

Consolidated Financial Statements of

NETWORK MEDIA GROUP INC.

November 30, 2019 and 2018

N E T W O R K

www.networkmediagroup.ca

March 30, 2020

Management’s Responsibility for Financial Reporting

The accompanying consolidated financial statements and Management’s Discussion and Analysis (“MD&A”) of Network Media Group Inc. (the “Company”) are the responsibility of management and have been approved by the Audit Committee of the Board of Directors (the “Board”). The Board is responsible for ensuring that management fulfils its responsibilities for financial reporting, and is ultimately responsible for reviewing and approving the consolidated financial statements and MD&A. The Board carries out this responsibility through its Audit Committee. The Audit Committee reviews the Company’s consolidated financial statements and MD&A and recommends their approval to the Board of Directors.

The Audit Committee is appointed by the Board and the majority of its members are independent directors. It meets with the Company’s management and reviews internal control and financial reporting matters to ensure that management is properly discharging its responsibilities before submitting the consolidated financial statements to the Board of Directors for approval.

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”). When alternative methods of accounting exist, management has chosen those it deems most appropriate in the circumstances. The consolidated financial statements and information in the MD&A necessarily include amounts based on informed judgments and estimates of the expected effects of current events and transactions with appropriate consideration to materiality. In addition, in preparing the consolidated financial statements, management must make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information. The MD&A also includes information regarding the impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from our present assessment of this information because future events and circumstances may not occur as expected.

Baker Tilly WM LLP, appointed as the Company’s auditors by the shareholders, have audited these consolidated financial statements and their report follows.

(signed) “Derik Murray”
Chief Executive Officer
Vancouver, BC

(signed) “Darren Battersby”
Chief Financial Officer
Vancouver, BC

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Network Media Group Inc.:

Opinion

We have audited the consolidated financial statements of Network Media Group Inc. and its subsidiaries (together the “Company”), which comprise the consolidated statements of financial position as at November 30, 2019 and 2018, and the consolidated statements of net and comprehensive income(loss), consolidated statements of changes in shareholders’ equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at November 30, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which describes conditions indicating that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Management’s Discussion and Analysis filed with the relevant Canadian securities commissions.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor’s report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities with the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Anna C. Moreton.

Baker Tilly WM LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, B.C.

March 30, 2020

NETWORK MEDIA GROUP INC.
Consolidated Statements of Financial Position
As at November 30, 2019 and November 30, 2018
Expressed in Canadian dollars

	Note	November 30, 2019	November 30, 2018
ASSETS			
Current			
Cash and cash equivalents		\$ 1,182,454	\$ 3,597,623
Accounts receivable	4	936,682	1,310,656
Tax credits receivable		4,998,475	2,435,503
Prepaid expenses and deposits		128,495	67,710
		7,246,106	7,411,492
Tax credits receivable		590,276	1,284,641
Property and equipment	5	488,635	478,124
Investment in film and television properties	6, 13, 18	11,425,431	9,095,904
Total Assets		\$ 19,750,448	\$ 18,270,161
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Line of credit	7	\$ 235,000	\$ 140,000
Accounts payable and accrued liabilities	18	2,326,858	2,093,834
Interim production financing	8	4,878,354	2,734,652
Deferred revenue	9	4,473,496	9,695,926
Current portion of settlement on claim	16	25,000	75,000
Current portion of financing lease obligations	10	96,985	61,355
		12,035,693	14,800,767
Financing lease obligations	10	98,041	104,773
Deferred income tax	21	324,100	-
Settlement on claim	16	-	25,000
Total Liabilities		12,457,834	14,930,540
Shareholders' Equity			
Share capital	11	10,277,612	10,244,996
Contributed surplus	11(d)	813,322	622,939
Deficit		(3,798,320)	(7,528,314)
Total Shareholders' Equity		7,292,614	3,339,621
Total Liabilities and Shareholders' Equity		\$ 19,750,448	\$ 18,270,161

Nature of operations (Note 1)
Contingent liabilities (Note 16)

Approved by: the Board of Directors on March 30, 2020

"Paul Gertz"

Paul Gertz, Director

"Derik Murray"

Derik Murray, Director

The accompanying notes are an integral part of these consolidated financial statements

NETWORK MEDIA GROUP INC.
Consolidated Statements of Net and Comprehensive Income (Loss)
For the years ended November 30, 2019 and 2018
Expressed in Canadian dollars

	Note	Year Ended November 30, 2019	November 30, 2018
Total revenue	19	\$ 16,278,621	\$ 2,674,579
Production costs	12(a), 13, 18	1,153,157	25,621
Amortization of film and television properties	6	9,357,783	1,798,877
Amortization of property and equipment	5	174,698	138,622
General and administrative	12(a), 18, 20	906,554	407,533
Impairment of investment in film and television properties	6	138,801	74,312
Selling and distribution		74,075	139,204
Share-based compensation	11(c), 18	205,499	540,746
Foreign exchange gain		(186,826)	(102,255)
Forgiveness of debt and reversal of accounts payable		(18,078)	(9,402)
		11,805,663	3,013,258
Income (losses) before other items		4,472,958	(338,679)
Financing expense, net	12(b)	118,314	97,479
Settlement on claim	16	-	100,000
Loss (gain) on disposal of property and equipment	5	733	(10,839)
Income (losses) before income taxes		4,353,911	(525,319)
Income tax expense	21	324,100	-
Net and comprehensive income (loss) for the year		\$ 4,029,811	\$ (525,319)
Income (loss) per share			
- basic		\$ 0.06	\$ (0.01)
- diluted		\$ 0.06	\$ (0.01)
Weighted average number of shares outstanding			
- basic		72,858,796	71,952,919
- diluted		73,018,276	71,952,919

The accompanying notes are an integral part of these consolidated financial statements

NETWORK MEDIA GROUP INC.

Consolidated Statements of Changes in Shareholders' Equity

For the years ended November 30, 2019 and 2018

Expressed in Canadian dollars

	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	18,466	-	(8,666)	-	9,800
Issuance of stock options	11(c)	-	-	-	540,746	-	540,746
Reclassification of fair value of expired/cancelled stock options	11(c)	-	-	-	(137,800)	137,800	-
Net and comprehensive loss for the year		-	-	-	-	(525,319)	(525,319)
Balance as at November 30, 2018		72,655,371	\$ 10,244,996	\$ -	\$ 622,939	\$ (7,528,314)	\$ 3,339,621
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(o)(iii)	-	-	-	-	(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	11(c)	250,000	32,616	-	(15,116)	-	17,500
Issuance of stock options	11(c)	-	-	-	205,499	-	205,499
Net and comprehensive income for the year		-	-	-	-	4,029,811	4,029,811
Balance as at November 30, 2019		72,905,371	\$ 10,277,612	\$ -	\$ 813,322	\$ (3,798,320)	\$ 7,292,614

The accompanying notes are an integral part of these consolidated financial statements

NETWORK MEDIA GROUP INC.
Consolidated Statements of Cash Flows
For the years ended November 30, 2019 and 2018
Expressed in Canadian dollars

	Year Ended	
	November 30, 2019	November 30, 2018
Operating activities		
Income (loss) for the year	\$ 4,029,811	\$ (525,319)
Items not involving cash:		
Amortization of property and equipment	174,698	138,622
Amortization of film and television properties	9,357,783	1,798,877
Impairment of investment in film and television properties	138,801	74,312
Development funding taken into income	(29,133)	-
Loss (gain) on disposal of property and equipment	733	(10,839)
Share-based compensation	205,499	540,746
Settlement on claim	-	100,000
Forgiveness of debt and reversal of accounts payable	(18,078)	(9,402)
Income tax expense	324,100	-
	14,184,214	2,106,997
Net changes in non-cash working capital items		
Accounts receivable	245,077	(635,352)
Tax credits receivable	718,602	1,709,460
Prepaid expenses and deposits	(60,785)	(30,921)
Accounts payable and accrued liabilities	144,016	(189,415)
Accrued interest	182,994	134,353
Deferred revenue	(5,817,742)	8,529,876
Net cash provided by operating activities	9,596,376	11,624,998
Financing activities		
Issuance of shares for cash	17,500	882,571
Interim production financing	2,879,675	2,021,000
Line of credit	95,000	70,000
Repayment of interim production financing	(918,967)	(1,897,815)
Financing lease received	100,124	-
Repayment of financing lease obligations	(71,226)	(30,878)
Repayment of debt payable	-	(8,669)
Net cash provided by financing activities	2,102,106	1,036,209
Investing activities		
Purchase of property and equipment	(185,942)	(156,556)
Proceeds from disposal of property and equipment	-	16,289
Investment in film and television properties, net of tax credits	(13,665,002)	(8,507,614)
Investment in properties under development	(262,707)	(509,013)
Net cash used in investing activities	(14,113,651)	(9,156,894)
Net increase (decrease) in cash	(2,415,169)	3,504,313
Cash and cash equivalents, beginning of year	3,597,623	93,310
Cash and cash equivalents, end of year	\$ 1,182,454	\$ 3,597,623

SUPPLEMENTAL CASH FLOW INFORMATION (Note 22)

The accompanying notes are an integral part of these consolidated financial statements

NETWORK MEDIA GROUP INC.

Notes to the Consolidated Financial Statements

For the years ended November 30, 2019 and 2018
Expressed in Canadian dollars

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 \$4,789,587 and a deficit of \$3,798,320 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 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 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. The 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 released, March 30, 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*

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and interpretations from the International Financial Reporting Interpretations Committee (“IFRIC”) with significant accounting policies as described in Note 3.

The consolidated financial statements of the Company for the years ended November 30, 2019 and 2018 were approved for issue by the Board of Directors on March 30, 2020.

(b) *Basis of measurement*

The consolidated 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.

NETWORK MEDIA GROUP INC.

Notes to the Consolidated Financial Statements

For the years ended November 30, 2019 and 2018
Expressed in Canadian dollars

2. Basis of presentation (continued)

(c) *Functional currency*

The consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its Canadian subsidiaries. The functional currency of Network Entertainment Corp., the US subsidiary, is the US dollar. The financial statements of these consolidated entities with a functional currency other than the Canadian dollar are translated in accordance with Note 3(b).

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

In the preparation of the consolidated financial statements and the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions that affect the carrying amounts of assets, and liabilities, and the reported amounts of income and expenses. The estimates and associated assumptions are limited by the relevance of historical data and uncertainty of future events. Actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Information about assumptions and estimation uncertainties that could have a significant impact on the amounts recognized in the consolidated financial statements is included in the following notes:

- Note 3(d), 3(g), 5 – Property and equipment
- Note 3(e), 3(g), 6 – Investment in film and television properties
- Note 3(h), 9, 19 – Revenue recognition
- Note 3(j) – Tax credits receivable
- Note 3(k), 11(c) – Share-based compensation

Information about critical judgments, apart from those involving the assumptions and estimation uncertainties discussed above, made in the process of applying the Company's key accounting policies that could have a significant impact on the amounts recognized in the consolidated financial statements is included in the following notes:

- Note 1 – Going concern
- Note 3(m)(ii), 16 – Contingent liabilities
- Note 3(n), 21 – Income taxes

NETWORK MEDIA GROUP INC.

Notes to the Consolidated Financial Statements

For the years ended November 30, 2019 and 2018
Expressed in Canadian dollars

3. Significant accounting policies

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of Network and its wholly owned subsidiaries (Note 11(d)). The active companies included within the consolidated financial statements are as follows:

- Network Media Group Inc. (British Columbia Incorporated)
- Network Entertainment Inc. (British Columbia Incorporated)
- Network Films Fifteen Inc. (British Columbia Incorporated)
- Network Films Sixteen Inc. (British Columbia Incorporated)
- Network Films Seventeen Inc. (British Columbia Incorporated)
- Network Films Eighteen Inc. (British Columbia Incorporated)
- Network Pictures Sixteen Inc. (British Columbia Incorporated)
- Network Pictures Seventeen Inc. (British Columbia Incorporated)
- Network Pictures Eighteen Inc. (British Columbia Incorporated)
- Network Pictures Nineteen Inc. (British Columbia Incorporated)
- Network Entertainment Corp. (Delaware Incorporated)

All intercompany balances, transactions, income and expenses are eliminated on consolidation.

(b) Foreign currency translation

Transactions in currencies other than the functional currency are translated at the rates of exchange at the date of the transaction. At each statement of financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the period end date. The income and expenses are translated at the exchange rates ruling at the dates of the transactions. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Foreign exchange gains and losses are recognized in profit or loss in the period in which they arise.

(c) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with financial institutions that are cashable and where principal is guaranteed, and other highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The Company did not hold any cash equivalents as at November 30, 2019 and 2018.

NETWORK MEDIA GROUP INC.

Notes to the Consolidated Financial Statements

For the years ended November 30, 2019 and 2018
Expressed in Canadian dollars

3. Significant accounting policies (continued)

(d) Property and equipment

Property and equipment are stated at cost less accumulated amortization and accumulated impairment losses. Amortization of the assets' cost less residual value is recognized over the estimated useful life of assets, based on the following annual rates, except in the year of acquisition, when half the annual rate is applied:

Computer equipment	30% declining balance
Furniture and office equipment	20% declining balance
Production equipment	30% declining balance
Leasehold improvements	Straight line over term of the lease

The estimated useful lives, residual values and amortization methods are reviewed at the end of each reporting period, with the effect of any changes in estimates accounted for on a prospective basis. The determination of appropriate useful lives and residual values are based on management's judgment; therefore the resulting amortization is subject to estimation uncertainty.

Items of property and equipment are derecognized upon disposal or when no future economic benefits are expected to arise from their continued use. Any gain or loss arising from disposal or retirement is determined as the difference between the consideration received and the carrying amount of the asset and is recognized in profit or loss.

(e) Investment in film and television properties

Investment in film and television properties represents the unamortized cost of film and television properties which are in development and in progress, purchased property rights and completed proprietary film and television properties that have been produced by the Company.

Productions completed and released are reviewed on a case by case basis and amortization rates and timelines are adjusted depending on the estimated life of the property. The Company's typical documentaries, including the "I Am" series are amortized at rates ranging from 50% - 60% of cost at the time of initial delivery, 10% of cost in year 2, 5% of cost in year 3 and the remaining balance is amortized on a straight-line basis over 7 years. In fiscal 2019 the Company completed 6 of 8 episodes of a unique documentary, this production is being amortized, by episode, 75% in year 1 and the balance on a straight-line basis over the next 3 years.

The carrying amount of investment in film and television properties is reviewed quarterly and any portion of the unamortized amount that appears not to be recoverable from future net revenues is recognized as accelerated amortization during the period the loss becomes evident.

NETWORK MEDIA GROUP INC.
Notes to the Consolidated Financial Statements
For the years ended November 30, 2019 and 2018
Expressed in Canadian dollars

3. Significant accounting policies (continued)

(e) Investment in film and television properties (continued)

For film and television properties produced by the Company, capitalized costs include all direct production costs and, an allocation of directly attributable overhead incurred during production that are expected to benefit future periods. Financing costs are capitalized to the costs of a film or television property until the film or television program is complete. See note 3(i).

Properties under development

Properties under development represent the accumulated costs of properties that have not been completed or delivered by the Company, and include properties in development and properties in progress. Development costs include the costs of acquiring film rights and the third party costs required to develop the property's concept and materials to finance the property. Development costs are incurred prior to the production process and are capitalized. Upon commencement of production, development costs are transferred to production costs. Development costs are written off when the property has been held for three years from initial investment if there have been no activities with respect to the property within the year or earlier when it has been determined that such costs cannot be recovered.

Impairment

The valuation of investment in film and television properties is reviewed on a property by property basis. Properties in development and properties in progress are tested for impairment at the end of each reporting period. Investments in film and television properties are assessed at each reporting period for indicators of impairment and, if present, the property is tested for impairment when circumstances indicated that the recoverable amount of a property may be less than its carrying value. The recoverable amount of the property is determined using management's estimate of the fair value less costs to sell based on future revenues and costs. A write-down is recorded equivalent to the amount by which the carrying value exceeds the recoverable amount of the property. Refer to Note 3(g)(i) for more information on assessing and testing non-financial assets for impairment, including investment in film and television properties.

(f) Financial instruments

i. *Recognition*

The Company recognizes a financial asset or financial liability on the consolidated statement of financial position when it becomes party to the contractual provisions of the financial instrument. Financial assets are initially measured at fair value.

ii. *Classification and measurement*

The Company determines the classification of its financial instruments at initial recognition. Financial assets and financial liabilities are classified according to the following measurement categories:

- i) those to be measured subsequently at fair value, either through profit or loss ("FVTPL") or through other comprehensive income ("FVTOCI"); and,
- ii) those to be measured subsequently at amortized cost.

NETWORK MEDIA GROUP INC.

Notes to the Consolidated Financial Statements

For the years ended November 30, 2019 and 2018
Expressed in Canadian dollars

3. Significant accounting policies (continued)

(f) Financial instruments (continued)

iii. Classification and measurement (continued)

The classification and measurement of financial assets after initial recognition at fair value depends on the business model for managing the financial asset and the contractual terms of the cash flows. Financial assets that are held within a business model whose objective is to collect the contractual cash flows are generally measured at amortized cost at each subsequent reporting period. All other financial assets are measured at their fair values at each subsequent reporting period, with any changes recorded through profit or loss or through other comprehensive income.

After initial recognition at fair value, financial instruments are classified and measured at either:

- i) amortized cost;
- ii) FVTPL, if the Company has made an irrevocable election at the time of recognition, or when required (for items such as instruments held for trading or derivatives); or
- iii) FVTOCI, when the change in fair value is attributable to changes in the Company's credit risk.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

Transaction costs that are directly attributable to the acquisition or issuance of a financial asset or financial liability classified as subsequently measured at amortized cost are included in the fair value of the instrument on initial recognition. Transaction costs for financial assets and financial liabilities classified at fair value through profit or loss are expensed in profit or loss.

iv. Derecognition

Financial assets are derecognized either when the Company has transferred substantially all the risks and rewards of ownership of the financial asset, or when cash flows expire.

Financial liabilities are derecognized when, and only when, the Company's obligations are discharged, cancelled or they expire.

v. Impairment

The Company assesses all information available, including on a forward-looking basis the expected credit losses associated with any financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information.

NETWORK MEDIA GROUP INC.
Notes to the Consolidated Financial Statements
For the years ended November 30, 2019 and 2018
Expressed in Canadian dollars

3. Significant accounting policies (continued)

(g) *Impairment*

i) *Non-financial assets*

The Company's property and equipment are reviewed for indicators of potential impairment at least annually. The Company's investments in film and television properties are reviewed for indicators of potential impairment as described in Note 3(e) above. Such indicators may include an adverse change in business climate, technology, or regulations that impact the industry. The determination of whether such indicators exist requires significant judgment.

If indication of impairment exists, the asset's recoverable amount is estimated to determine the extent of an impairment loss, if any. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit ("CGU") to which the asset belongs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Each film and television property is considered to be a CGU.

The recoverable amount of an asset or CGU is the greater of fair value less costs to sell and value in use. The determination of the recoverable amount in the impairment assessment requires estimates based on present value or other valuation techniques or a combination thereof, requiring management to make subjective judgments and assumptions. When calculating an asset's value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the cash flows have not been adjusted.

An impairment loss is recognized when the carrying amount of an asset, or CGU, exceeds its recoverable amount. Impairment losses are recognized in profit or loss for the period. An impairment loss recognized in respect of a CGU is allocated first to reduce the carrying amount of any goodwill allocated to the CGU, if any, and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis. The Company has no goodwill balance for any of the reporting periods presented.

NETWORK MEDIA GROUP INC.

Notes to the Consolidated Financial Statements

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3. Significant accounting policies (continued)

(g) Impairment (continued)

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. The reversal of an impairment loss is recognized immediately in profit or loss.

ii) Financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been negatively affected. The determination of whether such indicators exist requires significant judgment.

Objective evidence of impairment could include the following:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments;
- it has become probable that the borrower will enter bankruptcy or financial reorganization;
- the disappearance of an active market for the security;
- significant or prolonged decline in the fair value of an equity instrument below its cost.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of the asset is directly reduced by the impairment loss with the exception of trade receivables from broadcasters. The carrying amount of trade receivables is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off to the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

(h) Revenue recognition

Revenue is earned primarily from the production and distribution of film and television properties.

Revenue from the sale of film and television property rights and license arrangements ("Production revenue") and Distribution revenue are recognized when management considers it probable that the economic benefits will flow to the Company, and that the revenue to be received is reliably measurable. The above conditions are considered met when persuasive evidence of a sale or arrangement with a customer exists, the film or series episode is complete and the contractual delivery arrangements have been satisfied, the arrangement fee is fixed or determinable, collection of the arrangement fee is reasonably assured, and other conditions as specified in the respective agreements have been met. Distribution revenue is revenue earned upon the expiry of the initial license term or is revenue in excess of the Production revenue.

NETWORK MEDIA GROUP INC.

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3. Significant accounting policies (continued)

(h) Revenue recognition (continued)

Revenue from contract film and television production services for third parties is recognized using the percentage-of-completion method when the following criteria are met: there is a written arrangement with a customer detailing the amount of total contract revenue so that the revenue can be measured reliably, the stage of completion can be measured reliably, the receipt of payment is probable, and costs incurred and to be incurred can be measured reliably. The percentage-of-completion is calculated based upon the proportion of costs incurred up to the current period to the property's total expected costs. When it is expected that total costs will exceed revenue the expected loss is recognized immediately in profit or loss.

The estimate of revenue depends on management's judgment and assumptions regarding expected total costs and revenue and recoverability of expenses. Management also uses judgment in assessing the assurance of collectability.

Cash payments received or receivable are recorded as deferred revenue until all conditions of revenue recognition have been met.

(i) Borrowing costs

Borrowing costs consist of interest and other costs that the Company incurs in connection with the borrowing of funds for the financing of properties in progress. Borrowing costs directly attributable to the acquisition or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

(j) Government financing and assistance - Tax credits

The Company claims federal and provincial film or video production refundable tax credits in Canada related to specific production expenditures. Tax credits are recorded on a net basis as a reduction in production costs for associated productions developed by the Company. Federal and provincial refundable income tax credits are considered receivable when conditions for eligibility of production assistance have been met, the qualified expenditures have been incurred and there is reasonable assurance that the credits will be realized. Tax credits are calculated using management's estimates of the amount of labour that qualifies for the refundable tax at the end of each reporting period. The federal and provincial governments' review of these calculations may ultimately adjust these estimates.

(k) Share-based compensation

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to profit or loss over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these market vesting conditions are satisfied.

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3. Significant accounting policies (continued)

(k) Share-based compensation (continued)

The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit or loss over the remaining vesting period.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in profit or loss, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

All equity-settled share-based payments are reflected in contributed surplus, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in contributed surplus is credited to share capital, adjusted for any consideration paid. Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument.

For cash-settled plans, the fair value of the amount payable is recognized as an expense, with a corresponding increase in liabilities, over the period that the rights holder becomes entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any change in the fair value of the liability is recognized as an expense for the period.

The fair value of expired and cancelled options is reclassified from contributed surplus to deficit.

(l) Earnings (loss) per share

Basic earnings (loss) per share are calculated using the weighted average number of common shares outstanding during the year. The computation of diluted earnings per share assumes the basic weighted average number of common shares outstanding during the year is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. These include the Company's options outstanding as at year end. The dilutive effect of stock options is determined using the treasury stock method. Diluted loss per share is equal to basic loss per share, and excludes the effect of any potentially dilutive instruments, because they would be anti-dilutive.

As at November 30, 2019 the Company had 5,972,000 (2018 – Nil) outstanding stock options which were dilutive.

NETWORK MEDIA GROUP INC.

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3. Significant accounting policies (continued)

(m) Provisions and contingencies

(i) Provisions - Measurement

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received if the entity settles the obligation.

(ii) Contingencies - Disclosure

A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events, not within the control of the Company, or where the amount of a present obligation cannot be measured reliably or it is not probable that an economic outflow will be required. Contingent assets are only disclosed when the inflow of economic benefits is probable. As contingencies will only be resolved when one or more future events occur or fail to occur, the assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

(n) Income taxes

Income tax expense comprises current and deferred tax.

Current tax is the expected tax payable or recoverable on the taxable profit or loss for the year using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable from previous years.

Deferred tax assets and liabilities are recognized for deferred tax consequences attributable to unused tax loss carry forwards, unused tax credits and differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced. Assessing the recoverability of deferred tax assets requires the Company to make significant judgments related to expectations of future taxable income.

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3. Significant accounting policies (continued)

(n) *Income taxes (continued)*

Temporary differences do not result in deferred tax assets or liabilities if they relate to:

- an initial recognition of assets or liabilities, that does not arise from a business combination, and that does not affect accounting or taxable profit;
- goodwill;
- investments in subsidiaries, associates and jointly controlled entities where the timing of reversal of the temporary differences can be controlled by the Company and reversal in the foreseeable future is not probable.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

(o) *Standards applied during the year*

- (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.

The Company completed an assessment of its financial assets and liabilities as at December 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

<u>Financial Instrument</u>	<u>IAS 39</u>	<u>IFRS 9</u>
Cash and cash equivalents	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Interim production financing	Other financial liabilities	Amortized cost

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.

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3. Significant accounting policies (continued)

(o) *Standards applied during the year (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 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. Previously, licensing revenue was recognized at an earlier date when certain conditions were 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.

NETWORK MEDIA GROUP INC.
Notes to the Consolidated Financial Statements
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3. Significant accounting policies (continued)

(o) Standards applied during the year (iii) (continued):

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

	Balance at November 30, 2018	Adjustments due to IFRS 15	Balance at December 1, 2018
ASSETS			
Current			
Cash and cash equivalents	\$ 3,597,623	\$ -	\$ 3,597,623
Accounts receivable	1,310,656	(128,897)	1,181,759
Tax credits receivable	2,435,503	-	2,435,503
Prepaid expenses and deposits	67,710	-	67,710
	7,411,492	(128,897)	7,282,595
Tax credits receivable	1,284,641	-	1,284,641
Property and equipment	478,124	-	478,124
Investment in film and television properties	9,095,904	424,392	9,520,296
	\$ 18,270,161	\$ 295,495	\$ 18,565,656
SHAREHOLDERS' EQUITY AND LIABILITIES			
Current			
Line of credit	\$ 140,000	\$ -	\$ 140,000
Accounts payable and accrued liabilities	2,093,834	-	2,093,834
Interim production financing	2,734,652	-	2,734,652
Deferred revenue	9,695,926	595,312	10,291,238
Current portion of settlement on claim	75,000	-	75,000
Current portion of financing lease obligations	61,355	-	61,355
	14,800,767	595,312	15,396,079
Financing lease obligations	104,773	-	104,773
Settlement on claim	25,000	-	25,000
	14,930,540	595,312	15,525,852
Share capital	10,244,996	-	10,244,996
Contributed surplus	622,939	-	622,939
Deficit	(7,528,314)	(299,817)	(7,828,131)
Shareholders' equity	3,339,621	(299,817)	3,039,804
	\$ 18,270,161	\$ 295,495	\$ 18,565,656

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3. Significant accounting policies (continued)

(o) *Standards applied during the year (iii) (continued):*

	For the year ended November 30, 2019		
	As Reported	Balances without Adoption of IFRS 15	Effect of Change
Total revenue	\$ 16,278,621	\$ 15,554,412	\$ 724,209
Production costs	1,153,157	1,153,157	-
Amortization of film and television properties	9,357,783	8,933,391	424,392
Amortization of property and equipment	174,698	174,698	-
General and administrative	906,554	906,554	-
Impairment of investment in film and television properties	138,801	138,801	-
Selling and distribution	74,075	74,075	-
Share-based compensation	205,499	205,499	-
Foreign exchange gain	(186,826)	(186,826)	-
Forgiveness of debt and reversal of accounts payable	(18,078)	(18,078)	-
	11,805,663	11,381,271	424,392
Income before other items	4,472,958	4,173,141	299,817
Financing expense, net	118,314	118,314	-
Loss on disposal property and equipment	733	733	-
Income (losses) before income taxes	4,353,911	4,054,094	299,817
Income tax expense	324,100	324,100	-
Net and comprehensive income for the year	\$ 4,029,811	\$ 3,729,994	\$ 299,817

(p) *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 is in the final stages of its assessment of IFRS 16 on its existing contracts and anticipates that the most significant impact of adopting the new standard will be the recognition of the right of use asset and the corresponding lease obligation on its existing operating leases of office space and vehicle. On adoption of the new standard, the Company will recognize lease liabilities measured at the present value of the remaining lease payments, discounted by the Company's incremental borrowing rate as at December 1, 2019. The corresponding right of use asset will initially be measured at the amount equal to the lease liability on December 1, 2019.

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4. Accounts receivable

	November 30, 2019	November 30, 2018
Receivables from broadcasters	\$ 871,700	\$ 1,187,043
Input tax credits and other receivables	64,982	123,613
	\$ 936,682	\$ 1,310,656

5. Property and equipment

	Computer Equipment	Furniture and Office Equipment	Production Equipment	Leasehold Improvements	Total
Cost					
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	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
Accumulated amortization					
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	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
Carrying amount					
November 30, 2018	\$ 413,392	\$ 7,915	\$ 34,515	\$ 22,302	\$ 478,124
November 30, 2019	\$ 429,802	\$ 11,715	\$ 35,967	\$ 11,151	\$ 488,635

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

During the year ended November 30, 2019, the Company disposed of computer equipment with a carrying amount of \$733 (2018 – \$5,450) for proceeds of \$nil (2018 – \$16,289). The disposal resulted in the recognition of a loss on disposal of property and equipment of \$733 (2018 – gain of \$10,839).

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6. Investment in film and television properties

	Properties in development	Properties in progress	Properties completed and released	Total
Balance, November 30, 2017	\$ 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	-	-	(1,374,485)	(1,374,485)
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)
Transferred to properties in progress	(50,837)	50,837	-	-
Funding taken into income	29,133	-	-	29,133
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
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
As at November 30, 2018				
Cost	\$ 1,013,533	\$ 4,680,500	\$ 10,923,304	\$ 16,617,337
Accumulated amortization	-	-	(7,097,041)	(7,097,041)
Carrying amount	\$ 1,013,533	\$ 4,680,500	\$ 3,826,263	\$ 9,520,296

During the year ended November 30, 2019, interest of \$79,831 (2018 – \$45,727) has been capitalized within the properties in progress and productions completed and released balances.

Properties in development

During the year ended November 30, 2019, investments in certain projects in development were considered impaired as they were no longer deemed to have commercial viability and the carrying amount was reduced by \$138,801 (2018 – \$74,312). The impairment has been included in profit or loss.

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 \$250,000. 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 November 30, 2019, outstanding borrowings were \$235,000 (2018 – \$140,000).

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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% 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 November 30, 2019, the Company had a deferred revenue balance of \$4,473,496 (2018 – \$9,695,926).

10. Financing lease obligations

The Company leased certain operating equipment under four financing leases (2018 – two financing leases). The Company's obligations under the finance leases are secured by the lessor's title to the leased assets. The interest rates are weighted at 4.86% per annum (2018 – 5.19%) respectively and have a lease term of three years (2018 – 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	\$ 205,322	\$ 104,264	\$ 101,058
Less: imputed interest	10,296	7,279	3,017
Carrying amount	\$ 195,026	\$ 96,985	\$ 98,041

The carrying amount of the leased equipment as of November 30, 2019 is \$219,357 (2018 – \$191,788).

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11. 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 year ended November 30, 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 \$0.165. For the year ended November 30, 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.

(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 year ended November 30, 2019, 40,000 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 November 30, 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	2,110,000	\$ 0.13	4,300,000	\$ 0.16
Cancelled	(40,000)	\$ 0.15	(3,494,800)	\$ 0.18
Exercised	(250,000)	\$ 0.07	(70,000)	\$ 0.14
Outstanding, end of period	<u>10,307,920</u>	\$ 0.15	<u>8,487,920</u>	\$ 0.15

As at November 30, 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	0.24	February 26, 2020*
375,920	375,920	\$ 0.20	1.66	July 28, 2021
3,312,000	3,312,000	\$ 0.14	2.66	July 27, 2022
1,000,000	1,000,000	\$ 0.20	3.04	December 12, 2022
2,560,000	1,420,000	\$ 0.15	3.39	April 19, 2023*
400,000	133,333	\$ 0.12	3.70	August 13, 2023
250,000	83,333	\$ 0.12	3.98	November 23, 2023
1,710,000	-	\$ 0.13	4.63	July 15, 2024
400,000	-	\$ 0.15	4.92	October 28, 2024
<u>10,307,920</u>	<u>6,624,587</u>	\$ 0.15	<u>3.26</u>	

*Exercised subsequent to year end, Note 23.

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11. Share capital and reserves (continued)

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

Vesting terms are as follows:

- 1,710,000 options granted July 15, 2019: one third vests one, two and three years from the grant date; and
- 400,000 options granted October 28, 2019: 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
Year ended 2019	2,110,000	\$ 0.13	\$ 0.15	109%	1.46%	\$ 0.12	5.0

For the year ended November 30, 2019, the Company recognized compensation expense in relation to these options of \$205,499 (2018 – \$540,746), which is included in profit or loss.

(d) *Contributed surplus*

Contributed surplus consists of the following amounts:

	November 30, 2019	November 30, 2018
Outstanding options	\$ 981,647	\$ 791,264
Convertible debt	134,326	134,326
Share exchange for Network Entertainment Inc.	(302,651)	(302,651)
	\$ 813,322	\$ 622,939

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

(a) *Employee benefit expenses*

Total salaries and wages recognized in profit or loss is \$578,240 (2018 – \$55,188) of which \$284,222 was recorded as direct production costs (2018 – \$nil) and \$294,018 was recorded as general and administration (2018 – \$55,188).

(b) *Financing expenses*

Financing expenses are comprised of the following:

	Note	November 30, 2019	November 30, 2018
Interest income		\$ (2,879)	\$ -
Interest expense on debt	7, 8	121,193	97,479
Net financing expense		\$ 118,314	\$ 97,479

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 year ended November 30, 2019 were recorded as follows:

- Reduction to direct production costs of \$318,212 (2018 – \$31,510), and;
- Reduction to investment in film and television properties of \$3,238,605 (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 year ended November 30, 2019 would result in a \$805,567 (2018 – \$109,851) impact to profit or loss.

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14. Financial instruments (continued)

(i) *Foreign exchange risk (continued)*

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, \$670,389 (2018 – \$3,451,923), \$738,450 (2018 – \$1,003,648) and \$709,014 (2018 – \$461,208).

A five percent fluctuation in the US dollar closing rate at November 30, 2019 would result in a net change to profit or loss of \$34,991 (2018 – \$201,860).

(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 November 30, 2019, there are \$139,458 of accounts receivable past due, over 30 days, but not considered impaired (2018 – \$266,263).

(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 \$54,680 (2018 – \$28,539).

(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.

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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:

	November 30, 2019	November 30, 2018
Line of credit	\$ 235,000	\$ 140,000
Financing lease obligations	195,026	166,128
Net surplus	430,026	306,128
Total shareholders' equity	7,292,614	3,339,621
	\$ 7,722,640	\$ 3,645,749

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.

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 Company had also entered into legal action against the former customer. A mediation session was held between the Company and the former customer in an effort to settle the matter. The claim was settled, and the Company was required to pay the former customer \$100,000 in four equal payments on or before March 4, 2019 (paid), July 4, 2019 (paid), November 4, 2019 (paid) and March 4, 2020.

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

As at November 30, 2019, the Company has entered into lease commitments for office space which will require the following payments:

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

The Company has also entered into two lease commitments for additional office space subsequent to the year ended November 30, 2019:

- Lease 1: Commencing on the 1st day of December 2019 up to and including the 31st day of May 2021 with monthly base rent being \$4,965.
- Lease 2: Commencing on the 1st day of December 2019 up to and including the 31st day of May 2021 with monthly base rent being \$2,959.

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 year ended November 30, 2019, the Company:

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

	November 30, 2019	November 30, 2018
Short-term employee benefits	\$ 699,039	\$ 498,208
Share-based compensation	83,839	398,974
	<u>\$ 782,878</u>	<u>\$ 897,182</u>
Recorded as:		
General and administrative expenses	\$ 52,956	\$ -
Share-based compensation	83,839	398,974
Direct production costs	29,000	-
Investment in film and television properties	617,083	498,208
	<u>\$ 782,878</u>	<u>\$ 897,182</u>
Options issued	<u>1,110,000</u>	<u>2,400,000</u>

Accounts payable and accrued liabilities at November 30, 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

	November 30,	November 30,
	2019	2018
Production revenue	\$ 14,725,440	\$ 2,202,198
Contract production services revenue	1,347,406	150,000
Distribution revenue	176,642	260,030
Other revenue	29,133	62,351
	\$ 16,278,621	\$ 2,674,579

Of the Company's \$16,278,621 (2018 – \$2,674,579) in revenues for the year ended November 30, 2019, \$167,281 (2018 – \$377,561) was attributable to external customers located in Canada, \$15,441,915 (2018 – \$1,770,531) was attributable to external customers located in the U.S., and \$669,425 (2018 – \$526,487) was attributable to external customers located in the U.K.

20. General and administrative expenses

		Year ended	Year ended
		November 30,	November 30,
	Note	2019	2018
Insurance		\$ 30,342	\$ 17,878
Interest and bank charges		33,326	11,336
Office and general		121,745	38,541
Professional fees		200,054	169,370
Salaries and wages	12(a), 18	294,018	55,188
Technology and licenses		86,502	21,841
Telecommunications		20,764	15,737
Transfer agent and filing fees		30,749	41,653
Travel		89,054	35,989
		\$ 906,554	\$ 407,533

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21. Income Taxes

A reconciliation of income taxes for the years ended November 30, 2019 and 2018 at the statutory rates with the reported income taxes follows:

	November 30, 2019	November 30, 2018
Income before income tax expense	\$ 4,353,911	\$ (525,319)
Combined federal and provincial income tax rate	27%	27%
Computed income tax expense	\$ 1,175,600	\$ (141,800)
Effect on income tax of:		
Items not deductible for tax purposes	74,000	149,600
Changes in estimates related to prior years	203,900	(141,000)
Change in tax rate and other	(2,300)	(500)
Share issue costs	(3,300)	(3,300)
Change in unrecognized deductible temporary differences	(1,123,800)	(137,000)
Income tax expense	\$ 324,100	\$ -

The tax effects of temporary differences that give rise to the Company's deferred income tax assets (liability) are as follows:

	2019	2018
<i>Deferred income tax assets</i>		
Property and equipment	\$ 327,000	\$ 280,000
Properties under development	-	-
Share issue costs	2,600	3,000
Non-capital losses carried forward	79,800	1,575,000
	409,400	1,858,000
Deferred tax assets utilized to offset deferred tax liability	(409,400)	(734,000)
	-	1,124,000
Unrecognized deferred tax assets	-	(1,124,000)
	\$ -	\$ -

	2019	2018
<i>Deferred income tax liability</i>		
Completed productions	\$ (733,500)	\$ 734,000
Deferred tax assets utilized to offset deferred tax liability	409,400	(734,000)
	\$ (324,100)	\$ -

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21. Income Taxes (continued)

The Company has non-capital loss carry-forwards that expire on November 30 of each respective year, as follows:

Year of expiry	<u>Amount</u>
2037	\$ 88,000
2038	<u>207,700</u>
	<u>\$ 295,700</u>

22. Supplemental cash flow information

i. Non-cash investing and financing activities

	<u>November 30, 2019</u>	November 30, 2018
Amount included in prior year projects in progress transferred to productions completed and released	\$ 10,141,881	\$ 633,126
Tax credits receivable included in production costs	\$ 5,282,372	\$ 3,659,997
Accounts payable included in production costs	\$ 753,971	\$ 721,885
Fair value of options exercised	\$ 32,616	\$ 8,666
Fair value of options cancelled	\$ -	\$ 137,800

ii. Interest paid

Interest paid during the year ended November 30, 2019 was \$108,676 (2018 – \$126,636).

23. Subsequent events

Subsequent to November 30, 2019, the Company:

- i. Secured additional new interim production financing in the amount of \$1,247,500 and received draws from new and existing interim production financing totalling \$1,373,000;
- ii. Repaid \$1,428,780 of interim production loans;
- iii. Issued 600,000 common shares upon the exercise of stock options for gross proceeds of \$75,000, and;
- iv. Issued 1,000,000 options to the new Chairman of the Board of Directors on March 2, 2020, exercisable at \$0.20 per share for a five year term, and vesting: one third every one, two and three years from the grant date.