018</b>	Nine months ended August 31, 2017
Contract production services revenue	<b>\$ 50,000</b>	\$ 87,600	<b>\$ 150,000</b>	\$ 3,314,096
Production revenue	<b>757,054</b>	-	<b>1,477,991</b>	804,714
Distribution and royalty revenue	<b>82,167</b>	62,197	<b>176,623</b>	170,708
Other revenue	<b>-</b>	657	<b>20,130</b>	20,625
	<b>\$ 889,221</b>	<b>\$ 150,454</b>	<b>\$ 1,824,744</b>	<b>\$ 4,310,143</b>

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**20. General and administrative expenses**

		<b>Three months ended</b>	Three months ended	<b>Nine months ended</b>	Nine months ended
	Note	<b>August 31,</b>	August 31,	<b>August 31,</b>	August 31,
		<b>2018</b>	2017	<b>2018</b>	2017
Interest and bank charges		\$ 929	\$ 6,551	\$ 8,268	\$ 20,783
Office and general		12,663	12,923	60,376	43,240
Insurance		4,793	5,565	12,692	17,278
Professional fees		71,349	25,295	166,422	60,454
Rent and utilities		-	11,480	1,181	16,919
Salaries and wages	12(a)	15,743	26,150	36,186	99,634
Transfer agent and filing fees		3,521	4,653	36,595	19,798
Travel		16,833	45,703	26,979	67,797
		<b>\$ 125,831</b>	<b>\$ 138,319</b>	<b>\$ 348,699</b>	<b>\$ 345,902</b>

**21. Non-cash investing and financing activities**

i. Non-cash investing and financing activities

	<b>Three months ended</b>	Three months ended	<b>Nine months ended</b>	Nine months ended
	<b>August 31,</b>	August 31,	<b>August 31,</b>	August 31,
	<b>2018</b>	2017	<b>2018</b>	2017
Amount included in prior year projects in progress transferred to productions completed and released	\$ 1,437	\$ (20,620)	\$ 630,729	\$ 260,203
Accounts payable included in production costs	\$ (775,356)	\$ (9,876)	\$ 159,406	\$ 21,264
Issuance of shares in exchange for Network Entertainment Inc. common shares	\$ -	\$ -	\$ -	\$ 220,000

ii. Cash and cash equivalents

As at August 31, 2018, the Company held \$309,863 of cash equivalents (November 30, 2017 – \$nil).

iii. Interest paid

Interest paid during the three and nine month periods ended August 31, 2018 was \$2,718 and \$94,692 (2017 - \$39,255 and \$79,752).