

Condensed Interim Consolidated Financial Statements of

**NETWORK MEDIA GROUP INC.**

For the three months ended February 28, 2019 and 2018

(Unaudited – prepared by management)

**N E T W O R K**

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

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

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

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

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

# NETWORK MEDIA GROUP INC.

## Condensed Interim Consolidated Statements of Financial Position

As at February 28, 2019 and November 30, 2018

Expressed in Canadian dollars (unaudited)

	Note	February 28, 2019	November 30, 2018
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents		\$ 2,435,644	\$ 3,597,623
Accounts receivable	4	1,128,697	1,310,656
Tax credits receivable		1,410,522	2,435,503
Prepaid expenses and deposits		42,079	67,710
		<b>5,016,942</b>	<b>7,411,492</b>
<b>Tax credits receivable</b>		<b>2,068,138</b>	<b>1,284,641</b>
<b>Property and equipment</b>	5	<b>498,588</b>	<b>478,124</b>
<b>Investment in film and television properties</b>	6, 13, 18	<b>10,703,114</b>	<b>9,095,904</b>
		<b>\$ 18,286,782</b>	<b>\$ 18,270,161</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Current</b>			
Line of credit	7	\$ 130,000	\$ 140,000
Accounts payable and accrued liabilities	18	1,708,482	2,093,834
Interim production financing	8	2,245,621	2,734,652
Deferred revenue	9	11,097,058	9,695,926
Current portion of settlement on claim	16	75,000	75,000
Current portion of financing lease obligations	10	62,181	61,355
		<b>15,318,342</b>	<b>14,800,767</b>
<b>Financing lease obligations</b>	10	<b>88,915</b>	<b>104,773</b>
<b>Settlement on claim</b>	16	<b>25,000</b>	<b>25,000</b>
		<b>15,432,257</b>	<b>14,930,540</b>
<b>Share capital</b>	11	<b>10,277,612</b>	<b>10,244,996</b>
<b>Contributed surplus</b>	11(d)	<b>663,426</b>	<b>622,939</b>
<b>Deficit</b>		<b>(8,086,513)</b>	<b>(7,528,314)</b>
<b>Shareholders' equity</b>		<b>2,854,525</b>	<b>3,339,621</b>
		<b>\$ 18,286,782</b>	<b>\$ 18,270,161</b>

Nature of operations (Note 1)

Contingent liabilities (Note 16)

Approved by: the Board of Directors on April 25, 2019

*“Frank Anderson”*

*“Derik Murray”*

Frank Anderson, Director

Derik Murray, Director

See accompanying notes to these condensed interim consolidated financial statements

**NETWORK MEDIA GROUP INC.****Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)****For the three months ended February 28, 2019 and 2018**

Expressed in Canadian dollars (unaudited)

	Note	Three months ended February 28, 2019	February 28, 2018
<b>Total revenue</b>	19	<b>\$ 986,248</b>	<b>\$ 158,904</b>
Production costs	12, 13, 18	242,525	65,862
Amortization of film and television properties	6	156,220	129,561
Amortization of property and equipment	5	39,035	20,441
General and administrative	12, 18, 20	187,573	122,909
Selling and distribution		37,780	30,168
Share-based compensation	11(c), 18	55,603	85,870
Foreign exchange loss		79,935	9,951
Forgiveness of debt and reversal of accounts payable		(206)	(8,462)
		<b>798,465</b>	<b>456,300</b>
<b>Earnings (losses) before other items</b>		<b>187,783</b>	<b>(297,396)</b>
Financing expense, net		21,040	26,092
Loss on disposal of property and equipment	5	733	-
<b>Income (loss) and comprehensive income (loss) for the period</b>		<b>\$ 166,010</b>	<b>\$ (323,488)</b>
<b>Income (loss) per share</b>			
- basic and diluted		<b>\$ 0.00</b>	<b>\$ (0.00)</b>
<b>Weighted average number of shares outstanding</b>			
- basic and diluted		<b>72,716,482</b>	<b>69,747,704</b>

See accompanying notes to these condensed interim consolidated financial statements

## NETWORK MEDIA GROUP INC.

### Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

For the three months ended February 28, 2019 and 2018

Expressed in Canadian dollars (unaudited)

	Note	Number of Common Shares	Issued Capital	Subscriptions received in Advance	Contributed Surplus	Accumulated Deficit	Total
Balance as at November 30, 2017		55,935,370	\$ 7,741,259	\$ 1,612,500	\$ 228,659	\$ (7,140,795)	\$ 2,441,623
Issuance of shares, net of share issue costs		16,650,001	2,485,271	(1,612,500)	-	-	872,771
Exercise of stock options	11(c)	70,000	9,800	-	-	-	9,800
Issuance of stock options	11(c)	-	-	-	85,868	-	85,868
Reclassification of fair value of expired/cancelled stock options	11(c)	-	-	-	(1,600)	1,600	-
Loss and comprehensive loss for the period		-	-	-	-	(323,488)	(323,488)
<b>Balance as at February 28, 2018</b>		<b>72,655,371</b>	<b>\$ 10,236,330</b>	<b>\$ -</b>	<b>\$ 312,927</b>	<b>\$ (7,462,683)</b>	<b>\$ 3,086,574</b>
Balance as at November 30, 2018		72,655,371	10,244,996	-	622,939	(7,528,314)	3,339,621
Adoption of IFRS 15	3(a)(ii)	-	-	-	-	(724,209)	(724,209)
<b>Balance at December 1, 2019</b>		<b>72,655,371</b>	<b>10,244,996</b>	<b>-</b>	<b>622,939</b>	<b>(8,252,523)</b>	<b>2,615,412</b>
Exercise of stock options	11(c)	250,000	32,616	-	(15,116)	-	17,500
Issuance of stock options	11(c)	-	-	-	55,603	-	55,603
Income and comprehensive income for the period		-	-	-	-	166,010	166,010
<b>Balance as at February 28, 2019</b>		<b>72,905,371</b>	<b>\$ 10,277,612</b>	<b>\$ -</b>	<b>\$ 663,426</b>	<b>\$ (8,086,513)</b>	<b>\$ 2,854,525</b>

See accompanying notes to these condensed interim consolidated financial statements

**NETWORK MEDIA GROUP INC.**  
**Condensed Interim Consolidated Statements of Cash Flows**  
**For the three months ended February 28, 2019 and 2018**  
**Expressed in Canadian dollars (unaudited)**

	Three months ended	
	February 28, 2019	February 28, 2018
<b>Operating activities</b>		
Income (loss) for the period	\$ 166,010	\$ (323,488)
Items not involving cash:		
Amortization of property and equipment	39,035	20,441
Amortization of film and television properties	156,220	129,561
Loss on disposal of property and equipment	733	-
Share-based compensation	55,603	85,870
Forgiveness of debt and reversal of accounts payable	(206)	(8,462)
	<b>417,395</b>	<b>(96,078)</b>
Net changes in non-cash working capital items		
Accounts receivable	53,062	61,141
Tax credits receivable	1,009,536	-
Prepaid expenses and deposits	25,631	(3,963)
Accounts payable and accrued liabilities	(26,188)	(4,745)
Accrued interest	30,622	28,105
Deferred revenue	805,820	450,568
<b>Net cash provided by operating activities</b>	<b>2,315,878</b>	<b>435,028</b>
<b>Financing activities</b>		
Issuance of shares for cash	17,500	2,495,071
Subscriptions received in advance	-	(1,612,500)
Interim production financing	225,000	100,000
Line of credit	(10,000)	15,000
Repayment of interim production financing	(744,653)	(31,250)
Repayment of financing lease obligations	(15,032)	(5,952)
<b>Net cash provided by (used in) financing activities</b>	<b>(527,185)</b>	<b>960,369</b>
<b>Investing activities</b>		
Purchase of property and equipment	(60,232)	(426)
Investment in film and television properties, net of tax credits	(2,842,753)	(1,132,887)
Investment in properties under development	(47,687)	(66,118)
<b>Net cash used in investing activities</b>	<b>(2,950,672)</b>	<b>(1,199,431)</b>
<b>Net increase (decrease) in cash</b>	<b>(1,161,979)</b>	<b>195,966</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>3,597,623</b>	<b>93,310</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 2,435,644</b>	<b>\$ 289,276</b>

**SUPPLEMENTAL CASH FLOW INFORMATION (Note 21)**

See accompanying notes to these condensed interim consolidated financial statements

# NETWORK MEDIA GROUP INC.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended February 28, 2019 and 2018

Expressed in Canadian dollars (unaudited)

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### 1. Nature of operations

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

The Company has a working capital deficit of \$10,301,400 and a deficit of \$8,086,513 which give rise to material uncertainties which may cast significant doubt about the Company’s ability to continue as a going concern. The Company’s ability to continue as a going concern is dependent upon its ability to access sufficient capital and generate profitable operations. These condensed interim consolidated financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and discharge its liabilities in other than the normal course of operations and at amounts different from those in these condensed interim consolidated financial statements.

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

### 2. Basis of presentation

#### (a) *Statement of compliance*

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

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”) as issued by the International Accounting Standards Board and on a basis consistent with the accounting policies disclosed in the annual audited consolidated financial statements for the year ended November 30, 2018. They do not include all of the information required for annual financial statements and should be read in conjunction with the annual audited consolidated financial statements for the year ended November 30, 2018.

The condensed interim consolidated financial statements of the Company for the three months ended February 28, 2019 were approved for issue by the Board of Directors on April 25, 2019.

#### (b) *Basis of measurement*

The condensed interim consolidated financial statements have been prepared on an accrual basis under the historical cost convention, except for financial instruments presented at fair value and cash flow information.

#### (c) *Functional currency*

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

# NETWORK MEDIA GROUP INC.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended February 28, 2019 and 2018

Expressed in Canadian dollars (unaudited)

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### 2. Basis of presentation *(continued)*

#### *(d) Significant accounting estimates and judgements*

The preparation of the condensed interim consolidated financial statements requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities at the date of the financial statements and for the periods presented. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to financial statements, have been set out in Note 3 of the Company's audited annual consolidated financial statements for the year ended November 30, 2018. Actual results may differ materially from these estimates.

#### *(e) Comparative information*

The comparative figures have been reclassified where applicable in order to conform to the presentation used in the current period.

### 3. Significant accounting policies

Except as otherwise indicated hereunder, these condensed interim consolidated financial statements have been prepared using the same policies and methods as the consolidated financial statements of the Company for the year ended November 30, 2018. Refer to Note 3 of the Company's consolidated financial statements for the year ended November 30, 2018 for more information on new accounting standards and amendments not yet effective.

#### *Standards applied during the period*

- (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.

**NETWORK MEDIA GROUP INC.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
For the three months ended February 28, 2019 and 2018  
Expressed in Canadian dollars (unaudited)

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**3. Significant accounting policies (continued)**

*Standards applied during the period (continued)*

- (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:

**NETWORK MEDIA GROUP INC.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
For the three months ended February 28, 2019 and 2018  
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**3. Significant accounting policies (continued)**

*Standards applied during the period (iii) (continued):*

	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>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<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>

**NETWORK MEDIA GROUP INC.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
For the three months ended February 28, 2019 and 2018  
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**3. Significant accounting policies (continued)**

*Standards applied during the period (iii) (continued):*

	<b>For the period ended February 28, 2019</b>		
	<b>As Reported</b>	<b>Balances without Adoption of IFRS 15</b>	<b>Effect of Change</b>
<b>Total revenue</b>	\$ 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	-
<b>Earnings (losses) before other items</b>	187,783	(421,905)	609,688
Financing expense, net	21,040	21,040	-
Loss on disposal property and equipment	733	733	-
<b>Income (loss) and comprehensive income (loss) for the period</b>	\$ 166,010	\$ (443,678)	\$ 609,688

*Recent accounting pronouncements, not yet adopted*

- (i) 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 its consolidated financial statements of adopting IFRS 16.

**NETWORK MEDIA GROUP INC.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
For the three months ended February 28, 2019 and 2018  
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**4. Accounts receivable**

	<b>February 28, 2019</b>	November 30, 2018
Receivables from broadcasters	<b>\$ 1,060,510</b>	\$ 1,187,043
Input tax credits and other receivables	<b>68,187</b>	123,613
	<b><u>\$ 1,128,697</u></b>	<u>\$ 1,310,656</u>

**5. Property and equipment**

	Computer Equipment	Furniture and Office Equipment	Production Equipment	Leasehold Improvements	Total
<b>Cost</b>					
Balance at November 30, 2017	\$ 805,424	\$ 74,954	\$ 22,172	\$ 12,000	\$ 914,550
Additions	295,611	660	25,086	26,253	347,610
Disposals	(13,085)	-	-	-	(13,085)
Balance at November 30, 2018	1,087,950	75,614	47,258	38,253	1,249,075
Additions	46,883	-	13,349	-	60,232
Disposals	(1,759)	-	-	-	(1,759)
<b>Balance at February 28, 2019</b>	<b>\$ 1,133,074</b>	<b>\$ 75,614</b>	<b>\$ 60,607</b>	<b>\$ 38,253</b>	<b>\$ 1,307,548</b>
<b>Accumulated amortization</b>					
Balance at November 30, 2017	\$ 566,036	\$ 65,802	\$ 3,326	\$ 4,800	\$ 639,964
Amortization expense	116,157	1,897	9,417	11,151	138,622
Disposals	(7,635)	-	-	-	(7,635)
Balance at November 30, 2018	674,558	67,699	12,743	15,951	770,951
Amortization expense	32,762	396	3,089	2,788	39,035
Disposals	(1,026)	-	-	-	(1,026)
<b>Balance at February 28, 2019</b>	<b>\$ 706,294</b>	<b>\$ 68,095</b>	<b>\$ 15,832</b>	<b>\$ 18,739</b>	<b>\$ 808,960</b>
<b>Carrying amount</b>					
November 30, 2018	\$ 413,392	\$ 7,915	\$ 34,515	\$ 22,302	\$ 478,124
<b>February 28, 2019</b>	<b>\$ 426,780</b>	<b>\$ 7,519</b>	<b>\$ 44,775</b>	<b>\$ 19,514</b>	<b>\$ 498,588</b>

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

During the three months ended February 28, 2019, the Company disposed of computer equipment with a carrying amount of \$733 (2018 – \$nil) for proceeds of \$nil (2018 – \$nil). The sale resulted in the recognition of a loss on disposal of property and equipment of \$733 (2018 – \$nil).

# NETWORK MEDIA GROUP INC.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended February 28, 2019 and 2018

Expressed in Canadian dollars (unaudited)

### 6. Investment in film and television properties

	Properties in development	Properties in progress	Properties completed and released	Total
<b>Balance, November 30, 2017</b>	\$ 620,479	\$ 636,925	\$ 2,553,680	\$ 3,811,084
Additions	509,013	5,660,596	3,092,078	9,261,687
Tax credits accrued	-	(1,025,542)	(1,078,136)	(2,103,678)
Transferred to projects in progress	(41,647)	41,647	-	-
Transferred to properties completed and released	-	(633,126)	633,126	-
Amounts written off and impaired	(74,312)	-	-	(74,312)
Amortization	-	-	(1,798,877)	(1,798,877)
<b>Balance, November 30, 2018</b>	1,013,533	4,680,500	3,401,871	9,095,904
Additions	47,687	2,697,177	4,022	2,748,886
Tax credits accrued	-	(985,456)	-	(985,456)
Amortization	-	-	(156,220)	(156,220)
<b>Balance, February 28, 2019</b>	<b>\$ 1,061,220</b>	<b>\$ 6,392,221</b>	<b>\$ 3,249,673</b>	<b>\$ 10,703,114</b>
<b>As at February 28, 2019</b>				
<b>Cost</b>	<b>\$ 1,061,220</b>	<b>\$ 6,392,221</b>	<b>\$ 10,927,326</b>	<b>\$ 18,380,767</b>
<b>Accumulated amortization</b>	<b>-</b>	<b>-</b>	<b>(7,677,653)</b>	<b>(7,677,653)</b>
<b>Carrying amount</b>	<b>\$ 1,061,220</b>	<b>\$ 6,392,221</b>	<b>\$ 3,249,673</b>	<b>\$ 10,703,114</b>
<b>As at November 30, 2018</b>				
<b>Cost</b>	<b>\$ 1,013,533</b>	<b>\$ 4,680,500</b>	<b>\$ 10,923,304</b>	<b>\$ 16,617,337</b>
<b>Accumulated amortization</b>	<b>-</b>	<b>-</b>	<b>(7,521,433)</b>	<b>(7,521,433)</b>
<b>Carrying amount</b>	<b>\$ 1,013,533</b>	<b>\$ 4,680,500</b>	<b>\$ 3,401,871</b>	<b>\$ 9,095,904</b>

During the three months ended February 28, 2019, interest of \$13,728 (2018 – \$45,727) has been capitalized within the properties in progress and productions completed and released balances.

### 7. Line of credit

The Company has available a line of credit agreement with a Canadian chartered bank which provides that the Company may borrow up to \$150,000. Borrowing under the line of credit bears interest, payable monthly, at the bank's prime plus 1.8% and are secured by a general security agreement over the property of the Company. The balances payable under this agreement are due on demand. As of February 28, 2019, outstanding borrowings were \$130,000 (2018 – \$140,000).

**NETWORK MEDIA GROUP INC.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
For the three months ended February 28, 2019 and 2018  
Expressed in Canadian dollars (unaudited)

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**8. Interim production financing**

Certain subsidiaries of the Company have secured interim bank loans to finance the cost of producing their respective productions. These loans bear interest at the bank's prime rate plus 1.50% to prime rate plus 2.25% per annum and are repayable on demand. Each loan is secured by the tax credits receivable of the respective subsidiary and a general security agreement over the assets of the Company.

**9. Deferred revenue**

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

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

As at February 28, 2019, the Company had received distribution advances of \$10,470,899 (2018 – \$9,695,926) and contracted fees of \$626,159 (2018 – \$nil). These amounts have been recognized in the statement of financial position as deferred revenue.

**10. Financing lease obligations**

The Company leased certain operating equipment under two financing leases. The Company's obligations under the finance lease are secured by the lessor's title to the leased assets. The interest rates are fixed at 5.09% and 5.43% per annum respectively and have a lease term of three years. At the end of the lease term, the Company has an option to purchase the equipment for \$1.

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

	Total	< 1 year	> 1 year
Future minimum lease payments	\$ 161,174	\$ 68,773	\$ 92,401
Less: imputed interest	10,078	6,592	3,486
Carrying amount	\$ 151,096	\$ 62,181	\$ 88,915

The carrying amount of the leased equipment as of February 28, 2019 is \$164,382 (2018 – \$191,788).

**11. Share capital and reserves**

(a) *Authorized*

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

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

(b) *Issued share capital*

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.

For the three month period ended February 28, 2018, the Company issued 70,000 common shares on the exercise of stock options for proceeds of \$9,800 when the Company's stock price was \$0.24.

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

(c) *Share based payment reserve*

Pursuant to the Company's equity-settled stock option plan, Directors may, from time to time, authorize the granting of options to Directors, employees and consultants of the Company to a maximum of 20% of the outstanding shares of the Company which is limited to 10,880,074 options. 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.

During the three months ended February 28, 2019, no stock options were cancelled or expired (2018 – 3,494,800), resulting in a reclassification of amounts totalling \$nil (2018 – \$137,800) from contributed surplus to accumulated deficit.

	As at February 28, 2019		As at November 30, 2018	
	Number of Options	Weighted Ave. Exercise Price	Number of Options	Weighted Ave. Exercise Price
Outstanding, beginning of year	8,487,920	\$ 0.15	7,752,720	\$ 0.16
Granted	-	\$ -	4,300,000	\$ 0.16
Cancelled	-	\$ -	(3,494,800)	\$ 0.18
Exercised	(250,000)	\$ 0.07	(70,000)	\$ 0.14
Outstanding, end of period	<u>8,237,920</u>	<u>\$ 0.15</u>	<u>8,487,920</u>	<u>\$ 0.15</u>

As at February 28, 2019, the following stock options are outstanding and exercisable:

<i>Number of options outstanding</i>	<i>Number of options exercisable</i>	<i>Exercise price</i>	<i>Remaining life (yrs)</i>	<i>Expiry</i>
300,000	300,000	\$ 0.10	0.99	February 26, 2020
375,920	375,920	\$ 0.20	2.41	July 28, 2021
3,322,000	3,322,000	\$ 0.14	3.41	July 27, 2022
1,000,000	1,000,000	\$ 0.20	3.79	December 12, 2022
2,590,000	637,500	\$ 0.15	4.14	April 19, 2023
400,000	-	\$ 0.12	4.46	August 13, 2023
250,000	-	\$ 0.12	4.74	November 23, 2023
<u>8,237,920</u>	<u>5,635,420</u>	<u>\$ 0.15</u>	<u>3.64</u>	

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

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

Vesting terms are as follows:

- 1,000,000 options granted December 12, 2018: vest in equal monthly instalments over one year commencing on the grant date;
- 1,800,000 options granted April 19, 2018: one-third vests one, two and three years from the grant date;
- 850,000 options granted April 19, 2018: 25% vests three, six, nine, and twelve months from the grant date;
- 400,000 options granted August 13, 2018: one-third vests one, two and three years from the grant date; and,
- 250,000 options granted November 23, 2018: one-third vests one, two and three years from the grant date.

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.

(d) *Contributed surplus*

Contributed surplus consists of the following amounts:

	<b>February 28, 2019</b>	November 30, 2018
Outstanding options	\$ 831,751	\$ 791,264
Convertible debt	134,326	134,326
Share exchange for Network Entertainment Inc.	<b>(302,651)</b>	<b>(302,651)</b>
	<b>\$ 663,426</b>	<b>\$ 622,939</b>

# NETWORK MEDIA GROUP INC.

## Notes to the Condensed Interim Consolidated Financial Statements

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### 12. Supplemental statement of income (loss) and comprehensive income (loss) disclosure

#### *Employee benefit expenses*

Total salaries and wages recognized in the statement of income and comprehensive income is \$52,759 (2018 – \$14,581) of which \$10,034 was recorded as direct production costs (2018 – \$nil) and \$42,725 was recorded as general and administration (2018 – \$14,581).

### 13. Government assistance

Refundable tax credits relating to production activities of the Company are claimed from the federal and provincial governments in Canada. The refundable tax credits for the three months ended February 28, 2019 were recorded as follows:

- Reduction to direct production costs of \$27,278 (2018 – \$31,510), and;
- Reduction to investment in film and television properties of \$985,457 (2018 – \$2,103,678).

### 14. Financial instruments

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

#### *Risks arising from financial instruments*

##### *(i) Foreign exchange risk*

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

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

A five percent fluctuation in the US dollar rate impacting US dollar revenues during the 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).

# NETWORK MEDIA GROUP INC.

## Notes to the Condensed Interim Consolidated Financial Statements

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### 14. Financial instruments (continued)

#### (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 \$180,706 of accounts receivable past due, over 30 days, but not considered impaired (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 recognized in the statement of financial position such as interim production financing.

If the market interest rates had changed 100 basis points, the Company's cost of capital would have fluctuated \$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, by borrowing against earned tax credits through operating lines of credit, and by 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.

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**15. Capital management**

The Company's objectives when managing capital are to safeguard its assets, maintain a competitive cost structure, continue as a going concern in order to pursue the development of its film 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>February 28, 2019</b>	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
	<b>\$ 3,135,621</b>	<b>\$ 3,645,749</b>

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

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

**16. Contingent liabilities**

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

The Company was involved in a business dispute with a former customer regarding services provided by the Company. The claim was settled and the Company is required to pay the former customer \$100,000. The Company has recognized a liability for the settlement of the claim.

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

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**17. Commitments**

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

- \$153,000 in the fiscal year ended November 30, 2019
- \$211,187 in the fiscal year ended November 30, 2020
- \$71,093 in the fiscal year ended November 30, 2021

During the three months ended February 28, 2019, the Company has entered into two office lease extensions:

- Lease 1: extended for a further period commencing on the 1<sup>st</sup> day of June 2019 up to and including the 31<sup>st</sup> day of March 2021 with the following change in monthly base rent: Year 1 - \$3,000 and Year 2 - \$3,100.
- Lease 2: extended for a further period commencing on the 1<sup>st</sup> day of February 2019 up to and including the 31<sup>st</sup> day of March 2021 with the following change in monthly base rent: Year 1 - \$6,000 and Year 2 - \$6,200.

**18. Related parties**

Related parties are defined as Officers and Directors of the Company as well as any companies that are controlled by Officers or Directors of the Company. During the three months ended February 28, 2019, the Company:

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

	<b>February 28, 2019</b>	February 28, 2018
Short-term employee benefits	<b>\$ 160,435</b>	\$ 115,000
Share-based compensation	<b>23,226</b>	33,385
	<b><u>\$ 183,661</u></b>	<u>\$ 148,385</u>
Recorded as:		
General and administrative expenses	<b>\$ 13,402</b>	\$ 33,385
Share-based compensation	<b>23,226</b>	-
Investment in film and television properties	<b>147,033</b>	115,000
	<b><u>\$ 183,661</u></b>	<u>\$ 148,385</u>
Options issued	<u>-</u>	<u>1,000,000</u>

Accounts payable and accrued liabilities at February 28, 2019 includes, \$13,650 (2018 – \$10,975) owed to a company controlled by an Officer of the Company. Amounts due to related parties are unsecured, non-interest bearing and due on demand.

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**19. Revenue**

	<b>February 28, 2019</b>	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
	<b>\$ 986,248</b>	<b>\$ 158,904</b>

Of the Company's \$986,248 (2018 – \$158,904) in revenues for the three months ended February 28, 2019, \$5,203 (2018 – \$109,372) was attributable to external customers located in Canada, \$926,533 (2018 – \$33,533) was attributable to external customers located in the U.S., and \$54,512 (2018 – \$15,999) was attributable to external customers located in the U.K.

**20. General and administrative expenses**

	<b>February 28, 2019</b>	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
	<b>\$ 187,573</b>	<b>\$ 122,909</b>

**21. Supplemental cash flow information**

i. Non-cash investing and financing activities

	<b>Three months ended February 28, 2019</b>	Three months ended February 28, 2018
Tax credits receivable included in production costs	\$ 3,463,215	\$ 1,638,069
Accounts payable included in production costs	\$ 362,927	\$ (73,599)
Fair value of options exercised	\$ 32,616	\$ 9,800

ii. Interest paid

Interest paid during the three months ended February 28, 2019 was \$68,827 (2018 – \$2,319).