

Management's Discussion and Analysis of

**NETWORK MEDIA GROUP INC.**

For the three and nine months ended August 31, 2019

**N E T W O R K**

[www.networkmediagroup.ca](http://www.networkmediagroup.ca)

# MANAGEMENT’S DISCUSSION AND ANALYSIS

The following Management’s Discussion & Analysis (“MD&A”) prepared as of October 28, 2019, should be read in conjunction with Network Media Group Inc.’s (the “Company” or “Network”) unaudited condensed interim consolidated financial statements and accompanying notes for the three and nine months ended August 31, 2019, the audited consolidated financial statements and accompanying notes for the year ended November 30, 2018 and other public disclosure documents of Network. The Company reports its financial results in accordance with International Financial Reporting Standards (“IFRS”) in Canadian dollars.

Network is a public company incorporated under the *Business Corporations Act* of the Province of British Columbia whose common shares are traded on the TSX Venture Exchange (“TSXV”) admitted on December 30, 2010 (symbol “NTE.V”). Additional information relating to the Company can be found on SEDAR at [www.sedar.com](http://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 this MD&A below.

## Overview and Summary of Results

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

During the nine months ended August 31, 2019, the Company delivered four projects; a four-part documentary series, a work for hire documentary and *I Am Richard Pryor*, along with *I Am Patrick Swayze* that recently delivered during the three month third quarter. The Company also continued production on:

- an 8 episode documentary series on Artificial Intelligence;
- An *I Am* documentary featuring *Jackie Onassis*;
- Commenced pre-production on two additional *I Am* feature documentaries as well as an six part *I Am* documentary series, and;
- Started pre-production on an 18 episode program *BEAUTY* co-produced with *Tyra Banks*.

For the three and nine months ended August 31, 2019, the Company realized the following:

- Revenues of:
  - \$787,694 (2018 – \$889,221) for the three months ended, and;
  - \$6.41M (2018 – \$1.82M) for the nine months ended.
- Net income/(loss) of:
  - Loss of \$324,353 (2018 – net income of \$41,792) for the three months ended.
  - \$1.54M (2018 – net loss of \$76,696) for the nine months ended.
- Adjusted EBITDA of:
  - Negative \$56,390 (2018 – positive \$383,945) for the three months ended, and;
  - \$2.32M (2018 – \$713,021) for the nine months ended.
- Income/(loss) per share of:
  - \$0.00 (2018 – \$0.00) for the three months ended, and;
  - \$0.02 (2018 – \$0.00) for the nine months ended.
- Adjusted EBITDA per share of:
  - \$0.00 (2018 – \$0.01) for the three months ended, and;
  - \$0.03 (2018 – \$0.01) for the nine months ended.
- The above results include an adjustment to revenue for \$724,209 with the adoption of IFRS 15 (see Note 3(iii) of the condensed interim consolidated financial statements)

The operational highlights for Network's three months ended August 31, 2019 include the following:

- **Record Backlog.** Contracted future revenues of \$14.3M to be recorded in the next six months and another \$10.9M to be recorded in the following six months;
- **New Docu-series in Partnership with Tyra Banks and Quibi.** Partnered with Tyra Banks on a new 18-episode docu-series, *BEAUTY*, with an anticipated exclusive debut in Q2 2020 on Quibi. Quibi is a mobile-first streaming platform founded by Jeffrey Katzenberg and Meg Whitman;
- **Delivery of *I Am Patrick Swayze*.** *I Am Patrick Swayze* premiered on Paramount Network in the quarter.
- **People Magazine Feature Article.** *I Am Patrick Swayze* was an inside feature article for the magazine on August 26, 2019;
- **Winner of Grand Prize San Antonio Film Festival.** *I Am Patrick Swayze* wins the Festival Grand Prize at the San Antonio Film Festival (SAFILM) on August 2, 2019;
- **Most-Watched Personality Documentary of 2019.** *I Am Patrick Swayze* averaged 1.1M total viewers, topping *Free Solo* as cable's most-watched personality documentary on linear TV for 2019;
- **#1 Most-Social Special.** *I Am Patrick Swayze* ranked as the #1 most-social special across all of TV for August 18, while also trending as the top hashtag on Twitter.

## Operations & Outlook

Network builds its production slate in three primary forms: feature length documentary films, documentary television series, and television specials. The Company works closely with broadcasters, distributors, and exhibitors to maximize the distribution and financial return of its productions. Produced for theatrical, television, online, and home entertainment distribution and exhibition, these productions are the foundation of Network's brand and statement of quality to the marketplace.

In addition, the Company continued production on an eight-part global series on artificial intelligence ("A.I.") that is executive produced, narrated, and hosted by Robert Downey Jr. 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 eight hour-long episodes will debut exclusively on *Google's YouTube Premium* in 2019 and represents the largest production budget in the Company's history. This production is slated for delivery in the fourth quarter of fiscal 2019 and first quarter of fiscal 2020.

Network was also in production on an *I Am* documentary featuring *Jackie Onassis* throughout the quarter, slated for airing in the first quarter of fiscal 2020, and started pre-production on two other *I Am* feature documentaries as well as a 6 part *I Am* series. Lastly, pre-production continued on an 18 episode program *BEAUTY* co-produced with *Tyra Banks*.

Network also received some additional creative accolades with *I Am Patrick Swayze* winning the Grand Prize in the San Antonio Film Festival, as well as being the most watched personality documentary of 2019 and the #1 most-social special across all of TV with its debut on the Paramount Network in the US.

Network's backlog has grown to a record \$25.2M of production revenue to be recorded over the next 12 months, giving the Company good foresight into a strong finish to fiscal 2019 and continued revenue growth in fiscal 2020. See ***Revenue Recognition and Forward Looking Statements*** on the next page for additional details

## Financing

During the nine months ended August 31, 2019, the Company's operations were financed by cash generated from operating activities, share issuances, and interim production financing.

The Company finances its individual productions by way of advances from funding partners (broadcasters, distributors, and streaming services), as well as by securing interim production loans. During the nine month period, the Company received \$5,203,856 of contract advances (contract production services and deferred revenue) and \$2,548,000 of interim production loans which are secured by future contracted funding from broadcasters and distributors, as well as the government labour tax credits expected.

## Revenue Recognition and Forward-Looking Statements

The Company follows a revenue recognition policy that is standard to the film industry (see Note 3 of the unaudited condensed interim consolidated financial statements for the nine months ended August 31, 2019 and 2018). 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 property;
2. The property is in finished and final form;
3. Network has shipped the property 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;
6. All conditions of the purchase agreement between Network and the buyer have been met, and;
7. The license term has commenced (recent change with the adoption of IFRS 15 as disclosed in Note 3 (iii) in the condensed interim consolidated financial statements for August 31, 2019).

The expenses and revenues attributable to any specific property are deferred until all of the above factors are satisfied.

The Company adopted and implemented IFRS 15, *Revenue from Contracts with Customers*, which established a new comprehensive framework on revenue recognition. Under IFRS 15, the Company has determined that licensing and distribution revenue should be recognized at the later of the start date of the license term and the satisfaction of the contractual delivery terms. Previously, licensing revenue was recognized at the earlier date of delivery when certain conditions were met.

If the production is a “work-for-hire” scenario where the Company does not own the copyright (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 property and the percent of the work completed is applied to the total contracted value of the property to determine the amount of revenue to be recorded. Where the Company receives funds in excess of what the percentage of completion calculation provides, this excess is recorded as deferred revenue. This accounting policy did not change with the adoption of IFRS 15.

### *Forward-looking revenue*

The performance (or period to period earnings comparisons) of entertainment companies like Network can often be challenging for readers. 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 is possible.

Contracts and funding for a film or television property are typically secured well in advance of commencement of production of the property. Practically speaking, the only significant element of uncertainty is the specific accounting period in which revenue earned by the Company can be recognized due to the requirements of its revenue recognition policy as described above. Often delivery schedules and license commencement dates are changed in mid-production and at the discretion of the broadcaster which can often delay the recognition of the property’s associated revenue. Readers should be cautioned that such adjustments can be material in nature given that the Company is not able to record any revenue until the property is delivered. In addition, the adoption of IFRS 15 (as noted above) has caused the Company to adjust its anticipated revenue recognition dates.

The Company has certain properties currently in production which have been sold to buyers under binding purchase agreements. Deferred revenue totaling \$9.6 million as at August 31, 2019, represents funding advances received on these properties. Below is an estimate of the ultimate gross revenue and the expected period of recognition for these properties:

<b>Contracted Future Production Revenues</b>	<b>\$ Millions</b>
Deferred revenue as at August 31, 2019	\$ 9.6
Contracted future revenue	15.6
Total expected revenue - contracted	<u>\$ 25.2</u>
Revenues expected within 6 months	\$ 14.3
Revenues expected within 7 to 12 months	\$ 10.9

As stated above, under IFRS 15 the Company is not able to recognize revenue until all of the above-mentioned conditions have been met. As at October 28, 2019, Network has contracts for \$25.2 million that have yet to be recorded as revenue, but are expected to be received and recognized as revenue within the periods noted above.

Readers are also cautioned that previous disclosures in this section were overstated due to a formula error in calculating the foreign exchange adjustment of US currency based contracts. The above table has been adjusted to reflect accurate expected currency conversions at the estimated rate noted below.

*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 properties 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 1.30 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, 2019, and can be found at [www.sedar.com](http://www.sedar.com).

	As at August 31, 2019	As at November 30, 2018
<b>Consolidated Summary of Financial Position</b>		
Cash and cash equivalents	\$ 970,093	\$ 3,597,623
Current assets	5,271,429	7,411,492
Investment in film and television	13,709,592	9,095,904
Total assets	21,057,653	18,270,161
Current liabilities	16,650,543	14,800,767
Total liabilities	16,741,126	14,930,540
Shareholders' equity	4,316,527	3,339,621
Working capital deficiency	\$ (11,379,114)	\$ (7,389,275)
Adjusted working capital (deficiency) - see page 14	\$ (1,743,520)	\$ 2,306,651

	Three months ended		Nine months ended	
	August 31, 2019	August 31, 2018	August 31, 2019	August 31, 2018
<b>Revenue</b>	\$ 787,694	\$ 889,221	\$ 6,411,133	\$ 1,824,744
<b>Expenses</b>				
Production costs	61,813	7,174	1,131,910	80,602
Amortization of film and television properties	640,085	424,904	2,499,869	787,504
Amortization of property and equipment	45,625	49,964	125,158	95,891
General and administrative	217,895	125,831	648,565	348,699
Impairment of investment in film and television	17,348	-	58,151	27,978
Selling and distribution	2,349	22,294	41,760	119,699
Share-based compensation	39,207	188,922	139,644	455,437
Foreign exchange loss (gain)	55,636	9,955	156,786	(61,107)
Forgiveness of debt and reversal of accounts payable	(5,425)	(940)	(9,959)	(9,402)
	1,074,533	828,104	4,791,884	1,845,301
<b>Income (losses) before other items</b>	(286,839)	61,117	1,619,249	(20,557)
Financing expense, net	37,514	19,325	74,545	56,139
Loss on disposal of property and equipment	-	-	733	-
<b>Income (loss) and comprehensive income (loss) for the period</b>	\$ (324,353)	\$ 41,792	\$ 1,543,971	(76,696)
<b>Income (loss) per share</b>				
- basic	\$ (0.00)	\$ -	\$ 0.02	\$ -
- diluted	\$ (0.00)	\$ -	\$ 0.02	\$ -
<b>Weighted average number of shares outstanding</b>				
- basic	72,920,371	72,670,371	72,843,327	71,714,641
- diluted	75,352,663	72,670,371	80,004,889	71,714,641
<b>Adjusted EBITDA</b>	\$ (56,390)	\$ 383,945	\$ 2,322,469	\$ 713,021
<b>Adjusted EBITDA per share</b>	\$ (0.00)	\$ 0.01	\$ 0.03	\$ 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 and Adjusted EBITDA. The Company believes these supplemental financial measures reflect the Company's on-going business in a manner that assist the reader's meaningful period-to-period comparisons and analysis of trends in its business.

"Adjusted EBITDA" is calculated based on EBITDA (known as earnings/loss before interest, taxes, depreciation and amortization) plus share-based compensation expense, finance costs (income), foreign exchange gain/loss and losses and other items of an unusual nature that do not reflect ongoing operations. In addition, the Company adjusts for amortization of those film properties which are older than three years as amortization is being recorded on a straight-line basis and is treated as an add-back similar to Amortization of property and equipment when calculating Adjusted EBITDA. EBITDA and Adjusted EBITDA are commonly reported and widely used by investors and lenders as an indicator of a company's operating performance and ability to incur and service debt, and as a valuation metric. EBITDA and Adjusted EBITDA are not an earnings measure recognized by IFRS and therefore do not have a standardized meaning prescribed by IFRS. Therefore, EBITDA and Adjusted EBITDA may not be comparable to similar measures presented by other issuers.

Below is a table detailing the adjustments to earnings made by the Company to calculate Adjusted EBITDA:

	Three months ended August 31, 2019	Three months ended August 31, 2018	Nine months ended August 31, 2019	Nine months ended August 31, 2018
<b>Income (loss) for the period</b>	<b>\$ (324,353)</b>	<b>\$ 41,792</b>	<b>\$ 1,543,971</b>	<b>\$ (76,696)</b>
<u>Adjustments</u>				
Amortization of property and equipment	45,625	49,964	125,158	95,891
Impairment of investment in film and television	17,348	-	58,151	27,978
Financing expense, net	37,514	19,325	74,545	56,139
Share-based compensation	39,207	188,922	139,644	455,437
Foreign exchange	55,636	9,955	156,786	(61,107)
Forgiveness of debt and reversal of accounts payable	(5,425)	(940)	(9,959)	(9,402)
Amortization of film properties recorded on a straight-line basis	78,058	74,927	234,173	224,781
<b>Adjusted EBITDA</b>	<b>\$ (56,390)</b>	<b>\$ 383,945</b>	<b>\$ 2,322,469</b>	<b>\$ 713,021</b>
<b>Adjusted EBITDA per share</b>	<b>\$ (0.00)</b>	<b>\$ 0.01</b>	<b>\$ 0.03</b>	<b>\$ 0.01</b>

## Overall Financial Position – Third Quarter Fiscal 2019

Income (loss) before other items decreased by \$347,956 to a loss of \$286,839 for the three months ended August 31, 2019, as compared to income of \$61,117 in Q3 2018. Further analysis is provided in the discussion of segmented results below.

Total assets increased \$2,787,492 due to an increase of investment in film and television properties and tax credits receivable from November 30, 2018 to August 31, 2019.

The \$1,810,586 increase in total liabilities was mainly due to the increase in interim production financing.

A more detailed analysis of the other components of earnings from operations is provided below under the title *Results of Operations – Quarter ended August 31, 2019 compared to the quarter ended August 31, 2018*.

## Results of Operations

### *Three months ended August 31, 2019 compared to the three months ended August 31, 2018*

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

#### **Revenue**

Revenue decreased by \$101,527 from \$889,221 in 2018 to \$787,694 in 2019. The decrease was primarily due to the decrease of distribution revenue for the quarter.

The detailed breakdown of revenues is as follows:

	Three months ended August 31, 2019	Three months ended August 31, 2018
Production revenue	\$ 787,694	\$ 807,053
Distribution revenue	-	82,168
	<b>\$ 787,694</b>	<b>\$ 889,221</b>

Of the Company's \$787,694 (2018 – \$889,221) in revenues for the three months ended August 31, 2019, \$61,371 (2018 – \$107,341) was attributable to external customers located in Canada, \$599,443 (2018 – \$539,739) was attributable to external customers located in the U.S., and \$126,880 (2018 – \$242,111) was attributable to external customers located in the U.K.

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

***Production costs***

Production costs increased \$54,639 from \$7,174 in 2018 to \$61,813 in 2019 and was attributed to the wrap up costs of the work for hire documentary completed in the previous quarter.

***Amortization of film and television properties***

Amortization of film and television properties increased \$215,181 from \$424,904 in 2018 to \$640,085 in 2019. The increase is associated with the increased library of properties being amortized and the completion of the *I Am Patrick Swayze* feature documentary during the quarter.

Please refer to the accounting policies in Note 3 of the audited consolidated financial statements for the years ended November 30, 2018 for information on how the amortization of the properties is calculated.

***Amortization of property and equipment***

Amortization of property and equipment decreased by \$4,339 from \$49,964 in 2018 to \$45,625 in 2019 and is due to the Company's reduced carrying cost of its investment in its infrastructure and editing capabilities.

***General and administrative expenses***

General and administrative expenses increased by \$92,064 from \$125,831 in 2018 to \$217,895 in 2019. The increase in expenses is primarily due to increases in interest and bank charges, office and general, salaries and wages and travel which is indicative of the ramp up of production activities for the quarter.

A detailed breakdown of the expenses is as follows:

	<b>Three months ended August 31, 2019</b>	Three months ended August 31, 2018
Interest and bank charges	\$ 6,055	\$ 929
Office and general	56,391	12,663
Insurance	5,926	4,793
Professional fees	-	71,349
Salaries and wages	121,486	15,743
Transfer agent and filing fees	5,858	3,521
Travel	22,179	16,833
	<b>\$ 217,895</b>	<b>\$ 125,831</b>

### ***Impairment of investment in film and television properties***

Network recorded impairment of development properties of \$17,348 in 2019 compared to \$nil in 2018.

The impairment in 2019 was 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 period end, 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 by \$19,945 from \$22,294 in 2018 to \$2,349 in 2019. The decrease is due to the fact that the Company was able to promote the release of *I Am Patrick Swayze* in a cost effect manner and with the participation of its broadcast partners.

### ***Share-based compensation***

Share-based compensation decreased \$149,715 from \$188,922 in 2018 to \$39,207 in 2019. The decrease is due to the amount of options outstanding during the period and vesting of options previously issued as calculated using the Black-Scholes model.

### ***Foreign exchange loss***

Foreign exchange losses increased by \$45,681 resulting in a loss of \$55,636 in 2019 as compared to losses of \$9,955 in 2018. The change is due to the fluctuation of the Canadian dollar against the US dollar throughout the fiscal quarter.

### ***Financing expense, net***

Total net financing expense increased \$18,189 from \$19,325 in 2018 to \$37,514 in 2019. This increase was due to an increase of interim production loans for completed project which are waiting on the receipt of tax credits to extinguish the respective loans.

### ***Income (Loss) for the quarter***

Loss for the three months ended August 31, 2019 was \$324,353 (\$0.00 per share) as compared to income of \$41,792 (\$0.00 per share) for 2018.

## ***Nine months ended August 31, 2019 compared to the nine months ended August 31, 2018***

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

### ***Revenue***

Revenue increased by \$4,586,389 from \$1,824,744 in 2018 to \$6,411,133 in 2019. The increase was primarily due to the Company completing production of a work-for-hire special, the delivery of a four-part documentary series, and a feature documentary during the nine month period. In the previous year, the Company had the releases of two feature documentaries and a work for hire project recorded.

The detailed breakdown of revenues is as follows:

	<b>Nine months ended August 31, 2019</b>	Nine months ended August 31, 2018
Production revenue	\$ 6,239,425	\$ 1,627,991
Distribution revenue	171,708	176,623
Other revenue	-	20,130
	<b>\$ 6,411,133</b>	<b>\$ 1,824,744</b>

Of the Company's \$6,411,133 (2018 – \$1,824,744) in revenues for the nine months ended August 31, 2019, \$154,970 (2018 – \$280,934) was attributable to external customers located in Canada, \$5,516,436 (2018 – \$1,119,713) was attributable to external customers located in the U.S., and \$739,727 (2018 – \$414,097) was attributable to external customers located in the U.K.

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

### ***Production costs***

Production costs increased \$1,051,308 from \$80,602 in 2018 to \$1,136,392 in 2019 due to the additional volume of work for hire contracts in the studio during the year over the previous year.

### ***Amortization of film and television properties***

Amortization of film and television properties increased \$1,712,365 from \$787,504 in 2018 to \$2,499,869 in 2019. The increase is associated with the increased library of properties being amortized and the proprietary projects released for the year to date.

Please refer to the accounting policies in Note 3 of the audited consolidated financial statements for the years ended November 30, 2018 for information on how the amortization of the properties is calculated.

### ***Amortization of property and equipment***

Amortization of property and equipment increased by \$29,267 from \$95,891 in 2018 to \$125,158 in 2019 due to the Company's additional investment in its infrastructure and editing capabilities during the last couple of years.

### ***General and administrative expenses***

General and administrative expenses increased by \$299,866 from \$348,699 in 2018 to \$648,565 in 2019. The increase in expenses is primarily due to increases in interest and bank charges, office and general, insurance, salaries and wages and travel recorded by the Company indicative to the higher levels of production throughout the year.

A detailed breakdown of the expenses is as follows:

	<b>Nine months ended August 31, 2019</b>	Nine months ended August 31, 2018
Interest and bank charges	<b>\$ 23,178</b>	\$ 8,268
Office and general	<b>155,076</b>	60,376
Insurance	<b>26,758</b>	12,692
Professional fees	<b>140,682</b>	166,422
Salaries and wages	<b>206,948</b>	36,186
Transfer agent and filing fees	<b>32,652</b>	36,595
Travel	<b>63,271</b>	26,979
	<b>\$ 648,565</b>	\$ 348,699

### ***Impairment of investment in film and television properties***

Network recorded impairment of development properties of \$58,151 in 2019 compared to \$27,978 in 2018.

The impairment in 2019 was 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 period end, 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 by \$77,939 from \$119,699 in 2018 to \$41,760 in 2019. The decrease is due to the fact that the Company has been able to promote its productions in a more cost effective manner than in prior years.

### ***Share-based compensation***

Share-based compensation decreased \$315,793 from \$455,437 in 2018 to \$139,644 in 2019. The decrease is due to the amount of options outstanding during the period and vesting of options previously issued as calculated using the Black-Scholes model.

### ***Foreign exchange loss***

Foreign exchange losses increased by \$217,893 resulting in a loss of \$156,786 in 2019 as opposed to a gain of \$61,107 in 2018. The change is due to the fluctuation of the Canadian dollar against the US dollar throughout the fiscal period.

### ***Financing expense, net***

Total net financing expense increased \$18,406 from \$56,139 in 2018 to \$74,545 in 2019. This increase was due to an increase of interim production loans for completed project which are waiting on the receipt of tax credits to extinguish the respective loans.

### ***Income for the quarter***

Income for the nine months ended August 31, 2019 was \$1,543,971 (\$0.02 per share) as compared to a loss of \$76,696 (\$0.00 per share) in 2018.

## **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 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Total revenue	\$ 788	\$ 4,637	\$ 986	\$ 860	\$ 889	\$ 778	\$ 158	\$ 1,010
Income (loss) and comprehensive income (loss)	(324)	1,702	166	(389)	42	205	(323)	(484)
Income (loss) per share - basic and diluted	\$ -	\$ 0.02	\$ -	\$ (0.01)	\$ -	\$ -	\$ -	\$ (0.01)
Income (loss) per share - diluted	\$ -	\$ 0.02	\$ -	\$ (0.01)	\$ -	\$ -	\$ -	\$ (0.01)

The quarterly information is unaudited, but reflects all adjustments of a normal, recurring nature, which are, in our opinion, 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 and expected 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 properties.

Overall, the Company's cash and cash equivalents position decreased by \$2,627,530 as at August 31, 2019 when compared to November 30, 2018 balances. This decrease primarily reflected the Company's continued investment of its properties in production.

Cash provided by operating activities in Q3 2019, was \$5,376,925, compared to \$9,555,639 in Q3 2018. This decrease of \$4,178,714 is the result of less advances received on properties in production, as well as the receipt of tax credits during the period.

Financing activities for Q3 2019 resulted in cash provided of \$1,746,072 compared to that of \$1,284,277 in Q3 2018. In the current year, the Company repaid \$910,233 of interim production financing on older projects, but also received \$2,548,000 of interim production financing on new projects. 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 tax credits.

Cash required by investing activities in Q3 2019 was \$9,750,527, compared to that of \$6,194,749 in Q3 2018. The Company used the cash primarily for its continued development and production of its film and television properties, as well as an investment into additional equipment for the studio.

### *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.

As at August 31, 2019, Network had a working capital deficit of \$11,383,596 compared to a deficit of \$7,389,275 at November 30, 2018. 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's working capital would be as follows:

	<b>August 31, 2019</b>	November 30, 2018
Current assets	\$ 5,271,429	\$ 7,411,492
Current liabilities	<b>(16,650,543)</b>	(14,800,767)
<b>Working capital deficiency</b>	<b>\$(11,379,114)</b>	\$(7,389,275)
Deferred revenue adjustment	<b>9,635,594</b>	9,695,926
<b>Adjusted working capital (deficiency)</b>	<b>\$ (1,743,520)</b>	\$ 2,306,651

Network believes that through operations, the Company's ability to negotiate short-term debt instruments, stock issuances and interim production financing of its proprietary properties, 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:

	<b>August 31, 2019</b>	November 30, 2018
Line of credit	\$ 225,000	\$ 140,000
Financing lease obligations	<b>171,933</b>	166,128
Net surplus	<b>396,933</b>	306,128
Total shareholders' equity	<b>4,316,527</b>	3,339,621
	<b>\$ 4,713,460</b>	\$ 3,645,749

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 properties, 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 of operations with related parties and entities over which the related parties' exercise 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 quarter ended August 31, 2019, the Company:

- paid or accrued salaries and wages to key management personnel in the following manner:
  - Recorded as general and administrative expenses - \$26,729 (2018 – \$nil);
  - Recorded as investment in film and television properties - \$456,758 (2018 – \$345,600);
  - Recorded as direct production costs - \$30,450 (2018 – \$nil)
  - These costs were paid to the following related parties:
    - \$26,729 (2018 – \$nil) for salaries and wage to the current Chairman of the Board of Directors;
    - \$181,250 (2018 – \$131,250) as salaries and wages to the CEO;
    - \$164,583 (2018 – \$131,250) as salaries and wages to the COO;
    - \$123,375 (2018 – \$83,100) as salaries and wages to the CFO and for services of staff of a company controlled by the CFO, and;
    - \$18,000 (2018 – \$nil) as salaries and wages to an other related party.
- recorded share-based compensation of \$58,476 (2018 – \$126,942) on options that vested during the period, as follows:
  - \$23,906 to three Directors;
  - \$6,732 to the current Chairman of the Board of Directors;
  - \$15,277 to the CEO;
  - \$7,792 to the COO, and;
  - \$4,769 to the CFO.

At August 31, 2019, the Company owed \$29,350 (2018 – \$nil) to related parties of the Company. Amounts due to related parties are unsecured, non-interest bearing and due on demand. The Company owed \$23,350 as a payable to a company controlled by the CFO and \$6,000 to an other related party.

## Contractual obligations

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

- \$270,372 in the fiscal year ended November 30, 2019
- \$279,958 in the fiscal year ended November 30, 2020
- \$111,916 in the fiscal year ended November 30, 2021

The Company leased certain operating equipment under two finance 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 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 \$143,981 including imputed interest of \$8,120.

## 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. The Company does anticipate significant expenditures on property and equipment in the upcoming year.

## Share Issuances

During the nine months ended August 31, 2019, the Company issued 250,000 common shares on the exercise of stock options for proceeds of \$17,500 when the Company's stock price was \$0.14.

## 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. Subsequent to August 31, 2019, the shareholders of the Company increased the authorized the maximum number of options to 14,500,000.

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
Year ended 2018	4,300,000	\$ 0.16	\$ 0.14	133%	2.11%	\$ 0.12	5.0
Year ended 2019	1,710,000	\$ 0.13	\$ 0.15	109%	1.46%	\$ 0.15	5.0

For the three and nine months ended May 31, 2019, the Company recognized compensation expense in relation to these options of \$39,207 and \$139,644 (2018 – \$188,922 and \$455,437), which is included in profit or loss.

## Escrow shares

As at August 31, 2019, 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 properties 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 correlated with revenue recognition. During the initial license of broadcast rights by the Company, the Company is reliant on the broadcaster's budget and financing cycles as well as delivery schedules. If the license period gets delayed and commences at a later date than originally predicted, the periods in which revenues are recorded may be affected. Readers of the Financial Statements and this MD&A are therefore cautioned about extrapolating the results for quarterly or annual periods in the financial year ended November 30, 2019, into quarterly or annual expectations in future years.

## Accounting Standards Changes

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for the Company's annual periods beginning on or after December 1, 2018 or later periods. The following are new standards, amendments and interpretations that have not been early adopted in the consolidated financial statements:

- (i) *IFRS 9 Financial Instruments*: IFRS 9 replaces IAS 39 and simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial assets. This standard is effective for annual periods beginning on or after January 1, 2018.

IFRS 9 also introduces an expected credit loss impairment model to replace the incurred loss model under IAS 39 and is generally expected to result in earlier recognition of credit losses. The Company has assessed the new requirement and concluded the effect of the change was immaterial, as the Company has historically had very limited actual incurred losses on receivables and expects future losses to remain minimal.

- (ii) *IFRIC 22, Foreign Currency Transactions and Advance Consideration* (effective for annual periods beginning on or after January 1, 2018). Effective December 1, 2018, the Company adopted IFRIC 22. The IASB issued IFRIC 22 to clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation establishes that the exchange rate to use on the initial recognition of the transaction is the exchange rate for the date on which an entity initially recognized the non-monetary asset or liability arising from the payment or receipt of advance consideration.

The Company has elected to apply IFRIC 22 on a prospective basis beginning December 1, 2018. The adoption of this standard did not have a material impact on the Company's condensed interim consolidated financial statements

- (iii) *IFRS 15 Revenue recognition*: The IASB issued IFRS 15, *Revenue from Contracts with Customers* in May 2014. The new standard provides a comprehensive five-step revenue recognition model for all contracts with customers and requires management to exercise significant judgment and make estimates that affect revenue recognition. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

Under IFRS 15, the Company has determined that revenue from the licensing of film and television programs should be recognized at the later of the start date of the license term and the satisfaction of the contractual delivery terms. Currently, licensing revenue is recognized at an earlier date when certain conditions are met.

The Company adopted IFRS 15 using the modified retrospective method on the date of transition (December 1, 2018). On this date, the cumulative effect of initially applying the guidance was recognized and the financial information previously presented for the year ended November 30, 2018 has remained unchanged.

The cumulative effect of the changes made to the consolidated December 1, 2018 balance sheet for the adoption of IFRS 15 are as follows:

	Balance at November 30, 2018	Adjustments due to IFRS 15	Balance at December 1, 2018
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	\$ 3,597,623	\$ -	\$ 3,597,623
Accounts receivable	1,310,656	(128,897)	1,181,759
Tax credits receivable	2,435,503	-	2,435,503
Prepaid expenses and deposits	67,710	-	67,710
	7,411,492	(128,897)	7,282,595
<b>Tax credits receivable</b>	1,284,641	-	1,284,641
<b>Property and equipment</b>	478,124	-	478,124
<b>Investment in film and television properties</b>	9,095,904	-	9,095,904
	<b>\$ 18,270,161</b>	<b>\$ (128,897)</b>	<b>\$ 18,141,264</b>

#### SHAREHOLDERS' EQUITY AND LIABILITIES

<b>Current</b>			
Line of credit	\$ 140,000	\$ -	\$ 140,000
Accounts payable and accrued liabilities	2,093,834	-	2,093,834
Interim production financing	2,734,652	-	2,734,652
Deferred revenue	9,695,926	595,312	10,291,238
Current portion of settlement on claim	75,000	-	75,000
Current portion of financing lease obligations	61,355	-	61,355
	14,800,767	595,312	15,396,079
<b>Financing lease obligations</b>	104,773	-	104,773
<b>Settlement on claim</b>	25,000	-	25,000
	14,930,540	595,312	15,525,852
<b>Share capital</b>	10,244,996	-	10,244,996
<b>Contributed surplus</b>	622,939	-	622,939
<b>Deficit</b>	(7,528,314)	(724,209)	(8,252,523)
<b>Shareholders' equity</b>	3,339,621	(724,209)	2,615,412
	<b>\$ 18,270,161</b>	<b>\$ (128,897)</b>	<b>\$ 18,141,264</b>

#### For the period ended August 31, 2019

	As Reported	Balances without Adoption of IFRS 15	Effect of Change
<b>Total revenue</b>	\$ 6,411,133	\$ 5,686,924	\$ 724,209
Production costs	1,131,910	1,131,910	-
Amortization of film and television properties	2,499,869	2,499,869	-
Amortization of property and equipment	125,158	125,158	-
General and administrative	648,565	648,565	-
Impairment of investment in film and television properties	58,151	58,151	-
Selling and distribution	41,760	41,760	-
Share-based compensation	139,644	139,644	-
Foreign exchange loss	156,786	156,786	-
Forgiveness of debt and reversal of accounts payable	(9,959)	(9,959)	-
	4,791,884	4,791,884	-
<b>Income before other items</b>	1,619,249	895,040	724,209
Financing expense, net	74,545	74,545	-
Loss on disposal property and equipment	733	733	-
<b>Income and comprehensive income for the period</b>	\$ 1,543,971	\$ 819,762	\$ 724,209

- (iv) IFRS 16 *Leases*: IFRS 16 replaces IAS 17 and requires lessees to account for leases on the statement of financial position by recognizing a right to use asset and lease liability. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted.

The Company has not yet finalized its review of the potential impact on the consolidated financial statements of adopting IFRS 16.

## 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.

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, \$46,902 (2018 – \$221,122), \$11,575 (2018 – \$25,461) and \$32,197 (2018 – \$20,241).

A five percent fluctuation in the US dollar closing rate at May 31, 2019 would result in a net change to profit or loss of \$26,280 (2018 – \$226,342).

(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, 2019, there are \$275,647 of accounts receivable past due, over 30 days, but not considered impaired (2018 – \$503,052).

(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 by \$42,873 during the nine months ended August 31, 2019 (2018 – \$21,598).

(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 28, 2019, the Company had 72,905,371 common shares issued and outstanding, and has 9,947,920 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](http://www.sedar.com).