

Management's Discussion and Analysis of

NETWORK MEDIA GROUP INC.

For the three months ended February 28, 2019

N E T W O R K

www.networkentertainment.ca

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion & Analysis ("MD&A") prepared as of April 25, 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 months ended February 28, 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.

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 three months ended February 28, 2019, the Company green lit an additional production, is in negotiations with various broadcasters for additional multi-episode series contracts and continued production on:

- an 8 episode documentary series on artificial intelligence to be streamed on *YouTube Original* and co-produced with Robert Downey Jr.;
- an episode for *A&E's Biography Series* featuring *Chris Farley*, and;
- 2 *I Am* documentaries featuring *Patrick Swayze* and *Jackie Onassis*.

At the end of the first quarter, the Company was substantially completed the 4 part documentary series on the punk movement's impact on music and culture to be aired on *EPIX* and produced in conjunction with John Varvatos and Iggy Pop. The series was delivered and aired on March 11, 2019 to critical acclaim. The revenues for the project will be recorded in the second quarter of fiscal 2019.

For the three months ended February 28, 2019, the Company realized the following:

- Revenues of \$986,248 (2018 – \$158,904)
- Net income of \$166,010 (2018 – net loss of \$323,488)
- Adjusted EBITDA of \$427,539 (2018 – loss of \$60,035)
- Income per share of \$0.00 (2018 – loss of \$0.00)
- Adjusted EBITDA per share of \$0.01 (2018 – loss of \$0.00)
- The above results include an adjustment to revenue for \$609,688 with the adoption of IFRS 15 (see Note 3(iii) of the condensed interim consolidated financial statements)

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.

During three months ended February 28, 2019, the Company continued production on two multi episode series. The first is 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 Original* in 2019 and represents the largest production budget in the Company's history.

The second show is a four part docu-series entitled *Punk*, which explores the music, fashion, art and the “DIY” attitude of a subculture of self-described misfits and outcasts. The series is produced in conjunction with John Varvatos (see below) and Iggy Pop, and premiered on *EPIX* in the U.S on March 11, 2019. Iggy Pop joins the *Punk* series as an executive producer, and adds his voice alongside exclusive interviews with America’s punk pioneers and the U.K.’s most notorious bands, including musical luminaries *Johnny Rotten*, *Marky Ramone*, *Debbie Harry*, *Duff McKagan* and *Dave Grohl*.

In addition, Network was in production on two *I Am* documentaries (*Patrick Swayze* and *Jackie Onassis*) throughout the quarter, each slated for airing in the third and fourth quarter of fiscal 2019. As well, the Company was in production and will be completing in the second quarter of fiscal 2019 a documentary commissioned by *A&E* for its *Biography* series depicting the life of *Chris Farley*. The show is scheduled to air May 27, 2019 on the *A&E Network*.

Network also received some additional creative accolades by being named to the 2019 *Realscreen* Global 100 list, an annual compilation of the best global production companies working in the non-fiction and unscripted visual content industry. Qualifying companies for *Realscreen* Global 100 are determined by network executives and production peers in addition to broadcasters, agents and distributors who are polled and provide feedback on companies they consider trusted partners and whose work they admire. *Realscreen* had also awarded Network for its work on *I Am Heath Ledger* and its *Facing* series with *National Geographic*.

Financing

During the three months ended February 28, 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 period, the Company received \$805,820 of contract advances (deferred revenue) and \$225,000 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 three months ended February 28, 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 February 28, 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 \$11.1 million as at February 28, 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:

Contracted Future Production Revenues	\$ Millions
Deferred revenue as at February 28, 2019	\$ 11.1
Contracted future revenue	8.4
Total expected revenue - contracted	<u>\$ 19.5</u>
Revenues expected within 6 months	\$ 5.0
Revenues expected within 7 to 12 months	\$ 14.5

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 April 25, 2019, Network has contracts for \$19.5 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 February 28, 2019, and can be found at www.sedar.com.

	As at February 28, 2019	As at November 30, 2018
Consolidated Summary of Financial Position		
Cash and cash equivalents	\$ 2,435,644	\$ 3,597,623
Current assets	5,016,942	7,411,492
Investment in film and television	10,703,114	9,095,904
Total assets	18,286,782	18,270,161
Current liabilities	15,318,342	14,800,767
Total liabilities	15,432,257	14,930,540
Shareholders' equity	2,854,525	3,339,621
Working capital deficiency	\$ (10,301,400)	\$ (7,389,275)
	Three months ended February 28, 2019	February 28, 2018
Revenue	\$ 986,248	\$ 158,904
Expenses		
Direct production costs	242,525	65,862
Amortization of film and television properties	156,220	129,561
Amortization of property and equipment	39,035	20,441
General and administrative	187,573	122,909
Selling and distribution	37,780	30,168
Share-based compensation	55,603	85,870
Foreign exchange loss	79,935	9,951
Forgiveness of debt and reversal of accounts payable	(206)	(8,462)
	798,465	456,300
Earnings (losses) before other items	187,783	(297,396)
Financing expense, net	21,040	26,092
Loss on disposal of property and equipment	733	-
Income (loss) and comprehensive income (loss) for the period	\$ 166,010	\$ (323,488)
Income (loss) per share		
- basic and diluted	\$ 0.00	\$ (0.00)
Weighted average number of shares outstanding		
- basic and diluted	72,920,371	69,747,704
Adjusted EBITDA	\$ 427,539	\$ (60,035)
Adjusted EBITDA per share	\$ 0.01	\$ (0.00)

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 February 28, 2019	Three months ended February 28, 2018
Earnings (loss) for the period	\$ 166,010	\$ (323,488)
<u>Adjustments</u>		
Amortization of property and equipment	39,035	20,441
Financing expense, net	21,040	26,092
Share-based compensation	55,603	85,870
Foreign exchange	79,935	9,951
Forgiveness of debt and reversal of accounts payable	(206)	(8,462)
Amortization of film properties recorded on a straight-line basis	66,122	129,561
Adjusted EBITDA	\$ 427,539	\$ (60,035)
Adjusted EBITDA per share	\$ 0.01	\$ (0.00)

Overall Financial Position – First Quarter Fiscal 2019

Income before financing expense increased by \$485,179 to income of \$187,783 for the three months ended February 28, 2019, as compared to a loss of \$297,396 in Q1 2018. Further analysis is provided in the discussion of segmented results below.

Total assets for the Company remained relatively consistent from November 30, 2018 to February 28, 2019 with a marginal increase of \$16,621.

The \$501,717 increase in total liabilities was mainly due to the increase in deferred revenues which represents the contracted future revenue and financing received for the productions in progress. This was offset with a decrease of accounts payable and accrued liabilities.

A more detailed analysis of the other components of earnings from operations is provided below under the title *Results of Operations – Quarter ended February 28, 2019 compared to the quarter ended February 28, 2018*.

Results of Operations

Quarter ended February 28, 2019 compared to the quarter ended February 28, 2018

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

Revenue

Revenue increased by \$827,344 from \$158,904 in 2018 to \$986,248 in 2019. The increase was primarily due to the Company being in production of a work-for-hire special with *A&E* and the recognition of one I Am property.

The detailed breakdown of revenues is as follows:

	Three months ended February 28, 2019	Three months ended February 28, 2018
Contract production services revenue	\$ 294,495	\$ 100,000
Production revenue	609,688	-
Distribution revenue	82,065	52,994
Other revenue	-	5,910
	<u>\$ 986,248</u>	<u>\$ 158,904</u>

Contract production services revenue's increase is due to the Company service work for *A&E's Chris Farley* biography, where in 2018 the slate of properties is based with the only service work being *Stanley's Game Seven* for the *Hockey Hall of Fame*.

Production revenues increase is due to recording *I Am Richard Pryor* revenues in the first quarter of 2019 with the adoption of IFRS 15 *Revenues with Contracts with Customers*. In 2018 there were no deliveries of proprietary projects.

Distribution revenue grew which is due to the addition of titles to the library during the prior year.

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 \$176,663 from \$65,862 in 2018 to \$242,525 in 2019. These costs were attributed to the service work contract with *A&E's Chris Farley* biography. In the prior year, the costs were in relation to the service work for *Stanley's Game Seven* for the *Hockey Hall of Fame* which had a much smaller budget.

Amortization of film and television properties

Amortization of film and television properties increased \$26,659 from \$129,561 in 2018 to \$156,220 in 2019. The increase is associated with the increased library of properties being amortized.

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 \$18,594 to \$39,035 in 2019 as compared to \$20,441 in 2018 due to the Company's investment in its infrastructure and editing capabilities during the last couple of years.

General and administrative expenses

General and administrative expenses increased by \$64,664 from \$122,909 in 2018 to \$187,573 in 2019. The increase in expenses is primarily due to increases in office and general, professional fees, wages and travel recorded by the Company.

A detailed breakdown of the expenses is as follows:

	February 28, 2019	February 28, 2018
Interest and bank charges	\$ 3,241	\$ 2,922
Office and general	36,991	18,855
Insurance	5,469	3,904
Professional fees	75,515	59,193
Salaries and wages	42,725	14,581
Transfer agent and filing fees	11,650	19,506
Travel	11,982	2,767
	\$ 187,573	\$ 122,909

Selling and distribution expenses

Selling and distribution expenses increased by \$7,612 from \$30,168 in 2018 to \$37,780 in 2019. The increase is due to royalties payable to stakeholders associated with increased distribution revenues received on the Company's library of properties.

Share-based compensation

Share-based compensation decreased \$30,267 from \$85,870 in 2018 to \$55,603 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 \$69,984 resulting in a loss of \$79,935 in 2019 as opposed to a loss of \$9,951 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 decreased \$5,052 from \$26,092 in 2018 to \$21,040 in 2019. This decrease was due to repayment of interim production loans associated with properties that have been released in prior periods.

Income (Loss) for the quarter

Income for the three months ended February 28, 2019 was \$166,010 (\$0.00 per share) as compared to a loss of \$323,488 (\$0.00 per share) for 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							
	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Total revenue	\$ 986	\$ 860	\$ 889	\$ 778	\$ 158	\$ 1,010	\$ 150	\$ 2,248
Income (loss) and comprehensive income (loss)	166	(389)	42	205	(323)	(484)	(308)	387
Income (loss) per share - basic and diluted	\$ -	\$ (0.01)	\$ -	\$ -	\$ -	\$ (0.01)	\$ (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 \$1,161,979 as at February 28, 2019. This decrease primarily reflected the Company's continued investment of its properties in production.

Cash provided by operating activities in Q1 2019, was \$2,315,878, compared to \$435,028 in Q1 2018. This increase of \$1,880,850 is the result of advances received on properties in production, as well as the receipt of tax credits during the period.

Financing activities for Q1 2019 resulted in cash used of \$527,185 compared to cash provided of \$960,369 in Q1 2018. In the current year, the Company repaid \$744,653 of interim production financing, but also received \$225,000 of interim production financing. 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 Q1 2019 was \$2,950,672, compared to requiring cash of \$1,119,430 in Q1 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 February 28, 2019, Network had a working capital deficit of \$10,301,400 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:

	February 28, 2019	November 30, 2018
Current assets	\$ 5,016,942	\$ 7,411,492
Current liabilities	(15,318,342)	(14,800,767)
Working capital deficiency	\$ (10,301,400)	\$ (7,389,275)
Deferred revenue adjustment	11,097,058	9,695,926
Adjusted working capital	\$ 795,658	\$ 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:

	February 28, 2019	November 30, 2018
Line of credit	\$ 130,000	\$ 140,000
Financing lease obligations	151,096	166,128
Net surplus	281,096	306,128
Total shareholders' equity	2,854,525	3,339,621
	\$ 3,135,621	\$ 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 the three months ended February 28, 2019, the Company:

- paid or accrued wages to key management personnel in the following manner:
 - Recorded as general and administrative expenses - \$13,402 (2018 – \$nil);
 - Recorded as investment in film and television properties - \$147,033 (2018 – \$193,000);
 - These costs were paid to the following related parties:
 - \$13,402 (2018 – \$nil) for salaries and wage to the current Chairman of the Board of Directors;
 - \$56,250 (2018 – \$43,750) as salaries and wages to the CEO;
 - \$52,083 (2018 – \$43,750) as salaries and wages to the COO, and;
 - \$35,700 (2018 – \$27,500) as salaries and wages to the CFO and for services of staff of a company controlled by the CFO.

- recorded share-based compensation of \$23,226 (2018 – \$33,385) on options that vested during the period, as follows:
 - \$9,086 to three Directors and one former Director;
 - \$2,999 to the current Chairman of the Board of Directors;
 - \$5,999 to the CEO;
 - \$3,428 to the COO, and;
 - \$1,714 to the CFO.

At February 28, 2019, the Company owed \$13,650 (2018 – \$20,475) and was due \$nil (2018 – \$10,581) from related parties of the Company. Amounts due to related parties are unsecured, non-interest bearing and due on demand. The Company owed \$13,650 as a payable to a company controlled by the CFO.

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 \$161,174 including imputed interest of \$10,078.

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 three months ended February 28, 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.

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

For the three months ended February 28, 2019, the Company recognized compensation expense in relation to these options of \$55,603 (2018 – \$85,870), which is included in profit or loss.

Escrow shares

As at February 28, 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.

Future Accounting Standard 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.

Future Accounting Standard Changes (continued)

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
ASSETS			
Current			
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
Tax credits receivable	1,284,641	-	1,284,641
Property and equipment	478,124	-	478,124
Investment in film and television properties	9,095,904	-	9,095,904
	\$ 18,270,161	\$ (128,897)	\$ 18,141,264
SHAREHOLDERS' EQUITY AND LIABILITIES			
Current			
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
Financing lease obligations	104,773	-	104,773
Settlement on claim	25,000	-	25,000
	14,930,540	595,312	15,525,852
Share capital	10,244,996	-	10,244,996
Contributed surplus	622,939	-	622,939
Deficit	(7,528,314)	(724,209)	(8,252,523)
Shareholders' equity	3,339,621	(724,209)	2,615,412
	\$ 18,270,161	\$ (128,897)	\$ 18,141,264

Future Accounting Standard Changes (continued)

	For the period ended February 28, 2019		
	As Reported	Balances without Adoption of IFRS 15	Effect of Change
Total revenue	\$ 986,248	\$ 376,560	\$ 609,688
Production costs	242,525	242,525	-
Amortization of film and television properties	156,220	156,220	-
Amortization of property and equipment	39,035	39,035	-
General and administrative	187,573	187,573	-
Selling and distribution	37,780	37,780	-
Share-based compensation	55,603	55,603	-
Foreign exchange loss	79,935	79,935	-
Forgiveness of debt and reversal of accounts payable	(206)	(206)	-
	798,465	798,465	-
Earnings (losses) before other items	187,783	(421,905)	609,688
Financing expense, net	21,040	21,040	-
Loss on disposal property and equipment	733	733	-
Income (loss) and comprehensive income (loss) for the period	\$ 166,010	\$ (443,678)	\$ 609,688

- (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.

A five percent fluctuation in the US dollar rate impacting US dollar revenues during the three months ended February 28, 2019 would result in a \$49,052 (2018 – \$2,477) impact to 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, \$123,281 (2018 – \$3,993), \$47,464 (2018 – \$21,604) and \$18,266 (2018 – \$11,796).

A five percent fluctuation in the US dollar closing rate at February 28, 2019 would result in a net change to profit or loss of \$152,479 (2018 – \$13,801).

(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 February 28, 2019, there are \$182,706 of accounts receivable past due, over 30 days, but not considered impaired (November 30, 2018 – \$283,121).

(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 \$23,505 during the three months ended February 28, 2019 (2018 – \$6,280).

(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 April 25, 2019, the Company had 72,905,371 common shares issued and outstanding, and has 8,237,920 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.