

Condensed Interim Consolidated Financial Statements of

NETWORK MEDIA GROUP INC.

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

(Unaudited – prepared by management)

N E T W O R K

www.networkmediagroup.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 August 31, 2020 and November 30, 2019
Expressed in Canadian dollars (unaudited)

	Note	August 31, 2020	November 30, 2019
ASSETS			
Current			
Cash and cash equivalents		\$ 1,241,901	\$ 1,182,454
Accounts receivable	4	396,954	936,682
Tax credits receivable		1,718,350	4,998,475
Prepaid expenses and deposits		130,131	128,495
		3,487,336	7,246,106
Tax credits receivable		446,959	590,276
Property and equipment	5	394,539	488,635
Right of use assets	3, 6	355,194	-
Investment in film and television properties	7, 14, 18	11,149,527	11,425,431
Total Assets		\$ 15,833,555	\$ 19,750,448
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Line of credit	8	\$ 205,000	\$ 235,000
Accounts payable and accrued liabilities	18	2,536,447	2,326,858
Interim production financing	9	1,649,318	4,878,354
Deferred revenue	10	1,643,849	4,473,496
Current portion of settlement on claim	17	-	25,000
Current lease obligations	3, 11	465,106	96,985
		6,499,720	12,035,693
Lease obligations	3, 11	59,135	98,041
Deferred income tax		558,900	324,100
Total Liabilities		7,117,755	12,457,834
Shareholders' Equity			
Share capital	12	10,542,611	10,277,612
Contributed surplus	12(d)	723,396	813,322
Deficit		(2,550,207)	(3,798,320)
Total Shareholders' Equity		8,715,800	7,292,614
Total Liabilities and Shareholders' Equity		\$ 15,833,555	\$ 19,750,448

Nature of operations (Note 1)
Subsequent events (Note 22)

Approved by: the Board of Directors on October 29, 2020

"Paul Gertz"

Paul Gertz, Director

"Derik Murray"

Derik Murray, Director

See accompanying notes to these condensed interim consolidated financial statements

NETWORK MEDIA GROUP INC.

Condensed Interim Consolidated Statements of Net and Comprehensive Income

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

Expressed in Canadian dollars (unaudited)

	Note	Three months ended		Nine months ended	
		August 31, 2020	August 31, 2019	August 31, 2020	August 31, 2019
Total revenue	19	\$ 1,014,522	\$ 787,694	\$ 7,958,855	\$ 6,411,133
Production costs	13(a), 14, 18	-	61,813	-	1,131,910
Amortization of film and television properties	7	356,791	640,085	5,120,037	2,499,869
Amortization of property, equipment and right of use assets	3, 5, 6	165,038	45,625	495,399	125,158
General and administrative	13(a), 18, 20	245,737	217,895	804,592	648,565
Impairment of investment in film and television properties	7	4,183	17,348	39,183	58,151
Selling and distribution		5,371	2,349	15,154	41,760
Share-based compensation	12(c), 18	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)
		847,140	1,074,533	6,589,942	4,791,884
Income (loss) before other items		167,382	(286,839)	1,368,913	1,619,249
Financing expense, net	3, 13(b)	16,660	37,514	64,528	74,545
Loss on disposal of property and equipment	5	-	-	-	733
Income (loss) before income taxes		150,722	(324,353)	1,304,385	1,543,971
Income tax expense		44,400	-	234,800	-
Net and comprehensive income (loss) for the period		\$ 106,322	\$ (324,353)	\$ 1,069,585	\$ 1,543,971
Income (loss) per share					
- basic		\$ 0.00	\$ -	\$ 0.01	\$ 0.02
- diluted		\$ 0.00	\$ -	\$ 0.01	\$ 0.02
Weighted average number of shares outstanding					
- 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

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 nine months ended August 31, 2020 and 2019

Expressed in Canadian dollars (unaudited)

	Note	Number of Common Shares	Issued Capital	Contributed Surplus	Accumulated Deficit	Total
Balance as at November 30, 2018		72,655,371	\$ 10,244,996	\$ 622,939	\$ (7,528,314)	\$ 3,339,621
Adoption of IFRS 15		-	-	-	(299,817)	(299,817)
Balance at December 1, 2018		72,655,371	10,244,996	622,939	(7,828,131)	3,039,804
Exercise of stock options	12(c)	250,000	32,616	(15,116)	-	17,500
Issuance of stock options	12(c)	-	-	100,437	-	100,437
Net and comprehensive income for the period		-	-	-	1,868,324	1,868,324
Balance as at August 31, 2019		72,905,371	\$ 10,277,612	\$ 708,260	\$ (5,959,807)	\$ 5,026,065
Balance as at November 30, 2019		72,905,371	\$ 10,277,612	\$ 813,322	\$ (3,798,320)	\$ 7,292,614
Exercise of stock options	12(c)	1,100,000	264,999	(119,648)	-	145,351
Issuance of stock options	12(c)	-	-	208,250	-	208,250
Reclassification of fair value of expired/cancelled stock options	12(c)	-	-	(178,528)	178,528	-
Net and comprehensive income for the period		-	-	-	1,069,585	1,069,585
Balance as at August 31, 2020		74,005,371	\$ 10,542,611	\$ 723,396	\$ (2,550,207)	\$ 8,715,800

See accompanying notes to these condensed interim consolidated financial statements

NETWORK MEDIA GROUP INC.
Condensed Interim Consolidated Statements of Cash Flows
For the three and nine months ended August 31, 2020 and 2019
Expressed in Canadian dollars (unaudited)

	Three months ended		Nine months ended	
	August 31, 2020	August 31, 2019	August 31, 2020	August 31, 2019
Operating activities				
Income (loss) for the period	\$ 106,322	\$ (324,353)	\$ 1,069,585	\$ 1,543,971
Items not involving cash:				
Amortization of property, equipment and right of use assets	165,038	45,625	495,399	125,158
Amortization of film and television properties	356,791	640,085	5,120,037	2,499,869
Impairment of investment in film and television properties	4,183	17,348	39,183	58,151
Loss on disposal of property and equipment	-	-	-	733
Share-based compensation	61,755	39,207	208,250	139,644
Forgiveness of debt and reversal of accounts payable	(5,434)	(5,425)	(6,988)	(9,959)
Income tax expense	44,400	-	234,800	-
	733,055	412,487	7,160,266	4,357,567
Net changes in non-cash working capital items				
Accounts receivable	1,037,157	700,050	539,728	621,139
Tax credits receivable	(5,500)	(54,366)	4,056,692	720,907
Prepaid expenses and deposits	(37,726)	6,548	(1,636)	20,535
Accounts payable and accrued liabilities	(538,292)	25,068	254,574	192,169
Accrued interest	21,478	53,468	159,559	120,252
Deferred revenue	(341,736)	(208,030)	(2,829,647)	(655,644)
Net cash provided by operating activities	868,436	935,225	9,339,536	5,376,925
Financing activities				
Issuance of shares for cash	70,351	-	145,351	17,500
Interim production financing	-	1,168,000	1,373,000	2,548,000
Line of credit	(20,000)	140,000	(30,000)	85,000
Repayment of interim production financing	(368,624)	(74,865)	(4,746,390)	(910,233)
Financing lease received	-	54,545	-	54,545
Repayment of lease obligations	(128,930)	(18,473)	(419,359)	(48,740)
Net cash provided by (used in) financing activities	(447,203)	1,269,207	(3,677,398)	1,746,072
Investing activities				
Purchase of property and equipment	-	(56,567)	(23,128)	(131,805)
Investment in film and television properties, net of tax credits	(490,516)	(2,060,155)	(5,424,025)	(9,342,454)
Investment in properties under development	(40,558)	(118,985)	(155,538)	(276,268)
Net cash used in investing activities	(531,074)	(2,235,707)	(5,602,691)	(9,750,527)
Net increase (decrease) in cash and cash equivalents	(109,841)	(31,275)	59,447	(2,627,530)
Cash and cash equivalents, beginning of period	1,351,742	1,001,368	1,182,454	3,597,623
Cash and cash equivalents, end of period	\$ 1,241,901	\$ 970,093	\$ 1,241,901	\$ 970,093

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 and nine months ended August 31, 2020 and 2019

Expressed in Canadian dollars (unaudited)

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 \$3,012,384 and a deficit of \$2,550,207 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 continue to generate profitable operations, manage its capital and access sufficient future capital if needed. 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.

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.

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 condensed interim 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 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, 2019. 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, 2019.

The financial statements of the Company for the three and nine months ended August 31, 2020 and 2019 were approved for issue by the Board of Directors on October 29, 2020.

NETWORK MEDIA GROUP INC.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended August 31, 2020 and 2019
Expressed in Canadian dollars (unaudited)

2. Basis of presentation (continued)

(b) Basis of measurement

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

(c) Functional currency

The financial statements are presented in Canadian dollars, which is the functional currency of the Company and its Canadian subsidiaries.

(d) Significant accounting judgments and key sources of estimate uncertainty

The preparation of the 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, 2019. 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 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, 2019. Refer to Note 3 of the Company's consolidated financial statements for the year ended November 30, 2019 for more information on new accounting standards and amendments not yet effective.

Standards applied during the period

IFRS 16 - Leases ("IFRS 16")

The Company has adopted IFRS 16 effective December 1, 2019. Previously, the Company classified leases as operating or finance leases based on IAS 17 Leases.

IFRS 16 Leases replaces IAS 17, Leases and IFRIC 4, Determining whether an arrangement contains a lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, the customer ("lessee") and the supplier ("lessor"). The standard brings most leases onto the statement of financial position for lessees under a single model, eliminating the previous classifications of operating and finance leases. The only exemption to this treatment is for low value leases or lease contracts with a duration of less than one year. This standard results in the recognition of a right of use asset and an accompanying lease liability in the statement of financial position.

NETWORK MEDIA GROUP INC.

Notes to the Condensed Interim Consolidated Financial Statements

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

Expressed in Canadian dollars (unaudited)

3. Significant accounting policies (continued)

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

On initial application, for leases previously classified as operating leases under IAS 17, the Company has elected to record right of use assets based on the corresponding calculated lease liability at December 1, 2019 of \$641,626. When measuring lease liabilities for those leases previously classified as operating leases under IAS 17, the Company discounted future lease payments using its incremental borrowing rate ("IBR" Note 11) as at December 1, 2019.

The Company's accounting policy under IFRS 16 is as follows:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This policy is applied to contracts entered into, or changed, on or after December 1, 2019.

Right of use asset

The Company recognizes a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date.

The right of use assets are subsequently amortized from the commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term using the straight-line method.

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's IBR. Generally, the Company uses its IBR as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following payments during the lease term: fixed payments (including in-substance fixed payments), and the exercise price under a purchase option that the Company is reasonably certain to exercise.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising mainly if the Company changes its assessment of whether it will exercise a purchase, renewal or termination option, or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right of use asset, or is recorded in profit or loss if the carrying amount of the right of use asset has been reduced to zero.

Under IAS 17, the Company's accounting policy was as follows:

Leases were classified as finance leases whenever the terms of the lease transferred substantially all the risks and rewards of ownership to the lessee. All other leases were classified as operating leases.

Operating lease payments were recognized as an expense on a straight-line basis over the lease term.

NETWORK MEDIA GROUP INC.

Notes to the Condensed Interim Consolidated Financial Statements

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

Expressed in Canadian dollars (unaudited)

4. Accounts receivable

	August 31, 2020	November 30, 2019
Receivables from broadcasters	\$ 320,112	\$ 871,700
Input tax credits and other receivables	76,842	64,982
	\$ 396,954	\$ 936,682

5. Property and equipment

	Computer Equipment	Furniture and Office Equipment	Production Equipment	Leasehold Improvements	Total
Cost					
Balance at November 30, 2018	\$ 1,087,950	\$ 75,614	\$ 47,258	\$ 38,253	\$ 1,249,075
Additions	166,071	5,981	13,890	-	185,942
Disposals	(1,759)	-	-	-	(1,759)
Balance at November 30, 2019	1,252,262	81,595	61,148	38,253	1,433,258
Additions	15,213	7,915	-	-	23,128
Balance at August 31, 2020	\$ 1,267,475	\$ 89,510	\$ 61,148	\$ 38,253	\$ 1,456,386
Accumulated amortization					
Balance at November 30, 2018	\$ 674,558	\$ 67,699	\$ 12,743	\$ 15,951	\$ 770,951
Amortization expense	148,928	2,181	12,438	11,151	174,698
Disposals	(1,026)	-	-	-	(1,026)
Balance at November 30, 2019	822,460	69,880	25,181	27,102	944,623
Amortization expense	98,417	2,351	8,093	8,363	117,224
Balance at August 31, 2020	\$ 920,877	\$ 72,231	\$ 33,274	\$ 35,465	\$ 1,061,847
Carrying amount					
November 30, 2019	\$ 429,802	\$ 11,715	\$ 35,967	\$ 11,151	\$ 488,635
August 31, 2020	\$ 346,598	\$ 17,279	\$ 27,874	\$ 2,788	\$ 394,539

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

During the nine months ended August 31, 2020, the Company had no disposals of property and equipment.

During the nine months ended August 31, 2019, the Company disposed of computer equipment with a carrying amount of \$733 for proceeds of \$nil. The sale resulted in the recognition of a loss on disposal of property and equipment of \$733.

NETWORK MEDIA GROUP INC.

Notes to the Condensed Interim Consolidated Financial Statements

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

Expressed in Canadian dollars (unaudited)

6. Right of use assets

	Office	Vehicle	Equipment	Total
Cost				
Balance at November 30, 2019	\$ -	\$ -	\$ -	\$ -
Adoption of IFRS 16	688,406	34,186	10,777	733,369
Balance at August 31, 2020	\$ 688,406	\$ 34,186	\$ 10,777	\$ 733,369
Accumulated amortization				
Balance at November 30, 2019	\$ -	\$ -	\$ -	\$ -
Amortization expense	369,660	5,196	3,319	378,175
Balance at August 31, 2020	\$ 369,660	\$ 5,196	\$ 3,319	\$ 378,175
Carrying amount				
November 30, 2019	\$ -	\$ -	\$ -	\$ -
August 31, 2020	\$ 318,746	\$ 28,990	\$ 7,458	\$ 355,194

7. Investment in film and television properties

	Properties in development	Properties in progress	Properties completed and released	Total
Balance, November 30, 2018	\$ 1,013,533	\$ 4,680,500	\$ 3,826,263	\$ 9,520,296
Additions	262,707	10,545,724	3,802,760	14,611,191
Tax credits accrued	-	(1,841,420)	(1,397,185)	(3,238,605)
Funding taken into income	29,133	-	-	29,133
Transferred to projects in progress	(50,837)	50,837	-	-
Transferred to properties completed and released	-	(10,141,881)	10,141,881	-
Amounts written off and impaired	(138,801)	-	-	(138,801)
Amortization	-	-	(9,357,783)	(9,357,783)
Balance, November 30, 2019	1,115,735	3,293,760	7,015,936	11,425,431
Additions	143,387	2,471,188	3,200,047	5,814,622
Tax credits accrued	-	(431,803)	(599,663)	(1,031,466)
Transferred to properties in progress	(88,009)	88,009	-	-
Allocated to direct production costs	(8,179)	-	-	(8,179)
Funding taken into deferred revenue	108,339	-	-	108,339
Transferred to properties completed and released	-	(3,171,511)	3,171,511	-
Amounts written off and impaired	(39,183)	-	-	(39,183)
Amortization	-	-	(5,120,037)	(5,120,037)
Balance, August 31, 2020	\$ 1,232,090	\$ 2,249,643	\$ 7,667,794	\$ 11,149,527
As at August 31, 2020				
Cost	\$ 1,232,090	\$ 2,249,643	\$ 29,242,657	\$ 32,724,390
Accumulated amortization	-	-	(21,574,863)	(21,574,863)
Carrying amount	\$ 1,232,090	\$ 2,249,643	\$ 7,667,794	\$ 11,149,527
As at November 30, 2019				
Cost	\$ 1,115,735	\$ 3,293,760	\$ 23,470,760	\$ 27,880,255
Accumulated amortization	-	-	(16,454,824)	(16,454,824)
Carrying amount	\$ 1,115,735	\$ 3,293,760	\$ 7,015,936	\$ 11,425,431

During the three and nine months ended August 31, 2020, interest of \$9,190 and \$65,520 (2019 – \$20,083 and \$56,330) has been capitalized within the properties in progress and productions completed and released balances.

NETWORK MEDIA GROUP INC.

Notes to the Condensed Interim Consolidated Financial Statements

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

Expressed in Canadian dollars (unaudited)

8. 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 \$300,000. Borrowing under the line of credit bears interest, payable monthly, at the bank's prime rate plus 1.8% and is secured by a general security agreement over the property of the Company. The balances payable under this agreement are due on demand. As of August 31, 2020, outstanding borrowings were \$205,000 (November 30, 2019 – \$235,000).

9. 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% 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.

10. 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 August 31, 2020, the Company had a deferred revenue balance of \$1,643,849 (November 30, 2019 – \$4,473,496).

11. Lease obligations

The Company leased certain operating equipment under four equipment financing leases (November 30, 2019 – two financing leases). The Company's obligations under the finance leases are secured by the lessor's title to the leased assets. The weighted average interest rate is 4.86% per annum (November 30, 2019 – 5.19%) and have a lease term of three years (November 30, 2019 – three years). At the end of the lease term, the Company has an option to purchase the equipment for \$1.

At the date of initial adoption of IFRS 16, the Company discounted the remaining office, vehicle & equipment lease payments using the IBR as of December 1, 2019: office leases – 5.45%; and vehicle leases – 4.99%.

NETWORK MEDIA GROUP INC.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended August 31, 2020 and 2019
Expressed in Canadian dollars (unaudited)

11. Lease obligations (continued)

The Company's leases are comprised of the following:

	Office Leases	Equipment Leases	Vehicle Leases	Total
Lease obligations recognized at November 30, 2019	\$ -	\$ 195,026	\$ -	\$ 195,026
Adoption of IFRS 16	407,316	5,098	34,186	446,600
Lease obligations recognized at December 1, 2019	407,316	200,124	34,186	641,626
Leases entered into during the period	281,090	5,679	-	286,769
Interest expense	30,962	3,975	1,138	36,075
Lease payments	(389,585)	(44,812)	(5,833)	(440,230)
Lease obligations balance at August 31, 2020	329,784	164,966	29,491	524,241
Less: non-current portion	-	(36,346)	(22,789)	(59,135)
Current portion of lease liabilities	\$ 329,784	\$ 128,620	\$ 6,702	\$ 465,106

The carrying amount of the leased equipment as of August 31, 2020 is \$170,002 (November 30, 2019 – \$219,357) which is included in the balance in Note 5.

12. Share capital and reserves

(a) *Authorized*

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

(b) *Issued share capital*

During the nine months ended August 31, 2020, the Company issued 1,100,000 common shares on the exercise of stock options for proceeds of \$145,351, as follows:

- a. 300,000 options on December 3, 2019 when stock price was \$0.18
- b. 300,000 options on February 12, 2020 when stock price was \$0.21
- c. 465,000 options on June 29, 2020 when stock price was \$0.17
- d. 35,000 options on June 29, 2020 when stock price was \$0.17

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

(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 14,500,000 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 nine months ended August 31, 2020, 1,235,000 stock options were cancelled or expired (2019 – 40,000), resulting in a reclassification of amounts totalling \$178,528 (2019 – \$nil) from contributed surplus to accumulated deficit.

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12. Share capital and reserves (continued)

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

	As at August 31, 2020		As at November 30, 2019	
	Number of Options	Weighted Ave. Exercise Price	Number of Options	Weighted Ave. Exercise Price
Outstanding, beginning of year	10,307,920	\$ 0.15	8,487,920	\$ 0.15
Granted	1,000,000	\$ 0.20	2,110,000	\$ 0.13
Cancelled	(1,235,000)	\$ 0.00	(40,000)	\$ 0.15
Exercised	(1,100,000)	\$ 0.13	(250,000)	\$ 0.07
Outstanding, end of period	<u>8,972,920</u>	<u>\$ 0.15</u>	<u>10,307,920</u>	<u>\$ 0.15</u>

As at August 31, 2020, 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>
370,920	370,920	\$ 0.20	0.91	July 28, 2021
2,842,000	2,842,000	\$ 0.14	1.90	July 27, 2022
2,110,000	1,590,001	\$ 0.15	2.63	April 19, 2023
400,000	266,667	\$ 0.12	2.95	August 13, 2023
250,000	83,333	\$ 0.12	3.23	November 23, 2023
1,600,000	533,333	\$ 0.13	3.87	July 15, 2024
400,000	-	\$ 0.15	4.16	October 28, 2024
1,000,000	-	\$ 0.20	4.50	March 2, 2025
<u>8,972,920</u>	<u>5,686,254</u>	<u>\$ 0.14</u>	<u>2.86</u>	

Vesting terms are as follows:

- 1,000,000 options granted March 2, 2020: 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 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

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12. Share capital and reserves (continued)

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

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.

(d) *Contributed surplus*

Contributed surplus consists of the following amounts:

	August 31, 2020	November 30, 2019
Outstanding options	\$ 891,721	\$ 981,647
Convertible debt	134,326	134,326
Share exchange for Network Entertainment Inc.	(302,651)	(302,651)
	\$ 723,396	\$ 813,322

13. Supplemental statement of net and comprehensive income disclosure

(a) *Employee benefit expenses*

Total salaries and wages recognized in profit or loss for the three and nine months ended August 31, 2020 was \$106,254 and \$315,010 (2019 – \$34,431 and \$404,115) of which \$nil and \$nil was recorded as direct production costs (2019 – \$nil and \$284,222) and \$106,254 and \$315,010 was recorded as general and administration (2019 – \$15,743 and \$36,186).

(b) *Financing expenses*

Financing expenses are comprised of the following:

		Three months ended		Nine months ended	
	Note	August 31, 2020	August 31, 2019	August 31, 2020	August 31, 2019
Interest income		\$ (3,054)	\$ (8)	\$ (46,405)	\$ (1,658)
Interest expense on interim production financing	9	7,924	33,384	66,626	61,762
Interest expense on line of credit	8	3,071	4,138	12,208	12,281
Interest expense on lease obligations	3, 11	8,719	-	32,099	2,160
Net financing expense		\$ 16,660	\$ 37,514	\$ 64,528	\$ 74,545

14. 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 nine months ended August 31, 2020 were recorded as follows:

- Reduction to direct production costs of \$nil (2019 – \$315,907), and;
- Reduction to investment in film and television properties of \$1,034,340 (2019 – \$2,171,113).

During the nine months ended August 31, 2020, the Company received \$431,556 (2019 - \$nil) from the Canada Emergency Wage Subsidy (“CEWS”) and was recorded as a reduction of salaries and wages.

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15. 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 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.

NETWORK MEDIA GROUP INC.

Notes to the Condensed Interim Consolidated Financial Statements

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15. Financial instruments (continued)

(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.

16. 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.

17. 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 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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18. Related parties

Key management personnel are those persons having the authority and responsibility for planning, directing, and controlling activities of the entity, directly or indirectly. Related parties are defined as key management personnel as well as any companies that are controlled by Officers or Directors of the Company. During the nine months ended August 31, 2020, the Company:

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

	Nine months ended	
	August 31, 2020	August 31, 2019
Short-term employee benefits	\$ 504,830	\$ 346,137
Share-based compensation	124,203	42,253
	<u>\$ 629,033</u>	<u>\$ 388,390</u>
Recorded as:		
General and administrative expenses	\$ 15,180	\$ 26,729
Share-based compensation	124,203	42,253
Direct production costs	-	15,750
Investment in film and television properties	489,650	303,658
	<u>\$ 629,033</u>	<u>\$ 388,390</u>
Options issued	<u>1,000,000</u>	-

Accounts payable and accrued liabilities at August 31, 2020 includes, \$18,650 (November 30, 2019 – \$13,650) 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.

19. Revenue

	Three months ended August 31, 2020	Three months ended August 31, 2019	Nine months ended August 31, 2020	Nine months ended August 31, 2019
Production revenue	\$ 717,619	\$ 740,313	\$ 7,351,735	\$ 4,902,700
Contract production services revenue	-	47,381	-	1,336,725
Distribution revenue	132,565	-	438,282	171,708
Other revenue	164,338	-	168,838	-
	<u>\$ 1,014,522</u>	<u>\$ 787,694</u>	<u>\$ 7,958,855</u>	<u>\$ 6,411,133</u>

Of the Company's \$7,958,885 (2019 – \$6,411,133) in revenues for the nine months ended August 31, 2020, \$407,577 (2019 – \$154,970) was attributable to external customers located in Canada, \$7,156,519 (2019 – \$5,516,436) was attributable to external customers located in the U.S., and \$394,759 (2019 – \$739,727) was attributable to external customers located in the U.K.

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20. General and administrative expenses

	Three months ended	Three months ended	Nine months ended	Nine months ended
	August 31,	August 31,	August 31,	August 31,
	2020	2019	2020	2019
Insurance	\$ 6,775	\$ 5,926	\$ 17,292	\$ 26,758
Interest and bank charges	25,609	6,055	62,499	23,178
Office and general	4,425	36,176	83,566	96,217
Professional fees	59,084	-	156,053	140,682
Rent and utilities	6,307	-	8,685	-
Salaries and wages	106,254	121,486	315,010	206,948
Technology and licenses	23,261	15,051	82,642	48,019
Telecommunications	3,708	5,164	16,132	10,840
Transfer agent and filing fees	8,835	5,858	18,393	32,652
Travel	1,479	22,179	44,320	63,271
	\$ 245,737	\$ 217,895	\$ 804,592	\$ 648,565

21. Supplemental cash flow information

i. Non-cash investing and financing activities

	Three months ended	Three months ended	Nine months ended	Nine months ended
	August 31,	August 31,	August 31,	August 31,
	2020	2019	2020	2019
Amount included in prior year projects in progress transferred to productions completed and released	\$ -	\$ 472,374	\$ 3,171,511	\$ 1,637,462
Tax credits receivable included in production costs	\$ (191,042)	\$ 456,524	\$ 1,858,930	\$ 4,949,208
Accounts payable included in production costs	\$ (871,147)	\$ (128,711)	\$ 690,776	\$ 561,769
Fair value of options exercised	\$ -	\$ -	\$ 58,145	\$ 32,616
Fair value of options cancelled	\$ 172,364	\$ -	\$ 178,528	\$ -
IFRS 16 adoption of right of use assets	\$ (94,890)	\$ -	\$ 355,194	\$ -

ii. Interest paid

Interest paid during the three and nine months ended August 31, 2020 was \$51,357 and \$328,711 (2019 – \$21,145 and \$94,190).

22. Subsequent events

Subsequent to August 31, 2020 the Company:

- i. Repaid of \$528,181 interim production loans, and;
- ii. Received an additional \$95,537 from the CEWS program.