

Management's Discussion and Analysis of

NETWORK MEDIA GROUP INC.

For the three and nine months ended August 31, 2018

N E T W O R K

www.networkmediagroup.ca

MANAGEMENT’S DISCUSSION AND ANALYSIS

The following Management’s Discussion and Analysis (“MD&A”) has been prepared as of October 29, 2018 and is intended to assist in understanding the results of operations and financial conditions of Network Media Group Inc. (“Network” or “the Company”). This MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements and accompanying notes for the three and nine months ended August 31, 2018 and 2017, the audited consolidated financial statements and accompanying notes for the year ended November 30, 2017 and other public disclosure documents of Network. The unaudited condensed interim consolidated financial statements and accompanying notes for the three and nine months ended August 31, 2018 and 2017 have been prepared in accordance with International Financial Reporting Standards (“IFRS”). In this MD&A, the term IFRS or GAAP refers to generally accepted accounting principles in Canada after the adoption of IFRS.

Network is a public company incorporated under the Business Corporation Act of the Province of British Columbia whose common shares are traded on the TSX Venture Exchange (“TSX”) admitted on December 30, 2010 (symbol “NTE.V”). Additional information relating to the Company can be found on SEDAR at www.sedar.com.

Forward-looking Statements

To the extent any statements made in this MD&A contain information that is not historical, these statements constitute “forward-looking information” under applicable Canadian securities laws and are based on expectations, estimates and projections. These statements are necessarily based upon management’s perceptions, beliefs, assumptions and expectations of historical trends, current conditions and expected future developments, as well as a number of specific factors and assumptions that, while considered reasonable by management of the Company as of the date of such statements, are inherently subject to significant business, economic and competitive uncertainties and contingencies that could result in the forward-looking information ultimately, perhaps materially, being incorrect. Words such as “expects”, “anticipates”, “intends”, “plans”, “estimates”, “believes”, “may”, and variations of such words and similar expressions, are intended to identify such forward-looking information.

All forward-looking information in this MD&A involves known and unknown risks, uncertainties and other factors that are beyond the control of the Company and may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information. Such risk factors include, but are not limited to: the Company’s ability to attract foreign and domestic broadcasters and distributors for its programs, whose purchase/licensing patterns and own consumer markets may change, having a material impact on the Company’s revenues and future business opportunities; audience acceptance of the Company’s programs; the Company’s ability to recoup production costs; the availability of tax credits; conditions in the entertainment industry generally; sales cycles, consumer demand and the timing of third party broadcaster and distributor licensing decisions; failure by third party broadcasters and distributors to honour the terms of contracts/licenses entered into with the Company, or comply with the payment terms contained in those contracts/licenses; the timing of when the proceeds of broadcaster and distributor licenses meet the Company’s revenue recognition criteria; disruption of the timing for delivery of the Company’s products to its broadcasters and distributors for reasons including, but not limited to, production schedule changes, availability of production crew, travel disruption and personal schedules of key talent, all of which can prolong delivery times and delay the timing of release of the Company’s products to the public and ultimately delay receipt of licensing and broadcasting fees; fluctuations in currency exchange rates; changes in accounting standards; changes in technology and capital expenditure requirements; acquisitions that Network may undertake in the future; and changes in laws or regulations applicable to the Company’s business, or the interpretation or application of those laws and regulations. These risk factors are not intended to represent a complete list of the factors that could affect the Company and the reader is cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking information. There can be no assurance that such forward-looking information will prove to be accurate, as actual results and future events could vary or differ materially from those anticipated in such information.

Forward-looking information is provided for the purpose of giving readers more insight into the Company's future financial and operational results, based on management's expectations. Readers are cautioned that the information may not be appropriate for other purposes. The Company disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, or to explain any material difference between subsequent actual events and such forward-looking information, except to the extent required by applicable law.

Material assumptions within the forward looking information are in the section ***Revenue Recognition and Forward Looking Statements***.

Readers are also directed to review the "**Risks and Uncertainties**" section of the MD&A for the year ended November 30, 2017.

Overview and Summary of Results

Network develops, produces, distributes and exploits film and television properties, as well it also provides production services to third parties.

During the nine months ended August 31, 2018, the Company commenced production on an 8 episode documentary series on Artificial Intelligence to be aired on YouTube Red and co-produced with Robert Downey Jr. In addition, Network completed production and delivered two documentaries entitled *I Am MLK Jr.* and *I Am Paul Walker* as well as continued production on three other proprietary *I Am* titles. During this period, Network also completed the *Stanley's Game Seven* for the *Hockey Hall of Fame*.

For the three and nine months ended August 31, 2018, the Company showed profitability as it recorded the following results:

- Revenues of:
 - \$889,221 (2017 - \$0.1M) for the three months ended, and;
 - \$1,824,744 (2017 - \$4.3M) for the nine months ended.
- Net income/(loss) of:
 - \$41,792 (2017 - \$(307,709)) for the three months ended, and;
 - \$(76,696) (2017 - \$161,362) for the nine months ended.
- EBITDA of:
 - \$441,792 (2017 - \$(52,660)) for the three months ended, and;
 - \$871,395 (2017 - \$621,651) for the nine months ended.
- Income/(loss) per share of:
 - \$0.00 (2017 - \$(0.01)) for the three months ended, and;
 - \$(0.00) (2017 - \$0.00) for the nine months ended.
- EBITDA per share of:
 - \$0.01 (2017 - \$(0.00)) for the three months ended, and;
 - \$0.01 (2017 - \$0.01) for the nine months ended.

Operations & Outlook

Network continues to build its production slate in all forms of filmed content, including its three primary silos: feature length documentary films, documentary television series, and television specials, while continuing to aggressively pursue new opportunities. The Company works closely with selected broadcasters, distributors, and exhibitors, all of which are leaders in the global marketplace, to maximize the distribution and financial opportunities for its films, series and specials across all media and online platforms. Produced for theatrical, television, online, and home entertainment distribution and exhibition, and complementary publishing initiatives, these productions are the foundation of Network's brand and statement of quality to the marketplace.

The nine months ended August 31, 2018 saw the Company continue to expand its slate of projects with its release of *I Am Martin Luther King Jr.* and *I Am Paul Walker* as well as the Hockey Hall of Fame's *Stanley's Game Seven*.

The Company also continued production on three additional *I Am* projects, which were green-lit during the prior quarter. The Company's next proprietary project, *I Am Richard Pryor*, will be delivered in November 2018 to Paramount Networks and is slated to premiere in early 2019.

As well, the Company has continued production on an 8-part global series on artificial intelligence that will be executive produced by Team Downey partners Robert Downey Jr. and Susan Downey, Network Entertainment's Derik Murray and Paul Gertz, and Sonar Entertainment's Jenna Santoianni and Tom Lesinski. The series will feature the brightest minds in science, philosophy, technology, engineering, medicine, futurism, entertainment and the arts to tell the dynamic story of A.I. The 8-episode hour-long series will debut exclusively on YouTube Red in 2019 and is the Company's largest project in its history.

The Company secured partnerships with legendary menswear designer and global entrepreneur John Varvatos ("Varvatos") with an eye to create original content for television and film focusing on the worlds of music, fashion, and pop culture. The mission of the partnership is to create premium content that will be distributed globally on multiple platforms and will be designed to feature complementary merchandising, publishing, sponsorship, and special event opportunities.

Another significant achievement for the third quarter was the partnership with Burt Sugarman to produce a feature documentary telling the story of the television series *The Midnight Special* which was a revolutionary cultural landmark during the 1970s and early 1980s that featured live performances by the era's greatest musical and comedy stars. *The Midnight Special* struck a chord with audiences and generations of musicians by showcasing live performances by numerous musical icons including James Brown, the Jackson 5 (their first live televised performances), Van Morrison, Marvin Gaye, Rod Stewart, Ike & Tina Turner, Fleetwood Mac, Aerosmith, AC/DC, David Bowie, Aretha Franklin, Helen Reddy, Linda Ronstadt, The Beach Boys, Tanya Tucker, Billy Joel, Loretta Lynn, Emmylou Harris, Prince, Diana Ross, the Bee Gees, and, cutting-edge stand-up comedy from the likes of Steve Martin, Richard Pryor and George Carlin.

Lastly, Network strengthened its board of directors with the appointment of Mike McIsaac. Mr. McIsaac has more than two decades of experience as a private and public business advisor, including being a co-founder of the Renaissance CPA firm and founder of Renaissance Mergers & Acquisitions. Mr. McIsaac's business expertise and entrepreneurship directly aligns with Network's goal to continue to build a global brand and to deliver exceptional value to both clients and shareholders.

Financing

During the nine months ended August 31, 2018, the Company's operations were financed by cash generated from operating activities, and interim production financing.

The Company continued to finance its productions by way of advances received from the individual production's funding partners, as well as interim production loans for each of its respective subsidiaries which produce the individual proprietary productions. During the quarter, the Company received \$1,481,000 of interim production loans which are secured by future contracted funding from broadcasters and distributors as well as the government labour tax credits expected to be received. The Company also received film tax credits of \$1,238,653 and repaid \$1,315,635 of interim production funding.

The Company also received some additional lease financing for the equipment required to produce the increased slate of work during the quarter.

Revenue Recognition and Forward Looking Statements

The Company follows a revenue recognition policy that is standard to the film industry (Note 3 of the audited consolidated financial statements for the years ended November 30, 2017 and 2016). Under this policy the Company does not recognize revenues for a film or episode where the copyright is owned by the Company (referred to as proprietary productions) until all of the following events have occurred:

1. A buyer has signed an agreement to purchase the film or episode;
2. The film or episode is in finished and final form;
3. Network has shipped the film or episode to the buyer as required under the purchase agreement;
4. The price agreed between the buyer and Network can be determined as a final amount;
5. It is reasonable for Network to conclude it will receive the amount that the buyer has agreed to pay; and
6. All conditions of the purchase agreement between Network and the buyer have been met.

The expenses and revenues attributable to any specific film or television episode are significant and it is typical that the revenue received and the associated production costs are deferred until all of the above factors are satisfied.

If the project is a "work-for-hire" scenario where the Company does not own the copyright to the production (referred to as service work), then the Company records the revenue on a percentage of completion basis. In this scenario, the costs to date are compared to the estimated final costs of the project and the percent complete is applied to the total contracted value of the project. Where the Company receives funds in excess of what the percentage of completion calculation provides, this excess is recorded as deferred revenue.

Forward looking revenue

The performance (or period to period earnings comparisons) of small entertainment companies like Network can often be difficult. As such, the Company feels it is necessary to provide some additional information so that a meaningful assessment of the Company's potential future financial performance and earnings may be made.

Contracts and funding for a film or television episode are typically secured well in advance of completion and delivery of that film or television episode. Practically speaking, the only significant element of uncertainty is the specific accounting period in which the project will be delivered and revenue earned by the Company can be recognized.

The Company has certain projects currently in production which have been sold to buyers under binding purchase agreements. Deferred revenue totaling \$8,297,428 as at August 31, 2018, represents advances received on these projects. Below is an estimate of the revenue expected to be recorded from these properties:

Contracted Future Production Revenues	\$ Millions
Deferred revenue as at Aug 31, 2018	\$ 8.3
Contracted future revenue	11.6
Total expected revenue - contracted	<u>\$ 19.9</u>
Revenues expected within 6 months	\$ 1.4
Revenues expected within 7 to 12 months	\$ 16.6
Revenues beyond 12 months	\$ 1.9

As stated above, under IFRS the Company is not able to recognize revenue until all of the above-mentioned conditions have been met. As at October 29, 2018, Network has contracts for \$19.9 million that have yet to be recorded as revenue, but are expected to be received and recognized as revenue within the periods noted above.

The above statements regarding the Company's anticipated, or contracted for, future revenue constitutes "forward-looking information" under applicable Canadian securities laws – readers are directed to refer to the Forward Looking Statement disclosures at the beginning of this MD&A. The above calculations are based on expectations, estimates and projections as of the date of this MD&A and are necessarily based upon assumptions and expectations regarding future production revenues and partial revenues generated from projects under contract. Estimates of future revenues are based on the terms of contracts entered into. Such assumptions and expectations include, but are not limited to the following: the terms of the contracts will not be altered; delivery of the Company's products will occur as scheduled; the purchasing party will make payment as and when due under the contract, and will comply with all payment terms; the US-Canadian currency exchange rates remain stable (assumed to be 1.25 USD-CDN for the purposes of the estimates made herein); no unforeseen event interrupts business in the ordinary course; and the purchasing party will pay, or has paid, Network on a pro-rata to percent completed for a film or episode that is in progress. Should conditions change, the above revenue estimates may not be met and actual result may differ, perhaps materially.

Summary Consolidated Financial Information

The summary consolidated financial information set out below has been prepared in accordance with IFRS and is derived from the Company's audited consolidated financial statements and accompanying notes for the quarter ended August 31, 2018, and can be found at www.sedar.com.

Consolidated Summary of Financial Position	As at August 31, 2018	As at November 30, 2017
Cash and cash equivalents	\$ 4,738,477	\$ 93,310
Current assets	7,957,275	3,865,297
Investment in film and television	7,305,168	3,811,084
Total assets	16,681,858	7,950,967
Current liabilities	12,812,794	5,509,344
Total liabilities	12,978,923	5,509,344
Shareholder' equity	3,702,935	2,441,623
Working capital deficiency	\$ (4,855,519)	\$ (1,644,047)

Financial Results

	Three months ended		Nine months ended	
	August 31, 2018	August 31, 2017	August 31, 2018	August 31, 2017
Total revenue	\$ 889,221	\$ 150,454	\$ 1,824,744	\$ 4,310,143
Production costs	7,174	92,095	80,602	2,770,256
Amortization of film and television properties	424,904	72,886	787,504	641,055
Amortization of property and equipment	49,964	27,117	95,891	79,930
General and administrative	125,831	138,319	348,699	345,902
Impairment of investment in film and television properties	-	-	27,978	34,440
Selling and distribution	22,294	44,055	119,699	89,752
Share-based compensation	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)	-
	828,104	398,279	1,845,301	4,025,122
Earnings (losses) before financing expense	61,117	(247,825)	(20,557)	285,021
Financing expense, net	19,325	59,884	56,139	122,141
Income (loss) and comprehensive income (loss) for the period	41,792	(307,709)	(76,696)	162,880
Income attributed to non-controlling interest	-	-	-	(1,518)
Income (loss) attributed to shareholders of the Company	\$ 41,792	\$ (307,709)	\$ (76,696)	\$ 161,362
Income (loss) per share				
- basic	\$ 0.00	\$ (0.01)	\$ (0.00)	\$ 0.00
- diluted	\$ 0.00	\$ (0.01)	\$ (0.00)	\$ 0.00
Weighted average number of shares outstanding				
- 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
EBITDA	\$ 441,792	\$ (52,660)	\$ 871,395	\$ 621,651
EBITDA per share	\$ 0.01	\$ (0.00)	\$ 0.01	\$ 0.01

Non-IFRS Measures

In addition to results reported in accordance with IFRS, the Company reports using certain non-IFRS financial measures as supplemental indicators of the Company's financial and operating performance. These non-IFRS financial measures include EBITDA. The Company believes these supplemental financial measures reflect the Company's on-going business in a manner that allows for meaningful period-to-period comparisons and analysis of trends in its business.

The Company defines EBITDA as earnings before interest, taxes, depreciation and amortization (excluding amortization of investment in film and television properties released during the current year), adjusted for certain items affecting comparability as specified in the calculation of operating earnings. EBITDA is presented on a basis consistent with the Company's internal management reports. The Company discloses EBITDA to capture the profitability of its business before the impact of items not considered in management's evaluation of operating performance. EBITDA does not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies. The Company cautions readers to consider these non-IFRS financial measures in addition to, and not as an alternative for, measures calculated in accordance with IFRS.

Overall Financial Position – Third Quarter Fiscal 2018

Earnings before financing expense increased by \$308,942 to \$61,117 for the three months ended August 31, 2018, as compared to a loss of \$247,825 for the same period in 2017.

For the nine months ended August 31, 2018, earning before financing expense decreased \$305,578 to a loss of \$20,557 as compared to income of \$285,021 for the same period in 2017. Further analysis is provided in the discussion of segmented results below.

The \$8.7M increase in total assets to \$16.7M was primarily due to an increase in cash and cash equivalents, and investment in film and television properties. These increases are due to financing from the individual production's funding partners, productions in progress during the quarter and the continued investment in building the Company's library.

The \$7.5M increase in total liabilities to \$13M was primarily due to increases in deferred revenue. The increase is due to the financing received for the productions in progress by way of distribution and license fee advances.

Results of Operations

Three months ended August 31, 2018 compared to the three months ended August 31, 2017

The following discussion describes the significant changes in the consolidated results from operations.

Revenue

Total revenue increased to \$889,221 in Q3 2018 from \$150,454 in Q3 2017, an increase of \$738,767. The increase due to the delivery of *I Am Paul Walker* in Q3 2018, where in the previous year, the Company was completing the *Discovery* project.

	Three months ended August 31, 2018	Three months ended August 31, 2017
Contract production services revenue	\$ 50,000	\$ 87,600
Production revenue	757,054	-
Distribution and royalty revenue	82,167	62,197
Other revenue	-	657
	\$ 889,221	\$ 150,454

The production revenues recorded in the third quarter of 2018 were attributed to *I Am Paul Walker*. In 2017, the Company did not have a proprietary project delivery.

Distribution and royalty revenue remained relatively steady with a \$20,000 increase over 2017 which is attributed to the continual increase of the number titles in Network's film library.

Additional information about future revenue of the Company can be found at section ***Revenue Recognition and Forward Looking Statements***.

Production costs

Production costs incurred by the Company for the third quarter of 2018 was relatively small. These costs are attributed to the contract work for *Stanley's Game Seven* for the *Hockey Hall of Fame*. In the prior year, the costs were in relation to the completion of the *Discovery* project.

Amortization of film and television properties

During the prior year, the Company changed its accounting policy and the way it calculates the amortization of film and television properties. Please refer to Note 2(e) of the Company's audited consolidated financial statements for the years ended November 30, 2017 and 2016 for details on the change.

Amortization of film and television properties increased \$352,018 from \$72,886 in Q3 2017 to \$424,904 in Q3 2018. The increase is associated with the change of the accounting policy to amortize the library on a consistent yearly basis along with the release of two proprietary projects in the year. Please refer to the accounting policies in Note 3 of the audited consolidated financial statements for the years ended November 30, 2017 and 2016 for information on how the amortization of the properties is calculated.

Amortization of property and equipment

Amortization of property and equipment increased \$22,847 from \$27,117 in Q3 2017 to \$49,964 in Q3 2018 due to the additional assets purchased in the recent periods.

General and administrative expenses

General and administration expenses decreased \$12,488 from \$138,319 in Q3 2017 to \$125,831 in Q3 2018. A detailed breakdown of these expenditures is as follows:

A detailed breakdown of the expenses is as follows:

	Three months ended August 31, 2018	Three months ended August 31, 2017
Interest and bank charges	\$ 929	\$ 6,551
Office and general	12,663	12,923
Insurance	4,793	5,565
Professional fees	71,349	25,295
Rent and utilities	-	11,480
Salaries and wages	15,743	26,150
Transfer agent and filing fees	3,521	4,653
Travel	16,833	45,703
	\$ 125,831	\$ 138,319

Impairment of investment in film and television properties

Network recorded no impairment of development properties in Q3 of 2018, nor did it in Q3 2017 because the Company typically looks at impairment of projects on a semi-annual basis.

The impairments are the result of management's decision to cease further development of certain projects which resulted in the write-off of the projects' carrying values. Per the Company's accounting policies, a project that does not have prevailing evidence of going into production will be written off. As such, the Company assessed its development slate and wrote off projects which were older than three years and didn't have a high likelihood of going into production. These projects may still be taken to market in hopes of being financed, but will not be carried on the Company's consolidated statement of financial position as an asset.

In addition, at each review period, management makes an estimate of the future value of each property on a project by project basis. If in management's estimation, the future value of the property does not exceed the current carrying value, then it will record an impairment on the value of the property. Upon management's review of its library, it was determined that no productions had a carrying value in excess of future value, thus the Company did not record an impairment to film and television properties in the current quarter.

Selling and distribution expenses

Selling and distribution expenses decreased \$21,761 from \$44,055 in Q3 2017 to \$22,294 in Q3 2018. The decrease is due to the promotional efforts in conjunction with the release of *I Am Heath Ledger* in 2017. The release of *I Am Paul Walker* was late in Q3 2018 and the promotional costs associated with this project will be incurred in Q4 2018.

Share-based compensation

Share-based compensation increased \$172,148 from \$16,774 in Q3 2017 to \$188,922 in Q3 2018. The increase is due to the vesting of options issued during the current year as calculated using the Black-Scholes model.

Financing expense, net

Total net financing expense decreased \$40,559 from \$59,884 in Q3 2017 to \$19,325 in Q3 2018. This decrease is due to repayment of interim production loans associated with projects that have been released in prior periods as well as the repayment of the promissory notes and debentures in Q4 2017.

Income for the quarter

Income for the quarter ended August 31, 2018 was \$41,792 as compared to loss of \$307,709 in the quarter ended August 31, 2017, resulting in income per share of \$0.00 (2017 – (\$0.01)) for the period.

Nine months ended August 31, 2018 compared to the nine months ended August 31, 2017

Revenue

Total revenue decreased by \$2,485,399 to \$1,824,744 in Q3 2018 as compared to \$4,310,143 in Q3 2017. The decrease was primarily due to the fact that in Q3 2017 the Company was in production of the work-for-hire series with *Discovery Channel* where in Q3 2018, the Company is producing more proprietary properties and release two *I Am* projects.

The following table shows the breakdown of revenue:

	Nine months ended August 31, 2018	Nine months ended August 31, 2017
Contract production services revenue	\$ 150,000	\$ 3,314,096
Production revenue	1,477,991	804,714
Distribution and royalty revenue	176,623	170,708
Other revenue	20,130	20,625
	\$ 1,824,744	\$ 4,310,143

Contract production services revenue decreased by \$3,164,096 to \$150,000 in Q3 2018 from \$3,314,096 in Q3 2017. The sharp decrease is due to the Company completing the *Discovery Channel* project in 2017, where in 2018 the slate of projects is more production revenue based with the only contract being *Stanley's Game Seven* for the *Hockey Hall of Fame*.

Production revenue increased by \$673,277 to \$1,477,991 in Q3 2018 as compared to \$804,771 in Q3 2017. The increase is due to the completion of two proprietary *I Am* projects in 2018 as compared to one in 2017.

Distribution and royalty revenue remained relatively consistent period over period.

Additional information about future revenue of the Company can be found at section ***Revenue Recognition and Forward Looking Statements***.

Production costs

Production costs incurred by the Company for the third quarter of 2018 were relatively small. These costs were attributed to the contract work for *Stanley's Game Seven* for the *Hockey Hall of Fame*. In the prior year, the costs were in relation to the completion of the *Discovery* project.

Amortization of film and television properties

During the prior year, the Company changed its accounting policy and the way it calculated the amortization of film and television properties. Please refer to Note 2(e) of the Company's audited consolidated financial statements for the years ended November 30, 2017 and 2016 for details on the change.

Amortization of film and television properties increased \$146,449 in Q3 2018 to \$787,504 as compared to \$641,055 in Q3 2017. The increase is associated with the change of the accounting policy to amortize the library on a consistent yearly basis along with the release of two proprietary projects in the year. Please refer to the accounting policies in Note 3 of the audited consolidated financial statements for the years ended November 30, 2017 and 2016 for information on how the amortization of the properties is calculated.

Amortization of property and equipment

Amortization of property and equipment increased by \$15,961 to \$95,891 in Q3 2018 as compared to \$79,930 in Q3 2017 due to the purchase of additional assets in the current year.

General and administration expense

General and administration expenses overall remained relatively steady with a marginal increase of \$2,797 to \$348,699 in Q3 2018 from \$345,902 in Q3 2017. A detailed breakdown of these expenditures is as follows:

	Nine months ended	Nine months ended
	August 31,	August 31,
	2018	2017
Interest and bank charges	\$ 8,268	\$ 20,783
Office and general	60,376	43,240
Insurance	12,692	17,278
Professional fees	166,422	60,454
Rent and utilities	1,181	16,919
Salaries and wages	36,186	99,634
Transfer agent and filing fees	36,595	19,798
Travel	26,979	67,797
	\$ 348,699	\$ 345,902

Impairment of projects in development

Network recorded impairment of development properties of \$27,978 in Q3 2018 compared to \$28,551 in Q3 2017. Impairments are the result of management's decision to cease further development of certain projects, which resulted in the write-off of the projects carrying values.

Selling and distribution

Selling and distribution expenses increased \$29,947 from \$89,752 in Q3 2017 to \$119,699 in Q3 2018. The increase was due to the release of an additional *I Am* during the year as compared to 2017.

Share-based compensation

Share-based compensation increased \$410,112 from \$45,325 in Q3 2017 to \$455,437 in Q3 2018. The increase was due to the vesting of options issued during the current period as calculated using the Black-Scholes model.

Financing expense, net

Total net financing expense decreased \$66,002 in Q3 2018 to \$56,139 as compared to \$122,141 in Q3 2017. This decrease was due to repayment of interim production loans associated with projects that have been released in prior periods as well as the repayment of the promissory notes and debentures in Q4 2017.

Income (Loss) for the quarter

Income for the nine month period ended August 31, 2018 decreased \$238,058 to a loss of \$76,696 from income of \$161,362 for the nine month period ended August 31, 2017, which resulted in an income (loss) per share of (\$0.00) - (2017 - \$0.00) for the period.

Summary of Quarterly Results

The following table contains a summary of certain unaudited information for each of the eight most recent financial quarters. All periods presented have been prepared in accordance with IFRS.

000's of dollars, except per share figures	Quarter ended							
	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Total revenue	\$ 889	\$ 778	\$ 158	\$ 1,010	\$ 150	\$ 2,248	\$ 1,912	\$ 471
Income (loss) and comprehensive income (loss)	42	205	(323)	(484)	(308)	387	83	(550)
Income (loss) attributed to shareholders of Network Media	42	205	(323)	(484)	(308)	387	82	(529)
Income (loss) per share - basic and diluted	\$ -	\$ -	\$ -	\$ (0.01)	\$ (0.01)	\$ 0.01	\$ -	\$ (0.01)

The quarterly information was unaudited, but reflected all adjustments of a normal, recurring nature, which are, in our opinion, was necessary to present a fair statement of the results of operations for the periods presented. Quarter-to-quarter comparisons in the financial results are not necessarily meaningful and should not be relied upon as an indication of future performance.

Liquidity and Capital Resources

Network's liquidity needs are met through a variety of sources. Network generates cash from operations, by borrowing against earned tax credits, through operating lines of credit and through debt and stock issuances. The primary uses of cash are operating expenses, capital expenditures, interest and principal payments on current debt, and investment in its development slate.

Overall, the Company's cash and cash equivalents position increased by \$4.6M as at August 31, 2018. This increase primarily reflected the Company's receipt of advances from YouTube as production commenced on the 8-part series based on Artificial Intelligence.

Cash provided by operating activities in Q3 2018, was \$9.5M, compared to \$1.5M in Q3 2017. This increase of \$8M was the result of the timing of the receipt of tax credits receivable and the receipt of production funding.

Financing activities for Q3 2018 resulted in cash provided of \$1.2M compared to cash provided of \$0.7M in Q3 2017. In Q3 2018, the Company repaid \$1.3M of interim production financing and, in the same period, received \$1.5M of interim production financing for projects commenced during the period. The cycle of incurring interim production financing and repayments thereof is common in the entertainment industry. Chartered banks regularly lend such companies as Network the funding to produce and complete its production through the financing of future contracted payments and the ultimate receipt of tax credits.

As at November 30, 2017, the Company was in the midst of completing a non-brokered private placement of its common shares. By yearend, the Company had received \$1,612,500 of the placement prior to closing in December 2017.

In addition, the Company closed a \$2,495,071 private placement during the period ended August 31, 2018. \$1,612,500 of the funding was received in the Q4 2017, netting the Company \$882,571 of funding for the current nine month period.

Cash utilized by investing activities in Q3 2018 was \$6.2M, compared to utilizing cash of \$2.1M in Q3 2017. The Company used the cash primarily for its continued development and production of its film and television properties along with some purchases of equipment.

Liquidity

The Company's capital management objectives are to maintain financial flexibility in order to pursue its strategy of production and distribution growth. The Company manages its capital structure in accordance with financial conditions and timing of various payments from production financings, third party broadcasters and distributors and from government tax credit programs. In order to maintain its capital structure, the Company may elect to issue or repay short-term debt, issue shares or undertake any other activities as deemed appropriate under the specific circumstances.

As at August 31, 2018, Network had a working capital deficit of \$4.8M compared to a deficit of \$1.6M at November 30, 2017. The decreased working capital position is primarily due to the increase in interim production financing and deferred revenue which is recorded as a current liability, whereas this funding is invested in long-term film and television property assets, thus creating the working capital deficiency.

If the reader of the financial statements was to adjust the deficiency for the deferred revenue, the Company would be as follows:

	August 31, 2018	November 30, 2017
Current assets	\$ 7,957,275	\$ 3,865,297
Current liabilities	<u>(12,812,794)</u>	<u>(5,509,344)</u>
Working capital deficiency	\$(4,855,519)	\$(1,644,047)
Deferred revenue adjustment	<u>8,297,428</u>	<u>1,166,050</u>
Adjusted working capital (deficiency)	<u>\$ 3,441,909</u>	<u>\$ (477,997)</u>

Network believes that through operations, the Company's ability to negotiate short-term debt instruments, stock issuances and interim production financing of its proprietary projects, it will generate sufficient liquidity to meet cash requirements for the next 12 months.

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

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 prepared by key management and reviewed 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.

Related party transactions

The Company has transacted business in the normal course with related parties and entities over which the related parties' exercises complete control. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Key management personnel consist of the Board of Directors and the named Officers of the Company who have authority and responsibility for planning, directing and controlling the activities of the Company.

During the nine months ended August 31, 2018, the Company:

- paid or accrued wages to key management personnel in the following manner:
 - Recorded as direct production costs - \$nil (2017 – 168,685)
 - Recorded as investment in film and television properties - \$345,600 (2017 – \$262,176)
 - These costs were paid to the following related parties:
 - \$131,250 (2017 - \$139,631) as salaries and wages to the CEO
 - \$131,250 (2017 - \$139,631) as salaries and wages to the COO
 - \$83,100 (2017 - \$66,100) as salaries and wages to the CFO
 - \$nil (2017 - \$85,500) for services of staff of a company controlled by the former Chairman of the Board of Directors
- recorded share-based compensation upon the vesting of stock options under the Company's stock option plan with the issuance of 3,902,000 (2017 – 3,502,000) options to directors and officers of the Company - \$126,942 (2017 - \$37,890).
- Incurred interest of \$nil (2017 - \$68,700) on short-term debt provided by a former Director of the Company.

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.

Contractual obligations

The Company has entered into a lease commitment for office space and equipment 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

Capital Expenditures

The Company monitors its property and equipment on a continual basis and replenishes on an as needed basis. The Company will also invest in its facility and infrastructure as it grows and in order to accommodate larger productions. With the increase in its production slate in the upcoming year, the Company does anticipate making additional expenditures on property and equipment in the upcoming year in order to increase its production capacity.

Share Issuances

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.

Options

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.

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.

Escrow shares

As at August 31, 2018, the Company had no common shares held in escrow.

Seasonality

Results of operations for any period are dependent on the number and timing of film and television programs delivered, which cannot be predicted with certainty. Consequently, the Company's results from operations may fluctuate materially from period-to-period and the results of any one period are not necessarily indicative of results for future periods. Cash flows may also fluctuate and are not necessarily closely correlated with revenue recognition. During the initial broadcast of the rights granted by the Company in respect of any of its products, the Company is somewhat reliant on the broadcaster's budget and financing cycles and at times the license period gets delayed and commences at a later date than originally projected.

The Company's film and television revenues vary significantly from year to year and are determined by contracted deliveries with its primary broadcasters. The Company's revenues are primarily contract and demand driven and can fluctuate significantly from year to year.

Future Accounting Standard Changes

A number of new standards, and amendments to standards and interpretations, are not yet effective for the quarter ended August 31, 2018 and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Company.

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:

(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).

(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 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 \$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.

Off-Balance Sheet Arrangements

There are no off-balance sheet obligations that are not disclosed in the financial statements.

Outstanding Shares

As at October 29, 2018, the Company had 72,670,371 common shares issued and outstanding, and has 8,462,920 stock options outstanding.

Other

Additional information and other publicly filed documents relating to Network are available through the internet on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR"), which can be accessed at www.sedar.com.