

Condensed Interim Consolidated Financial Statements of

NETWORK MEDIA GROUP INC.

For the three months and six months ended May 31, 2022 and 2021
(Expressed in Canadian dollars)

(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 condensed 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 May 31, 2022 and November 30, 2021

Expressed in Canadian dollars (unaudited)

	Note	May 31, 2022	November 30, 2021
ASSETS			
Current			
Cash		\$ 1,822,164	\$ 2,788,730
Accounts receivable	4	357,317	291,663
Tax credits receivable		4,478,352	1,614,700
Prepaid expenses and deposits		68,275	52,243
		6,726,108	4,747,336
Tax credits receivable		13,551	2,090,706
Property, equipment and right of use assets	5	524,339	677,163
Intangible assets	6	400,000	-
Investment in film and television properties	7, 16, 20	14,709,341	11,021,091
Total Assets		\$ 22,373,339	\$ 18,536,296
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Line of credit	8	\$ -	\$ 290,000
Accounts payable and accrued liabilities	13, 20	2,844,766	2,075,582
Interim production financing	9	2,436,598	509,588
Deferred revenue	10	7,738,132	4,561,327
Current portion of debt payable	14	300,000	-
Current lease obligations	11	183,755	316,567
		13,503,251	7,753,064
Debt payable	14	945,000	1,177,000
Lease obligations	11	128,212	151,315
Total Liabilities		14,576,463	9,081,379
Shareholders' Equity			
Share capital	12	12,927,976	12,927,976
Contributed surplus	12(c)	1,369,419	1,054,137
Deficit		(6,500,519)	(4,527,196)
Total Shareholders' Equity		7,796,876	9,454,917
Total Liabilities and Shareholders' Equity		\$ 22,373,339	\$ 18,536,296

Nature of operations and going concern (Note 1)

Subsequent events (Note 24)

Approved by the Board of Directors on July 27, 2022

"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 Loss

For the three months and six months ended May 31, 2022 and 2021

Expressed in Canadian dollars (unaudited)

	Note	Three months ended May 31, 2022	May 31, 2021	Six months ended May 31, 2022	May 31, 2021
Total revenue	21	\$ 534,459	\$ 1,233,429	\$ 963,029	\$ 1,594,639
Production costs	15(a), 16, 20	381,353	559,017	448,891	684,543
Amortization of film and television properties	7	483,471	994,737	969,043	1,473,020
Amortization of property, equipment and right of use assets	5	95,151	133,779	194,457	316,179
General and administrative	15(a), 20, 22	517,101	248,167	909,608	512,973
Impairment of investment in film and television properties	7	37,319	909	62,319	43,275
Selling and distribution		-	-	10,725	11,056
Share-based compensation	12(c), 20	112,980	84,068	315,282	176,443
Foreign exchange loss (gain)		4,206	9,481	22,012	(17,568)
Extinguishment of accounts payable		-	(185,797)	(51,718)	(371,595)
		1,631,581	1,844,361	2,880,619	2,828,326
Loss before other items		(1,097,122)	(610,932)	(1,917,590)	(1,233,687)
Financing expense, net	15(b)	22,826	9,985	55,733	22,651
Loss before income taxes		(1,119,948)	(620,917)	(1,973,323)	(1,256,338)
Income tax recovery		-	-	-	(82,600)
Net and comprehensive loss for the period		\$ (1,119,948)	\$ (620,917)	\$ (1,973,323)	\$ (1,173,738)
Loss per share					
- basic and diluted		\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.02)
Weighted average number of shares outstanding					
- basic and diluted		75,658,909	74,420,296	75,658,909	74,272,148

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 six months ended May 31, 2022 and 2021

Expressed in Canadian dollars (unaudited)

	Note	Number of Common Shares	Issued Capital	Contributed Surplus	Accumulated Deficit	Total
Balance as at November 30, 2020		74,005,371	\$ 10,542,611	\$ 777,856	\$ (2,103,853)	\$ 9,216,614
Exercise of stock options	12(c)	461,500	120,948	(51,723)	-	69,225
Issuance of stock options	12(c)	-	-	176,443	-	176,443
Reclassification of fair value of expired/cancelled stock options	12(c)	-	-	(59,928)	59,928	-
Net and comprehensive loss for the period		-	-	-	(1,173,738)	(1,173,738)
Balance as at May 31, 2021		74,466,871	\$ 10,663,559	\$ 842,648	(3,217,663)	\$ 8,288,544
Balance as at November 30, 2021		89,123,537	\$ 12,927,976	\$ 1,054,137	\$ (4,527,196)	\$ 9,454,917
Share-based compensation	12(c)	-	-	315,282	-	315,282
Net and comprehensive loss for the period		-	-	-	(1,973,323)	(1,973,323)
Balance as at May 31, 2022		89,123,537	\$ 12,927,976	\$ 1,369,419	(6,500,519)	\$ 7,796,876

See accompanying notes to these condensed interim consolidated financial statements

NETWORK MEDIA GROUP INC.

Condensed Interim Consolidated Statements of Cash Flows

For the three months and six months ended May 31, 2022 and 2021

Expressed in Canadian dollars (unaudited)

	Three months ended		Six months ended	
	May 31, 2022	May 31, 2021	May 31, 2022	May 31, 2021
Operating activities				
Loss for the period	\$ (1,119,948)	\$ (620,917)	\$ (1,973,323)	\$ (1,173,738)
Amortization of property, equipment and right of use assets	95,151	133,779	194,457	316,179
Amortization of film and television properties	483,471	994,737	969,043	1,473,020
Impairment of investment in film and television properties	37,319	909	62,319	43,275
Share-based compensation	112,980	84,068	315,282	176,443
Extinguishment of accounts payable	-	(185,797)	(51,718)	(371,595)
Income tax recovery	-	-	-	(82,600)
	(391,027)	406,779	(483,940)	380,984
Net changes in non-cash working capital items				
Accounts receivable	(7,676)	(144,815)	47,875	215,710
Tax credits receivable	(25,832)	(182,428)	(67,724)	298,886
Prepaid expenses and deposits	(18,529)	(4,610)	(16,032)	(24,126)
Accounts payable and accrued liabilities	861,890	286,120	456,233	(236,945)
Accrued interest	55,787	10,192	67,443	28,227
Deferred revenue	2,596,064	(413,562)	3,176,805	439,987
Net cash provided by (used in) operating activities	3,070,677	(42,324)	3,180,660	1,102,723
Financing activities				
Issuance of shares	-	-	-	69,225
Proceeds from interim production financing	1,788,664	-	2,418,664	-
Proceeds from line of credit	-	535,000	10,000	942,000
Repayment of interim production financing	(549,304)	(2,283)	(549,304)	(655,627)
Repayment of lease obligations	(82,552)	(112,007)	(172,612)	(272,944)
Repayment of debt payable	(375,000)	-	(375,000)	-
Proceeds from debt payable	-	-	143,000	-
Net cash provided by financing activities	781,808	420,710	1,474,747	82,654
Investing activities				
Purchase of property and equipment	(886)	(53,563)	(34,728)	(53,563)
Investment in film and television properties, net of tax credits	(3,147,801)	(1,036,354)	(5,155,129)	(1,524,071)
Investment in properties under development	(387,919)	(95,242)	(432,117)	(47,493)
Net cash used in investing activities	(3,536,606)	(1,185,159)	(5,621,974)	(1,625,127)
Net increase (decrease) in cash	315,879	(806,773)	(966,566)	(439,750)
Cash, beginning of period	1,506,285	1,052,754	2,788,730	685,731
Cash, end of period	\$ 1,822,164	\$ 245,981	\$ 1,822,164	\$ 245,981

SUPPLEMENTAL CASH FLOW INFORMATION (Note 23)

See accompanying notes to these condensed interim consolidated financial statements

NETWORK MEDIA GROUP INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months and six months ended May 31, 2022 and 2021

Expressed in Canadian dollars (unaudited)

1. Nature of operations and going concern

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 \$6,777,143 and a deficit of \$6,500,519 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, 2021, the World Health Organization categorized COVID-19 as a pandemic. The economic effects within the film industry and in the global markets, including disruptions in the completion and delivery of the Company’s film and television properties, and the measures that have been introduced by the 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) have had an impact on the Company’s operations. To date, the Company has not had any productions cancelled due to COVID-19, but a number have had commencement of the production delayed. The Company has been able to modify and adapt to the changing business environment without a material impact to the Company’s operations and access to capital. Management continues to evaluate additional potential operational and financial risks to the Company at the date these unaudited condensed interim consolidated financial statements were approved, July 27, 2022.

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 condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”) as issued by the International Accounting Standards Board and on a basis consistent with the accounting policies disclosed in the annual audited consolidated financial statements for the year ended November 30, 2021. 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, 2021.

The condensed interim consolidated financial statements of the Company for the three months and six months ended May 31, 2022 and 2021 were approved for issue by the Board of Directors on July 27, 2022.

NETWORK MEDIA GROUP INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months and six months ended May 31, 2022 and 2021

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 and US subsidiaries.

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

The preparation of the condensed interim consolidated financial statements requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities at the date of the financial statements and for the periods presented. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to financial statements, have been set out in Note 3 of the Company's audited annual consolidated financial statements for the year ended November 30, 2021. Actual results may differ materially from these estimates.

(e) *Comparative information*

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

3. Significant accounting policies

Except as otherwise indicated hereunder, these condensed interim consolidated financial statements have been prepared using the same policies and methods as the consolidated financial statements of the Company for the year ended November 30, 2021. Refer to Note 3 of the Company's consolidated financial statements for the year ended November 30, 2021 for more information on new accounting standards and amendments not yet effective.

4. Accounts receivable

	May 31,	November 30,
	2022	2021
Receivables from broadcasters	\$ 215,498	\$ 190,534
Input tax credits and other receivables	141,819	101,129
	\$ 357,317	\$ 291,663

The aging of current accounts receivable is less than 30 days.

NETWORK MEDIA GROUP INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months and six months ended May 31, 2022 and 2021

Expressed in Canadian dollars (unaudited)

5. Property, equipment and right of use assets

	Computer Equipment	Furniture and Office Equipment	Production Equipment	Right of Use Assets	Total
Cost					
Balance at November 30, 2020	\$ 904,388	\$ 89,510	\$ 61,148	\$ 1,164,320	\$ 2,219,366
Additions	76,397	16,776	-	550,679	643,852
Expired leases	-	-	-	(474,418)	(474,418)
Balance at November 30, 2021	980,785	106,286	61,148	1,240,581	2,388,800
Additions	25,005	-	11,039	6,907	42,951
Expired leases	-	-	-	(164,889)	(164,889)
Balance at May 31, 2022	\$ 1,005,790	\$ 106,286	\$ 72,187	\$ 1,082,599	\$ 2,266,862
Accumulated amortization					
Balance at November 30, 2020	\$ 744,145	\$ 73,015	\$ 35,971	\$ 803,444	\$ 1,656,575
Amortization expense	59,532	4,977	7,553	457,419	529,481
Expired leases	-	-	-	(474,418)	(474,418)
Balance at November 30, 2021	803,677	77,992	43,524	786,445	1,711,638
Amortization expense	28,441	2,830	3,472	159,714	194,457
Expired leases	-	-	-	(163,572)	(163,572)
Balance at May 31, 2022	\$ 832,118	\$ 80,822	\$ 46,996	\$ 782,587	\$ 1,742,523
Carrying amount					
November 30, 2021	\$ 177,108	\$ 28,294	\$ 17,624	\$ 454,136	\$ 677,163
May 31, 2022	\$ 173,672	\$ 25,464	\$ 25,191	\$ 300,012	\$ 524,339

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

During the six months ended May 31, 2022 and 2021, the Company had no disposals of property and equipment.

NETWORK MEDIA GROUP INC.
Notes to the Condensed Interim Consolidated Financial Statements
For the three months and six months ended May 31, 2022 and 2021
Expressed in Canadian dollars (unaudited)

5. Property, equipment and right of use assets (continued)

The continuity of right of use assets is as follows:

	Leasehold				
	Improvements	Office	Vehicle	Equipment	Total
Cost					
Balance at November 30, 2021	\$ 13,734	\$ 818,797	\$ 34,186	\$ 373,864	\$ 1,240,581
Additions	-	-	-	6,907	6,907
Expired leases	-	-	-	(164,889)	(164,889)
Balance at May 31, 2022	\$ 13,734	\$ 818,797	\$ 34,186	\$ 215,882	\$ 1,082,599
Accumulated amortization					
Balance at November 30, 2021	\$ 3,845	\$ 422,390	\$ 14,222	\$ 345,988	786,445
Amortization expense	3,296	132,136	3,555	20,728	159,714
Expired leases	-	-	-	(163,572)	(163,572)
Balance at May 31, 2022	\$ 7,141	\$ 554,526	\$ 17,777	\$ 203,144	\$ 782,588
Carrying amount					
November 30, 2021	\$ 9,889	\$ 396,407	\$ 19,964	\$ 27,876	\$ 454,136
May 31, 2022	\$ 6,593	\$ 264,271	\$ 16,409	\$ 12,738	\$ 300,011

During the period ended May 31, 2022 several of the Company's equipment leases expired. Cost of \$164,889 and accumulated amortization of \$163,572 (2021 – \$nil and \$nil respectively) have been derecognized from right of use assets.

6. Intangible Assets

During the period ended May 31, 2022, the Company acquired certain rights to develop, create, and market non-fungible tokens ("NFT Licenses"). Once the NFT licenses are commercially viable, the Company will amortize the cost of the licenses over the term of the license. A continuity schedule of intangible assets is as follows:

	NFT Licenses
Cost	
Balance at November 30, 2021	\$ -
Additions	400,000
Balance at May 31, 2022	\$ 400,000
Accumulated amortization	
Balance at November 30, 2021	\$ -
Amortization expense	-
Balance at May 31, 2022	\$ -
Carrying amount	
November 30, 2021	\$ -
May 31, 2022	\$ 400,000

NETWORK MEDIA GROUP INC.
Notes to the Condensed Interim Consolidated Financial Statements
For the three months and six months ended May 31, 2022 and 2021
Expressed in Canadian dollars (unaudited)

6. Intangible Assets (continued)

The NFT licenses will require the following payments:

- \$75,000 in the fiscal year ended November 30, 2022, of which \$25,000 was paid March 31, 2022
- \$175,000 in the fiscal year ended November 30, 2023
- \$150,000 in the fiscal year ended November 30, 2024

7. Investment in film and television properties

	Properties in development	Properties in progress	Properties completed and released	Total
Balance, November 30, 2020	\$ 1,193,580	\$ 1,653,852	\$ 7,349,466	\$ 10,196,898
Additions	147,439	6,002,704	1,285	6,151,428
Tax credits accrued	-	(2,099,626)	(707)	(2,100,333)
Transferred to projects in progress	(52,543)	52,543	-	-
Allocated to direct production costs	(10,674)	-	-	(10,674)
Funding taken into deferred revenue	(100,000)	-	-	(100,000)
Transferred to properties completed and released	-	(1,683,096)	1,683,096	-
Amounts written off and impaired	(279,063)	-	(80,930)	(359,993)
Amortization	-	-	(2,756,235)	(2,756,235)
Balance, November 30, 2021	898,739	3,926,377	6,195,975	11,021,091
Additions	34,158	5,078,925	10,462	5,123,545
Tax credits accrued	-	(399,135)	(4,798)	(403,933)
Transferred to properties in progress	(2,041)	2,041	-	-
Amounts written off and impaired	(62,319)	-	-	(62,319)
Amortization	-	-	(969,043)	(969,043)
Balance, May 31, 2022	\$ 868,537	\$ 8,608,208	\$ 5,232,596	\$ 14,709,341
As at May 31, 2022				
Cost	\$ 868,537	\$ 8,608,208	\$ 30,989,195	\$ 40,465,940
Accumulated amortization	-	-	(25,756,599)	(25,756,599)
Carrying amount	\$ 868,537	\$ 8,608,208	\$ 5,232,596	\$ 14,709,341
As at November 30, 2021				
Cost	\$ 898,739	\$ 3,926,377	\$ 30,983,532	\$ 35,808,648
Accumulated amortization	-	-	(24,787,557)	(24,787,557)
Carrying amount	\$ 898,739	\$ 3,926,377	\$ 6,195,975	\$ 11,021,091

During the three months and six months ended May 31, 2022, interest of \$1,910 and \$11,384 (2021 – \$nil and \$4,893) has been capitalized within the properties in progress and productions completed and released balances.

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 May 31, 2022, outstanding borrowings were \$nil (November 30, 2021 – \$290,000).

NETWORK MEDIA GROUP INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months and six months ended May 31, 2022 and 2021

Expressed in Canadian dollars (unaudited)

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 May 31, 2022, the Company had a deferred revenue balance of \$7,738,132 (November 30, 2021 – \$4,561,327).

The following table reflects the movement in deferred revenue:

	<u>2022</u>	<u>2021</u>
Deferred revenue, beginning of period	\$ 4,561,327	\$ 601,354
Revenue recognized that was included in the deferred revenue balance at the beginning of the period	(660,691)	(160,459)
Increases due to cash received, excluding amounts recognized as revenue during the period	3,837,496	4,120,432
Deferred revenue, end of period	\$ 7,738,132	\$ 4,561,327

11. Lease obligations

The Company's leases are comprised of the following:

	Office Leases	Equipment Leases	Vehicle Leases	Total
Lease obligations recognized at November 30, 2021	\$ 402,084	\$ 44,869	\$ 20,929	\$ 467,882
Leases entered into during the period	-	6,906	-	6,906
Interest expense	8,638	683	470	9,791
Lease payments	(139,346)	(29,275)	(3,991)	(172,612)
Lease obligations recognized at May 31, 2022	271,376	23,183	17,408	311,967
Less: non-current portion	(114,693)	-	(13,519)	(128,212)
Current portion of lease liabilities	156,683	23,183	3,889	183,755

NETWORK MEDIA GROUP INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months and six months ended May 31, 2022 and 2021

Expressed in Canadian dollars (unaudited)

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 six months ended May 31, 2022, the Company did not issue any common shares.

During the six months ended May 31, 2021, the Company issued 461,500 common shares on the exercise of stock options for proceeds of \$69,225, as follows:

- a. 330,000 options on January 27, 2021 when stock price was \$0.16
- b. 131,500 options on February 1, 2021 when stock price was \$0.16

(c) *Contributed surplus*

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 a maximum of 17,000,000 options as approved by the shareholders of the Company. 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.

NETWORK MEDIA GROUP INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months and six months ended May 31, 2022 and 2021

Expressed in Canadian dollars (unaudited)

12. Share capital and reserves (continued)

(c) Contributed surplus (continued)

	As at May 31, 2022		As at November 30, 2021	
	Number of Options	Weighted Ave. Exercise Price	Number of Options	Weighted Ave. Exercise Price
Outstanding, beginning of year	14,268,667	\$ 0.15	8,972,920	\$ 0.15
Granted	400,000	\$ 0.23	7,210,000	\$ 0.16
Expired	-	\$ -	(370,920)	\$ 0.20
Cancelled	-	\$ -	(258,500)	\$ 0.15
Exercised	-	\$ -	(1,284,833)	\$ 0.14
Outstanding, end of period	14,668,667	\$ 0.16	14,268,667	\$ 0.15

As at May 31, 2022, the following stock options are outstanding and exercisable:

Number of options outstanding	Number of options exercisable	Exercise price	Remaining life (yrs)	Expiry
2,768,667	2,768,667	\$ 0.14	0.16	July 27, 2022
1,440,000	1,440,000	\$ 0.15	0.88	April 19, 2023
250,000	250,000	\$ 0.12	1.48	November 23, 2023
1,480,000	973,333	\$ 0.13	2.13	July 15, 2024
400,000	266,667	\$ 0.15	2.41	October 28, 2024
200,000	200,000	\$ 0.23	2.42	November 1, 2024
400,000	400,000	\$ 0.23	2.54	December 13, 2024
1,000,000	666,667	\$ 0.20	2.76	March 2, 2025
2,305,000	768,333	\$ 0.16	3.54	December 14, 2025
3,735,000	-	\$ 0.15	4.34	September 30, 2026
690,000	-	\$ 0.16	4.36	October 7, 2026
14,668,667	7,733,667		2.58	

The 400,000 options granted December 13, 2021, vested immediately.

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 5nil, 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 2021	7,210,000	\$ 0.16	\$ 0.17	114%	0.90%	\$ 0.17	4.9
Year ended 2022	400,000	\$ 0.23	\$ 0.23	99%	1.30%	\$ 0.23	3.0

For the three months and six months ended May 31, 2021, the Company recognized compensation expense in relation to these options of \$112,980 and \$315,282 (2021 – \$84,068 and \$176,443), which is included in profit or loss.

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12. Share capital and reserves (continued)

(c) *Contributed surplus (continued)*

Contributed surplus consists of the following amounts:

	May 31, 2022	November 30, 2021
Outstanding options	\$ 1,537,744	\$ 1,222,462
Convertible debt	134,326	134,326
Share exchange for Network Entertainment Inc.	(302,651)	(302,651)
	<u>\$ 1,369,419</u>	<u>\$ 1,054,137</u>

13. Accounts Payable

During the period ended May 31, 2022, management reviewed the accounts payable and noted that a portion of the accounts payable had been outstanding for an extended period of time and there has been no correspondence received by the Company from these creditors for payment. As the statute of limitations has expired, management has written-off \$51,718 (2021 – \$185,798) from accounts payable and taken into profit or loss.

14. Debt Payable

	May 31, 2022	November 30, 2021
The Company has secured a \$1,200,000 loan from a chartered bank through the Export Development Canada (“EDC”) COVID relief funding program. The line of credit is secured by a general charge over the assets of the Company and accrues interest payable monthly, at the bank’s prime rate plus 0.25%. The term of the loan is 5 years from initial drawdown, with interest only for the first year, then converts to a term loan for the final 4 years.	\$ 1,125,000	\$ 1,057,000
The Company received loans of \$180,000 through the Canada Emergency Business Account (“CEBA”) to provide emergency support due to the impact of COVID-19. If the principal of \$120,000 is repaid by December 31, 2023, the remaining \$60,000 will be forgiven. Commencing January 1, 2024 any remaining balance will be converted into a two-year term loan which will incur interest at 5% per annum. The Company anticipates that \$120,000 of this loan will be repaid during 2023, therefore, the forgivable balance of \$60,000 was recognized as other income in the consolidated statement of net and comprehensive income (loss) in fiscal 2021.	120,000	120,000
Less current portion	(300,000)	-
	<u>\$ 945,000</u>	<u>\$ 1,177,000</u>

Principal repayments on long term debt are as follows:

- \$225,000 for the fiscal year ended November 30, 2022;
- \$420,000 for the fiscal year ended November 30, 2023;
- \$300,000 for the fiscal year ended November 30, 2024, and;
- \$300,000 for the fiscal year ended November 30, 2025.

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15. Supplemental statement of net and comprehensive loss disclosure

(a) *Employee benefit expenses*

Total salaries and wages recognized in profit or loss for the three and six months ended May 31, 2022 is \$323,711 and \$704,222 (2021 – \$259,070 and \$552,947) of which \$16,875 and \$108,606 was recorded as direct production costs (2021 – \$155,151 and \$318,430) and \$306,896 and \$595,616 was recorded as general and administration (2021 – \$103,919 and \$234,517).

(b) *Financing expenses*

Financing expenses are comprised of the following:

		Three months ended		Six Months Ended	
	Note	May 31, 2022	May 31, 2021	May 31, 2022	May 31, 2021
Interest income		\$ (2,707)	\$ -	\$ (2,707)	\$ (476)
Interest expense on interim production financing	9	11,677	4,780	17,974	9,910
Interest expense on line of credit	8	9,689	2,282	31,328	5,016
Interest expense on lease obligations	11	4,167	2,923	9,138	8,201
Net financing expense		\$ 22,826	\$ 9,985	\$ 55,733	\$ 22,651

16. 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 six months ended May 31, 2022, were recorded as follows:

- Reduction to direct production costs of \$88,362 (2021 – \$342,484), and;
- Reduction to investment in film and television properties of \$1,186,771 (2021 – \$428,663).

During the six months ended May 31, 2022, the Company received:

- \$nil from the Canada Emergency Wage Subsidy (“CEWS”) and was recorded as a reduction of salaries and wages within production costs (2021 – \$517,524),
- \$nil from the Canada Emergency Rent Subsidy (“CERS”) and was recorded as other revenue (2021 – \$131,639), and;
- \$nil from the Small and Medium Sized Business Recovery Grant Program (2021 – \$30,000) and was recorded as other revenue.

17. Financial instruments

The fair values of the Company’s financial instruments approximate the carrying values, due to their short terms to maturity or attached market rates of interest.

The Company classifies the fair value of these transactions according to a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

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17. Financial instruments (continued)

Risks arising from financial instruments

The Company is exposed to various risks related to its financial instruments as follows:

(i) *Foreign exchange risk*

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

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

A five percent fluctuation in the US dollar rate impacting US dollar revenues during the six months ended May 31, 2022 would result in a \$46,203 (2021 – \$63,264) 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, \$1,104,454 (2021 – \$230,959), \$20,232 (2021 – \$88,581) and \$254,181 (2021 – \$591,951).

A five percent fluctuation in the US dollar closing rate at May 31, 2022 would result in a net change to profit or loss of \$43,526 (2021 – \$13,621).

(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 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 balances are held at a major Canadian banking institution.

At May 31, 2022, there are \$155,200 of accounts receivable past due, over 30 days, but not considered impaired (2021 – \$48,342).

(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 condensed interim consolidated 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 \$30,673 (2021 – \$20,641) during the six months ended May 31, 2022.

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17. Financial instruments (continued)

Risks arising from 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.

18. 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 which for the period ended May 31, 2022 was \$7,796,876 (November 30, 2021 – \$9,454,917).

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.

19. 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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20. 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 six months ended May 31, 2022, the Company paid or accrued wages and recognized share-based compensation to key management personnel in the following manner:

	May 31, 2022	May 31, 2021
Short-term employee benefits	\$ 331,600	\$ 331,400
Share-based compensation	191,711	103,470
	\$ 523,311	\$ 434,870
Recorded as:		
General and administrative expenses	\$ 12,500	\$ 7,800
Share-based compensation	191,711	103,470
Direct production costs	-	184,800
Investment in film and television properties	319,100	138,800
	\$ 523,311	\$ 434,870
Options issued	-	1,200,000

Accounts payable and accrued liabilities at May 31, 2022 was \$13,500 (November 30, 2021 – \$122,588) owed to companies controlled by Officers and Directors of the Company.

21. Revenue

	Three months ended May 31, 2022	Three months ended May 31, 2021	Six months ended May 31, 2022	Six months ended May 31, 2021
Production revenue	\$ -	\$ 204,298	\$ 313,816	\$ 204,298
Contract production services revenue	449,974	802,807	523,625	1,018,354
Distribution revenue	52,981	142,390	94,084	208,998
Other revenue	31,504	83,934	31,504	162,989
	\$ 534,459	\$ 1,233,429	\$ 963,029	\$ 1,594,639

Of the Company's \$963,029 (2021 – \$1,594,639) in revenues for the six months ended May 31, 2022, \$38,962 (2021 – \$329,355) was attributable to external customers located in Canada, \$895,234 (2021 – \$1,063,527) was attributable to external customers located in the U.S., and \$28,833 (2021 – \$201,757) was attributable to other external customers.

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22. General and administrative expenses

		Three months ended	Three months ended	Six months ended	Six months ended
	Note	May 31,	May 31,	May 31,	May 31,
		2022	2021	2022	2021
Insurance		\$ 6,144	\$ 7,705	\$ 13,351	\$ 18,780
Interest and bank charges		18,999	12,374	28,650	28,753
Office and general		49,930	26,926	83,637	48,704
Professional fees		62,574	37,390	89,514	74,660
Salaries and wages	15(a), 20	306,896	103,919	595,616	234,517
Technology and licenses		4,098	50,329	6,809	78,834
Telecommunications		1,461	3,200	3,841	8,715
Transfer agent and filing fees		39,141	5,445	56,211	19,131
Travel		27,858	879	31,979	879
		\$ 517,101	\$ 248,167	\$ 909,608	\$ 512,973

23. Supplemental cash flow information

i. Non-cash investing and financing activities

	Three months ended	Three months ended	Six months ended	Six months ended
	May 31,	May 31,	May 31,	May 31,
	2022	2021	2022	2021
Amount included in prior year projects in progress transferred to productions completed and released	\$ -	\$ 1,030,983	\$ -	\$ 1,030,983
Tax credits receivable included in production costs	\$ (376,724)	\$ 487,387	\$ 4,491,903	\$ 1,593,217
Accounts payable included in production costs	\$ 29,390	\$ 87,210	\$ 1,107,016	\$ 760,214
Fair value of options exercised	\$ -	\$ -	\$ -	\$ 51,723
Fair value of options cancelled	\$ -	\$ -	\$ -	\$ 59,928

ii. Interest paid

Interest paid during the three and six months ended May 31, 2022 was \$22,826 and \$55,733 (2021 – \$5,412 and \$65,074).

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23. Supplemental cash flow information (continued)

iii. Reconciliation of liabilities arising from financing activities

	2020	Cash flows	Non-cash changes		2021
			Accrued interest	Acquisition	
Line of credit	\$ 300,000	\$ (10,000)	\$ -	\$ -	\$ 290,000
Interim production financing	1,135,365	(715,003)	89,226	-	509,588
Lease obligations	378,461	(468,224)	22,520	535,125	467,882
Debt payable	-	1,177,000	-	-	1,177,000
Total liabilities from financing activities	\$ 1,813,826	\$ (16,227)	\$ 111,746	\$ 535,125	\$ 2,444,470

	2021	Cash flows	Non-cash changes		2022
			Accrued interest	Acquisition	
Line of credit	\$ 290,000	\$ (290,000)	\$ -	\$ -	\$ -
Interim production financing	509,588	1,918,662	8,348	-	2,436,598
Lease obligations	467,882	(172,612)	9,791	6,906	311,967
Debt payable	1,177,000	68,000	-	-	1,245,000
Total liabilities from financing activities	\$ 2,444,470	\$ 1,524,050	\$ 18,139	\$ 6,906	\$ 3,993,565

24. Subsequent events

Subsequent to May 31, 2022, the Company:

- i. Had 2,768,667 stock options with an exercise price of \$0.14 expire on July 27, 2022; and
- ii. Issued 4,786,667 options exercisable at \$0.10 per share.