

Management's Discussion and Analysis of

**NETWORK MEDIA GROUP INC.**

For three and nine months ended August 31, 2020 and 2019

**N E T W O R K**

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

# MANAGEMENT’S DISCUSSION AND ANALYSIS

The following Management’s Discussion & Analysis (“MD&A”) prepared as of October 29, 2020, should be read in conjunction with Network Media Group Inc.’s (the “Company” or “Network”) unaudited condensed interim consolidated financial statements as of August 31, 2020 and its audited consolidated financial statements and accompanying notes for the years ended November 30, 2019 and 2018. 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”) (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, 2020, the Company delivered the final two episodes of the eight episode documentary series on Artificial Intelligence entitled *The Age of AI for Google's YouTube Originals* and completed two additional titles in the I Am franchise; *I Am Jackie Onassis* and *I Am Burt Reynolds*.

The Company also continued production on:

- 4 feature length documentaries, and;
- 2 television series.

For the three and nine months ended August 31, 2020, the Company realized the following:

- Revenues of:
  - \$1.0M (2019 – \$0.79M) for the three months ended, and;
  - \$8.0M (2019 – \$6.4M) for the nine months ended.
- Net income (loss) of:
  - \$0.01M (2019 – loss of \$0.32M) for the three months ended, and;
  - \$1.07M (2019 – \$1.54M) for the nine months ended.
- Adjusted EBITDA of:
  - \$0.41M (2019 – negative \$0.13M) for the three months ended, and;
  - \$2.02M (2019 – \$2.09M) for the nine months ended.
- Income (loss) per share of:
  - \$0.00 (2019 – loss of \$0.00) for the three months ended, and;
  - \$0.01 (2019 – \$0.02) for the nine months ended.
- Adjusted EBITDA per share of:
  - \$0.01 (2019 – loss of \$0.00) for the three months ended, and;
  - \$0.03 (2019 – \$0.03) for the nine months ended.
- Backlog of \$13.2M

## Operations & Outlook

Network builds its production slate in two primary forms: documentary films and docu-series. 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.

On March 11, 2020, the World Health Organization categorized COVID-19 as a pandemic. The potential economic effects within the film industry and in the global markets, including possible disruptions in the completion and delivery of the Company's film and television properties, and measures being introduced at various levels of government to curtail the spread of the virus (such as travel restrictions, closures of non-essential municipal and private operations, imposition of quarantines and social distancing) could have a material impact on the Company's operations and ability to access future capital. To date, the Company has been able to modify and adapt to the changing business environment without a material impact to the Company's financial operation. The full extent of the impact of this outbreak and related containment measures on the Company's operations cannot be reliably estimated at the date these financial statements were approved, October 29, 2020.

## Financing

During the nine months ended August 31, 2020, the Company's operations were financed by cash generated from operating activities, shares issuance by way of option conversions, 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 \$1.4M (2019 - \$2.5M) of interim production loans which are secured by future contracted funding from broadcasters and distributors, as well as government labour tax credits receivable. In addition, operating activities generated \$9.3M (2019 - \$5.4M) of cash.

## Revenue Recognition and Forward-Looking Statements

The Company follows a revenue recognition policy that is standard to the film industry (Note 3 of the audited consolidated financial statements for the years ended November 30, 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; and
6. The later of the license term commencing and satisfaction of the delivery conditions of the purchase agreement between Network and the buyer.

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

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.

### *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 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 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.

The Company has certain properties currently in production which have been sold to buyers under binding purchase agreements. Deferred revenue totaling approximately \$1.6M as at August 31, 2020 (May 31, 2020- \$2.0M), 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, 2020	\$ 1.6
Contracted future revenue	<u>11.6</u>
Total expected revenue - contracted	<b>\$ 13.2</b>
Revenues expected within 6 months	\$ 2.0
Revenues expected within 7 to 12 months	\$ 2.9
Revenues beyond 12 months	\$ 8.3

As stated above, under IFRS the Company is not able to recognize revenue until all of the above-mentioned conditions have been met. As at October 29, 2020, Network has contracts for \$13.2M (July 28, 2020 - \$12.9M) that have yet to be recorded as revenue, but are expected to be received and recognized as revenue within the periods noted above.

In addition, as at the date of this MD&A, the global community is amidst the COVID-19 economic crisis. The full effect of the crisis has not been determined at this time, but readers are to be cautioned that the Company's estimates of delivery dates, and thus, recognition of revenues, could be significantly adjusted from the estimates above.

***The above statements regarding the Company's anticipated, or contracted for, future revenue constitutes "forward-looking information" under applicable Canadian securities laws – readers are directed to refer to the Forward-Looking Statement disclosures at the beginning of this MD&A. The above calculations are based on expectations, estimates and projections as of the date of this MD&A and are necessarily based upon assumptions and expectations regarding future production revenues and partial revenues generated from 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 1.35 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 results 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 unaudited condensed interim consolidated financial statements and accompanying notes for the quarter ended August 31, 2020, and can be found at [www.sedar.com](http://www.sedar.com).

<b>Consolidated Summary of Financial Position</b>	<b>As at August 31, 2020</b>	<b>As at November 30, 2019</b>
Cash and cash equivalents	\$ 1,241,901	\$ 1,182,454
Current assets	3,487,336	7,246,106
Investment in film and television	11,149,527	11,425,431
Total assets	15,833,555	19,750,448
Current liabilities	6,499,720	12,035,693
Total liabilities	7,117,755	12,457,834
Shareholders' equity	8,715,800	7,292,614
Working capital deficiency (see page 13)	\$ (3,012,384)	\$ (4,789,587)

### Condensed Interim Consolidated Statements of Net and Comprehensive Income Expressed in Canadian dollars (unaudited)

	Three months ended		Nine months ended	
	August 31, 2020	August 31, 2019	August 31, 2020	August 31, 2019
<b>Total revenue</b>	<b>\$ 1,014,522</b>	<b>\$ 787,694</b>	<b>\$ 7,958,855</b>	<b>\$ 6,411,133</b>
Production costs	-	61,813	-	1,131,910
Amortization of film and television properties	356,791	640,085	5,120,037	2,499,869
Amortization of property, equipment and right of use assets	165,038	45,625	495,399	125,158
General and administrative	245,737	217,895	804,592	648,565
Impairment of investment in film and television properties	4,183	17,348	39,183	58,151
Selling and distribution	5,371	2,349	15,154	41,760
Share-based compensation	61,755	39,207	208,250	139,644
Foreign exchange loss (gain)	13,699	55,636	(85,685)	156,786
Forgiveness of debt and reversal of accounts payable	(5,434)	(5,425)	(6,988)	(9,959)
	<b>847,140</b>	<b>1,074,533</b>	<b>6,589,942</b>	<b>4,791,884</b>
<b>Income (loss) before other items</b>	<b>167,382</b>	<b>(286,839)</b>	<b>1,368,913</b>	<b>1,619,249</b>
Financing expense, net	16,660	37,514	64,528	74,545
Loss on disposal of property and equipment	-	-	-	733
<b>Income (loss) before income taxes</b>	<b>150,722</b>	<b>(324,353)</b>	<b>1,304,385</b>	<b>1,543,971</b>
Income tax expense	44,400	-	234,800	-
<b>Net and comprehensive income (loss) for the period</b>	<b>\$ 106,322</b>	<b>\$ (324,353)</b>	<b>\$ 1,069,585</b>	<b>\$ 1,543,971</b>
<b>Income (loss) per share</b>				
- basic	\$ 0.00	\$ -	\$ 0.01	\$ 0.02
- diluted	\$ 0.00	\$ -	\$ 0.01	\$ 0.02
<b>Weighted average number of shares outstanding</b>				
- basic	73,841,168	72,920,371	73,493,341	72,811,964
- diluted	75,619,388	74,751,272	78,808,676	77,083,964
<b>Adjusted EBITDA</b>	<b>\$ 406,623</b>	<b>\$ (134,448)</b>	<b>\$ 2,019,072</b>	<b>\$ 2,088,296</b>
<b>Adjusted EBITDA per share</b>	<b>\$ 0.01</b>	<b>\$ (0.00)</b>	<b>\$ 0.03</b>	<b>\$ 0.03</b>

## 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.

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, 2020	Three months ended August 31, 2019	Nine months ended August 31, 2020	Nine months ended August 31, 2019
<b>Earnings for the period</b>	<b>\$ 106,322</b>	<b>\$ (324,353)</b>	<b>\$ 1,069,585</b>	<b>\$ 1,543,971</b>
<u>Adjustments</u>				
Amortization of property, equipment and right of use assets	165,038	45,625	495,399	125,158
Impairment of investment in film and television properties	4,183	17,348	39,183	58,151
Financing expense, net	16,660	37,514	64,528	74,545
Share-based compensation	61,755	39,207	208,250	139,644
Foreign exchange loss (gain)	13,699	55,636	(85,685)	156,786
Forgiveness of debt and reversal of accounts payable	(5,434)	(5,425)	(6,988)	(9,959)
Income tax expense	44,400	-	234,800	-
<b>Adjusted EBITDA</b>	<b>\$ 406,623</b>	<b>\$ (134,448)</b>	<b>\$ 2,019,072</b>	<b>\$ 2,088,296</b>

## Overall Financial Position – Third Quarter Fiscal 2020

Net and comprehensive income increased by \$430,675 to \$106,322 for the three months ended August 31, 2020, as compared to a loss of \$324,353 in 2019.

The \$3.9M decrease in total assets was primarily due to the receipt of tax credits and accounts receivable during the quarter and recording right of use assets as a result of the adoption of *IFRS 16* (see Note 3 of the condensed interim consolidated financial statements for August 31, 2020).

The \$5.3M decrease in total liabilities was mainly due to the repayment of interim production financing with the receipt of tax credits and accounts receivable along with recording deferred revenues as income.

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, 2020 compared to the quarter ended August 31, 2019*.

## Results of Operations

### Three months ended August 31, 2020 compared to August 31, 2019

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

#### *Revenue*

Revenue increased by \$226,828 from \$787,694 in 2019 to \$1,014,522 in 2020. The increase in revenues is primarily attributed to the completion and delivery of *I Am Jackie O* and *I Am Burt Reynolds* to *Fremantle* and *Thunderbird* as compared to completion of only *I Am Patrick Swayze* in 2019. In addition, the Company has recorded approximately 50% of the break fee from Paramount for *I Am Alfred Hitchcock*.

Contract production service revenues were \$nil in 2020 as compared to \$47,381 in 2019. These revenues were in relation to the service work contract with *A&E's Chris Farley* biography in 2019. Other revenue consists of the receipt of COVID-19 relief funds from the Canadian government.

The detailed breakdown of revenues is as follows:

	<b>Three months ended</b>		<b>Three months ended</b>
	<b>August 31,</b>		<b>August 31,</b>
	<b>2020</b>		<b>2019</b>
Production revenue	\$ 717,619	\$	740,313
Contract production services revenue	-		47,381
Distribution revenue	132,565		-
Other revenue	164,338		-
	<b>\$ 1,014,522</b>	\$	<b>787,694</b>

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

#### *Production costs*

Production costs were \$nil in 2020 as compared to \$61,813 in 2019. The prior year's costs were in relation to the service work contract with *A&E's Chris Farley* biography in 2019.

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

Amortization of film and television properties decreased \$283,294 from \$640,085 in 2019 to \$356,791 in 2020. Please refer to the accounting policies in Note 3 of the audited consolidated financial statements for the years ended November 30, 2019 and 2018 for information on how the amortization of the properties is calculated.

#### *Amortization of property, equipment and right of use assets*

Amortization of property, equipment and right of use assets increased by \$119,413 to \$165,038 in 2020 as compared to \$45,625 in 2019. The increase is due to the Company's continued investment in its infrastructure and editing capabilities during the last couple of years as well as the additional assets recorded as right of use assets through the adoption of *IFRS 16*.

#### *General and administrative expenses*

General and administrative expenses increased by \$27,842 from \$217,895 in 2019 to \$245,737 in 2020. The increase in expenses is primarily due to increases in professional fees. The other office and administrative costs decreased due to the reduced operations and overhead in relation to COVID-19.

A detailed breakdown of the expenses is as follows:

	<b>Three months ended</b>	Three months ended
	<b>August 31,</b>	August 31,
	<b>2020</b>	2019
Insurance	\$ 6,775	\$ 5,926
Interest and bank charges	25,609	6,055
Office and general	4,425	36,176
Professional fees	59,084	-
Rent and utilities	6,307	-
Salaries and wages	106,254	121,486
Technology and licenses	23,261	15,051
Telecommunications	3,708	5,164
Transfer agent and filing fees	8,835	5,858
Travel	1,479	22,179
	<b>\$ 245,737</b>	<b>\$ 217,895</b>

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

Network recorded impairment of development properties of \$4,183 in 2020 compared to \$17,348 in 2019.

***Selling and distribution expenses***

Selling and distribution expenses increased to \$5,371 in 2020 as compared to \$2,349 in 2019.

***Share-based compensation***

Share-based compensation increased \$22,548 from \$39,207 in 2019 to \$61,775 in 2020. The increase is due to the vesting of options previously issued as calculated using the Black-Scholes model.

***Foreign exchange loss***

Foreign exchange loss decreased by \$41,937 to \$13,699 in 2020 as opposed to \$55,636 in 2019. 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 decreased \$20,854 from \$37,514 in 2019 to \$16,660 in 2020. This decrease was due to interest accrued with the receipt of film tax credits.

***Income/Adjusted EBITDA for the period***

Income for the three months ended August 31, 2020 was \$106,322 (\$0.00 per share) as compared to loss of \$324,353 (\$0.00 per share) for the three months ended August 31, 2019.

In each period, a number of expenses were attributed to non-cash items such as share-based compensation, amortization and impairments, which provided Adjusted EBITDA of \$406,623 (\$0.01 per share) in 2020 and negative \$134,448 (\$0.00 per share) in 2019.

## Nine months ended August 31, 2020 compared to August 31, 2019

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

### **Revenue**

Revenue increased by \$1,547,722 from \$6,411,133 in 2019 to \$7,958,855 in 2020.

The detailed breakdown of revenues is as follows:

	<b>Nine months ended August 31, 2020</b>	Nine months ended August 31, 2019
Production revenue	\$ 7,351,735	\$ 4,902,700
Contract production services revenue	-	1,336,725
Distribution revenue	438,282	171,708
Other revenue	168,838	-
	<b>\$ 7,958,855</b>	<b>\$ 6,411,133</b>

The increase in revenue was attributed to the completion of two episodes of *A.I. for Google*, as well as the completion of *I Am Jackie Onassis* and *I Am Burt Reynolds*, along with stronger distribution revenues from the Company's library. In addition, The Company has recorded approximately 50% of the break fee from Paramount for *I Am Alfred Hitchcock*.

Contract production service revenues were \$nil in 2020 as compared to \$1,336,725 in 2019. These revenues were in relation to the service work contract with *A&E's Chris Farley* biography in 2019. Other revenue consists of the receipt of COVID-19 relief funds from the Canadian government.

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

### **Production costs**

Production costs were \$nil in 2020 as compared to \$1,131,910 in 2019 due to the service work contract with *A&E's Chris Farley* biography in 2019.

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

Amortization of film and television properties increased \$2,620,168 from \$2,499,869 in 2019 to \$5,120,037 in 2020. 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, 2019 and 2018 for information on how the amortization of the properties is calculated.

### **Amortization of property, equipment and right of use assets**

Amortization of property, equipment and right of use assets increased by \$370,241 to \$495,399 in 2020 as compared to \$125,158 in 2019. The increase is due to the Company's continued investment in its infrastructure and editing capabilities during the last couple of years as well as the additional assets recorded as right of use assets through the adoption of *IFRS 16*.

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

General and administrative expenses increased by \$156,027 from \$648,565 in 2019 to \$804,592 in 2020. The increase in expenses is primarily due to increases in technology costs, wages, travel and office and general which is indicative of the significant increase in production activities over the last couple years.

Salaries and wages increased during the period because additional overhead staff to support the US based operations and the Company's investor relations efforts. The other office and administrative costs increased in conjunction with the higher levels of production and associated activities.

A detailed breakdown of the expenses is as follows:

	<b>Nine months ended</b>		Nine months ended
	<b>August 31,</b>		August 31,
	<b>2020</b>		2019
Insurance	\$ 17,292	\$	26,758
Interest and bank charges	62,499		23,178
Office and general	83,566		96,217
Professional fees	156,053		140,682
Rent and utilities	8,685		-
Salaries and wages	315,010		206,948
Technology and licenses	82,642		48,019
Telecommunications	16,132		10,840
Transfer agent and filing fees	18,393		32,652
Travel	44,320		63,271
	<b>\$ 804,592</b>	\$	<b>648,565</b>

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

Network recorded impairment of development properties of \$39,183 in 2020 compared to \$58,151 in 2019.

### ***Selling and distribution expenses***

Selling and distribution expenses decreased by \$26,606 from \$41,760 in 2019 to \$15,154 in 2020. The decrease is because the Company was not required to promote its work on the projects completed thus far and also due to the economic slowdown caused by the COVID-19 pandemic.

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

Share-based compensation increased \$68,606 from \$139,644 in 2019 to \$208,250 in 2020. The increase is to the vesting of options previously issued as calculated using the Black-Scholes model.

### ***Foreign exchange gain/loss***

Foreign exchange gain increased by \$242,471 to \$85,685 in 2020 as opposed to a loss of \$156,786 in 2019. 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 decreased \$10,017 from \$74,545 in 2019 to \$64,528 in 2020. The increase is due to the lower amount of interim production loan balances throughout the period.

### ***Income/Adjusted EBITDA for the period***

Income for the nine months ended August 31, 2020 was \$1,069,585 (\$0.01 per share) as compared to \$1,543,971 (\$0.02 per share) for 2019.

In each period, a number of expenses were attributed to non-cash items such as share-based compensation, amortization and impairments, which provided Adjusted EBITDA of \$2,019,072 (\$0.03 per share) in 2020 and \$2,088,296 (\$0.03 per share) in 2019.

### **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 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	
Total revenue	\$ 1,015	\$ 2,722	\$ 4,222	\$ 9,868	\$ 788	\$ 4,637	\$ 986	
Net and comprehensive income (loss)	106	665	299	2,486	(324)	1,702	166	
Income (loss) per share - basic and diluted	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.04	\$ -	\$ 0.02	\$ 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 due to how revenue is recognized in the entertainment industry (see **Seasonality** below).

### **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 increased marginally by \$271,808 as at August 31, 2020. Cash provided by operating activities in the nine months ended August 31, 2020, was \$9.3M, compared to \$5.4M in 2019.

Financing activities for the nine months ended August 31, 2020 resulted in cash used of \$3.7M compared to cash provided of \$1.7M in 2019. In the period, the Company received \$1.4M of interim production financing, but also repaid \$4.7M of interim production financing. The cycle of incurring interim production financing and repayments thereof is common in the entertainment industry. Chartered banks regularly lend companies such as Network the funding to produce and complete its production through the financing of future contracted payments and tax credits. Upon receipt of these funds, the interim production financing is paid down and any excess funds go into working capital.

Cash required by investing activities in the nine months ended August 31, 2020 was \$5.6M, compared to requiring cash of \$9.8M in the prior year. 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, 2020, Network had a working capital deficit of \$3.0M compared to \$4.8M as at November 30, 2019. Readers are cautioned to be aware that deferred revenue is recorded by the Company as a current liability, whereas this funding is invested in film and television properties which is a long-term asset, thus creating an inherent working capital deficiency. If readers were to adjust the deficiency for the deferred revenue, the Company's working capital would be as follows:

	<b>August 31, 2020</b>	November 30, 2019
Current assets	<b>\$ 3,487,336</b>	\$ 7,246,106
Current liabilities	<b>(6,499,720)</b>	(12,035,693)
<b>Working capital deficiency</b>	<b>\$ (3,012,384)</b>	\$ (4,789,587)
Deferred revenue adjustment	<b>1,643,849</b>	4,473,496
<b>Adjusted working capital (deficiency)</b>	<b>\$ (1,368,535)</b>	\$ (316,091)

Network believes that between cash flow generated 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 defines capital as the aggregate of its shareholders' equity and long-term debt less cash and cash equivalents.

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 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 nine months ended August 31, 2020, the Company:

- paid or accrued wages to key management personnel in the following manner:
  - Recorded as general and administrative expenses - \$15,180 (2019 – \$26,729);
  - Recorded as investment in film and television properties - \$489,650 (2019 – \$456,758);
  - Recorded as direct production costs - \$nil (2019 – \$30,450)
  - These costs were paid to the following related parties:
    - \$nil (2019 - \$26,729) for salaries and wage to the former Chairman of the Board of Directors;
    - \$202,680 (2019 - \$181,250) as salaries and wages to the CEO;
    - \$168,750 (2019 - \$164,583) as salaries and wages to the COO, and;
    - \$121,400 (2019 - \$123,375) as salaries and wages to the CFO and to a company controlled by the CFO.
  
- recorded share-based compensation of \$124,203 (2019 - \$58,476) on options that vested during the period, as follows:
  - \$16,580 (2019 - \$23,906) to three Directors;
  - \$72,800 (2019 - \$6,732) to the current and former Chairman of the Board of Directors;
  - \$15,911 (2019 - \$15,277) to the CEO;
  - \$10,881 (2019 - \$7,792) to the COO;
  - \$6,693 (2019 - \$4,769) to the CFO, and;
  - \$1,338 (2019 - \$nil) to another related party.

At August 31, 2020, the Company owed \$18,650 (November 30, 2019 – \$13,650) to a company controlled by an Officer of the Company. Amounts due to related parties are unsecured, non-interest bearing and due on demand.

## Capital Expenditures

The Company monitors its property and equipment on a continual basis and replenishes on an as needed basis. The Company does not anticipate any significant expenditures on property and equipment in the upcoming year.

## 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 14,500,000. 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 2019	2,110,000	\$ 0.13	\$ 0.15	109%	1.46%	\$ 0.12	5.0
Year ended 2020	1,000,000	\$ 0.20	\$ 0.20	113%	0.78%	\$ 0.16	5.0

For the three and nine months ended August 31, 2020, the Company recognized compensation expense in relation to these options of \$61,755 and \$208,250 (2019 – \$39,207 and \$139,644), which is included in profit or loss.

## Escrow shares

As at August 31, 2020, 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, 2020, into quarterly or annual expectations in future years.

## Financial Instruments

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

(i) *Foreign exchange risk*

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

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

A five percent fluctuation in the US dollar rate impacting US dollar revenues during the nine months ended August 31, 2020 would result in a \$377,564 (2019 – \$312,808) 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, \$1,193,530 (2019 – \$938,043), \$73,575 (2019 – \$231,502) and \$1,043,765 (2019 – \$643,932).

A five percent fluctuation in the US dollar closing rate at August 31, 2020 would result in a net change to profit or loss of \$11,167 (2019 – \$26,280).

(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, 2020, there are \$140,640 of accounts receivable past due, over 30 days, but not considered impaired (2019 – \$180,706).

(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 by \$62,264 (2019 – \$42,873) during the nine months ended August 31, 2020.

(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 interim production financing, 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.

## **Off-Balance Sheet Arrangements**

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

## **Outstanding Shares**

As at October 29, 2020, the Company had 74,005,371 common shares issued and outstanding, and has 8,972,920 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).