

Condensed Interim Consolidated Financial Statements of

NETWORK MEDIA GROUP INC.

For the three months ended February 28, 2021 and February 29, 2020

(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 February 28, 2021 and November 30, 2020

Expressed in Canadian dollars (unaudited)

	Note	February 28, 2021	November 30, 2020
ASSETS			
Current			
Cash		\$ 1,052,754	\$ 685,731
Accounts receivable	4	286,803	647,328
Tax credits receivable		1,259,288	1,965,238
Prepaid expenses and deposits		77,190	57,674
		2,676,035	3,355,971
Tax credits receivable		201,129	-
Property, equipment and right of use assets	5	769,194	562,791
Investment in film and television properties	6, 13, 17	10,418,016	10,196,898
Total Assets		\$ 14,064,374	\$ 14,115,660
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Line of credit	7	\$ 707,000	\$ 300,000
Accounts payable and accrued liabilities	17	1,970,695	2,401,266
Interim production financing	8	494,778	1,135,365
Deferred revenue	9	1,454,903	601,354
Current lease obligations	10	319,119	320,453
		4,946,495	4,758,438
Lease obligations	10	292,486	58,008
Deferred income tax		-	82,600
Total Liabilities		5,238,981	4,899,046
Shareholders' Equity			
Share capital	11	10,663,559	10,542,611
Contributed surplus	11(d)	758,580	777,856
Deficit		(2,596,746)	(2,103,853)
Total Shareholders' Equity		8,825,393	9,216,614
Total Liabilities and Shareholders' Equity		\$ 14,064,374	\$ 14,115,660

Nature of operations (Note 1)

Subsequent events (Note 21)

Approved by the Board of Directors on April 28, 2021

"Paul Gertz"

Paul Gertz, Director

"Derik Murray"

Derik Murray, Director

See accompanying notes to these condensed interim consolidated financial statements

NETWORK MEDIA GROUP INC.

Condensed Interim Consolidated Statements of Net and Comprehensive Income (Loss)

For the three months ended February 28, 2021 and February 29, 2020

Expressed in Canadian dollars (unaudited)

	Note	Three months ended	
		February 28, 2021	February 29, 2020
Total revenue	13, 18	\$ 361,210	\$ 4,221,988
Production costs	12(a), 13, 17	125,526	-
Amortization of film and television properties	6	478,283	3,317,542
Amortization of property, equipment and right of use assets	5	182,400	167,713
General and administrative	12(a), 17, 19	264,806	274,139
Impairment of investment in film and television properties	6	42,366	-
Selling and distribution		11,056	9,783
Share-based compensation	11(c), 17	92,375	63,762
Foreign exchange gain		(27,049)	(56,225)
Forgiveness of debt and reversal of accounts payable		(185,798)	(1,313)
		983,965	3,775,401
Income (Loss) before other items		(622,755)	446,587
Financing expense, net	12(b)	12,666	56,780
Income (Loss) before income taxes		(635,421)	389,807
Income tax expense (recovery)		(82,600)	91,500
Net and comprehensive income (loss) for the period		\$ (552,821)	\$ 298,307
Loss per share			
- basic		\$ (0.01)	\$ -
- diluted		\$ (0.01)	\$ -
Weighted average number of shares outstanding			
- basic		74,120,707	72,905,371
- diluted		74,120,707	73,018,276

See accompanying notes to these condensed interim consolidated financial statements

NETWORK MEDIA GROUP INC.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

For the three months ended February 28, 2021 and February 29, 2020

Expressed in Canadian dollars (unaudited)

	Note	Number of Common Shares	Issued Capital	Contributed Surplus	Accumulated Deficit	Total
Balance as at November 30, 2019		72,905,371	10,277,612	813,322	(3,798,320)	7,292,614
Exercise of stock options	11(c)	600,000	133,145	(58,145)	-	75,000
Issuance of stock options	11(c)	-	-	63,762	-	63,762
Net and comprehensive income for the period		-	-	-	298,307	298,307
Balance as at February 29, 2020		73,505,371	\$ 10,410,757	\$ 818,939	\$ (3,500,013)	\$ 7,729,683
Balance as at November 30, 2020		74,005,371	\$ 10,542,611	\$ 777,856	\$ (2,103,853)	\$ 9,216,614
Exercise of stock options	11(c)	461,500	120,948	(51,723)	-	69,225
Issuance of stock options	11(c)	-	-	92,375	-	92,375
Reclassification of fair value of expired/cancelled stock options	11(c)	-	-	(59,928)	59,928	-
Net and comprehensive loss for the period		-	-	-	(552,821)	(552,821)
Balance as at February 28, 2021		74,466,871	\$ 10,663,559	\$ 758,580	\$ (2,596,746)	\$ 8,825,393

See accompanying notes to these condensed interim consolidated financial statements

NETWORK MEDIA GROUP INC.

Condensed Interim Consolidated Statements of Cash Flows

For the three months ended February 28, 2021 and February 29, 2020

Expressed in Canadian dollars (unaudited)

	Three months ended	
	February 28, 2021	February 29, 2020
Operating activities		
Income (loss) for the period	\$ (552,821)	\$ 298,307
Items not involving cash:		
Amortization of property, equipment and right of use assets	182,400	167,713
Amortization of film and television properties	478,283	3,317,542
Impairment of investment in film and television properties	42,366	-
Share-based compensation	92,375	63,762
Forgiveness of debt and reversal of accounts payable	(185,798)	(1,313)
Income tax expense (recovery)	(82,600)	91,500
	(25,795)	3,937,511
Net changes in non-cash working capital items		
Accounts receivable	360,525	(1,089,353)
Tax credits receivable	481,314	1,555,149
Prepaid expenses and deposits	(19,516)	5,948
Accounts payable and accrued liabilities	(523,065)	(1,486)
Accrued interest	18,035	90,159
Deferred revenue	853,549	(1,302,925)
Net cash provided by operating activities	1,145,047	3,195,003
Financing activities		
Issuance of shares for cash	69,225	75,000
Interim production financing	-	1,223,000
Line of credit	407,000	10,000
Repayment of interim production financing	(653,344)	(1,441,351)
Repayment of lease obligations	(160,937)	(156,678)
Net cash used in financing activities	(338,056)	(290,029)
Investing activities		
Purchase of property and equipment	-	(21,588)
Investment in film and television properties, net of tax credits	(487,717)	(2,552,500)
Investment in properties under development	47,749	(299,931)
Net cash used in investing activities	(439,968)	(2,874,019)
Net increase in cash	367,023	30,955
Cash, beginning of period	685,731	1,182,454
Cash, end of period	\$ 1,052,754	\$ 1,213,409

SUPPLEMENTAL CASH FLOW INFORMATION (Note 20)

See accompanying notes to these condensed interim consolidated financial statements

NETWORK MEDIA GROUP INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended February 28, 2021 and February 29, 2020

Expressed in Canadian dollars (unaudited)

1. Nature of operations

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

The Company has a working capital deficit of \$2,270,460 and a deficit of \$2,596,746 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 condensed interim consolidated financial statements.

On March 11, 2020, 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, April 28, 2021.

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, 2020. 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, 2020.

The condensed interim consolidated financial statements of the Company for the three months ended February 28, 2021 and February 29, 2020 were approved for issue by the Board of Directors on April 28, 2021.

NETWORK MEDIA GROUP INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended February 28, 2021 and February 29, 2020

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, 2020. 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, 2020. Refer to Note 3 of the Company's consolidated financial statements for the year ended November 30, 2020 for more information on new accounting standards and amendments not yet effective.

4. Accounts receivable

	February 28, 2021	November 30, 2020
Receivables from broadcasters	\$ 248,462	\$ 612,098
Input tax credits and other receivables	38,341	35,230
	<u>\$ 286,803</u>	<u>\$ 647,328</u>

NETWORK MEDIA GROUP INC.
Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended February 28, 2021 and February 29, 2020
Expressed in Canadian dollars (unaudited)

5. Property, equipment and right of use assets

	Computer Equipment	Furniture and Office Equipment	Production Equipment	Leasehold Improvements	Right of Use Assets	Total
Cost						
Balance at November 30, 2019	\$ 1,252,262	\$ 81,595	\$ 61,148	\$ 38,253	\$ -	\$ 1,433,258
Adoption of IFRS 16	(363,087)	-	-	(38,253)	429,999	28,659
Additions	15,213	7,915	-	-	734,321	757,449
Balance at November 30, 2020	904,388	89,510	61,148	-	1,164,320	2,219,366
Additions	-	-	-	-	388,803	388,803
Balance at February 28, 2021	\$ 904,388	\$ 89,510	\$ 61,148	\$ -	\$ 1,553,123	\$ 2,608,169
Accumulated amortization						
Balance at November 30, 2019	\$ 822,460	\$ 69,880	\$ 25,181	\$ 27,102	\$ -	\$ 944,623
Adoption of IFRS 16	(143,730)	-	-	(27,102)	199,492	28,660
Amortization expense	65,415	3,135	10,790	-	603,952	683,292
Balance at November 30, 2020	744,145	73,015	35,971	-	803,444	1,656,575
Amortization expense	12,018	825	1,888	-	167,669	182,400
Balance at February 28, 2021	\$ 756,163	\$ 73,840	\$ 37,859	\$ -	\$ 971,113	\$ 1,838,975
Carrying amount						
November 30, 2020	\$ 160,243	\$ 16,495	\$ 25,177	\$ -	\$ 360,876	\$ 562,791
February 28, 2021	\$ 148,225	\$ 15,670	\$ 23,289	\$ -	\$ 582,010	\$ 769,194

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

During the period ended February 28, 2021 and February 29, 2020, the Company had no disposals of property and equipment.

The continuity of right of use assets is as follows:

	Leasehold Improvements	Office	Vehicle	Equipment	Total
Cost					
Balance at November 30, 2020	\$ 66,912	\$ 689,358	\$ 34,186	\$ 373,864	\$ 1,164,320
Additions	-	388,803	-	-	388,803
Balance at February 28, 2021	\$ 66,912	\$1,078,161	\$ 34,186	\$ 373,864	\$ 1,553,123
Accumulated amortization					
Balance at November 30, 2020	\$ 66,912	\$ 493,531	\$ 7,111	\$ 235,890	803,444
Amortization expense	-	124,899	1,640	41,130	167,669
Balance at February 28, 2021	\$ 66,912	\$ 618,430	\$ 8,751	\$ 277,020	\$ 971,113
Carrying amount					
November 30, 2020	\$ -	\$ 195,827	\$ 27,075	\$ 137,974	\$ 360,876
February 28, 2021	\$ -	\$ 459,731	\$ 25,435	\$ 96,844	\$ 582,010

NETWORK MEDIA GROUP INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended February 28, 2021 and February 29, 2020

Expressed in Canadian dollars (unaudited)

6. Investment in film and television properties

	Properties in development	Properties in progress	Properties completed and released	Total
Balance, November 30, 2019	\$ 1,115,735	\$ 3,293,760	\$ 7,015,936	\$ 11,425,431
Additions	257,515	2,797,686	3,394,412	6,449,613
Tax credits accrued	-	(764,331)	(653,031)	(1,417,362)
Transferred to projects in progress	(41,852)	41,852	-	-
Allocated to direct production costs	(84,080)	-	-	(84,080)
Transferred to properties completed and released	-	(3,171,511)	3,171,511	-
Amounts written off and impaired	(53,738)	(543,604)	-	(597,342)
Amortization	-	-	(5,579,362)	(5,579,362)
Balance, November 30, 2020	<u>1,193,580</u>	<u>1,653,852</u>	<u>7,349,466</u>	<u>10,196,898</u>
Additions	52,250	918,348	-	970,598
Tax credits accrued	-	(128,320)	(512)	(128,832)
Funding taken into deferred revenue	(100,000)	-	-	(100,000)
Amounts written off and impaired	(42,366)	-	-	(42,366)
Amortization	-	-	(478,283)	(478,283)
Balance, February 28, 2021	<u><u>\$ 1,103,465</u></u>	<u><u>\$ 2,443,880</u></u>	<u><u>\$ 6,870,671</u></u>	<u><u>\$ 10,418,016</u></u>
As at February 28, 2021				
Cost	<u>\$ 1,103,465</u>	<u>\$ 2,443,880</u>	<u>\$ 29,383,139</u>	<u>\$ 32,930,484</u>
Accumulated amortization	<u>-</u>	<u>-</u>	<u>(22,512,468)</u>	<u>(22,512,468)</u>
Carrying amount	<u><u>\$ 1,103,465</u></u>	<u><u>\$ 2,443,880</u></u>	<u><u>\$ 6,870,671</u></u>	<u><u>\$ 10,418,016</u></u>
As at November 30, 2020				
Cost	\$ 1,193,580	\$ 1,653,852	\$ 29,383,652	\$ 32,231,084
Accumulated amortization	-	-	(22,034,186)	(22,034,186)
Carrying amount	<u>\$ 1,193,580</u>	<u>\$ 1,653,852</u>	<u>\$ 7,349,466</u>	<u>\$ 10,196,898</u>

During the three months ended February 29, 2021, interest of \$4,893 (2020 – \$29,983) has been capitalized within the properties in progress and productions completed and released balances.

7. Line of credit

The Company has available a line of credit agreement with a Canadian chartered bank which provides that the Company may borrow up to \$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 February 28, 2021, outstanding borrowings were \$295,000 (November 30, 2020 – \$300,000).

The Company secured an additional \$1,200,000 of credit from RBC through the Export Development Canada ("EDC") COVID relief funding program and as at February 28, 2021 received loans totalling \$232,000. 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% on a term of 5 years from initial drawdown.

As at February 28, 2021, the Company received \$180,000 (November 30, 2020 – \$nil) of COVID relief funding through the Canada Emergency Business Account ("CEBA"). The loans are unsecured and interest free with no payments required until December 31, 2022 at which time, if the loans are repaid, \$60,000 of the loan will be forgiven. If the loans are not fully repaid by December 31, 2022, the balance will be converted into a term loan at an interest rate to be negotiated at that time.

NETWORK MEDIA GROUP INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended February 28, 2021 and February 29, 2020

Expressed in Canadian dollars (unaudited)

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 February 28, 2021, the Company had a deferred revenue balance of \$1,454,903 (November 30, 2020 – \$601,354).

10. Lease obligations

The Company leased certain operating equipment under four equipment financing leases (November 30, 2020 – four financing leases). The Company's obligations under the finance leases are secured by the lessor's title to the leased assets. The weighted average interest rate is 4.86% per annum (November 30, 2020 – 4.86%) and have a lease term of three years (November 30, 2020 – three years). At the end of the lease term, the Company has an option to purchase the equipment for \$1.

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

The Company's leases are comprised of the following:

	Office Leases	Equipment Leases	Vehicle Leases	Total
Lease obligations balance at November 30, 2020	204,220	146,522	27,719	378,461
Leases entered into during the period	388,803	-	-	388,803
Interest expense	3,302	1,672	304	5,278
Lease payments	(131,868)	(27,227)	(1,842)	(160,937)
Lease obligations balance at February 28, 2021	464,457	120,967	26,181	611,605
Less: non-current portion	(246,441)	(26,731)	(19,314)	(292,486)
Current portion of lease liabilities	\$ 218,016	\$ 94,236	\$ 6,867	\$ 319,119

The carrying amount of the leased computer equipment as of February 28, 2021 is \$91,710 (November 30, 2020 – \$131,679) which is included in the balance in Note 5.

NETWORK MEDIA GROUP INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended February 28, 2021 and February 29, 2020

Expressed in Canadian dollars (unaudited)

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 three months ended February 28, 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

During the three months ended February 29, 2020, the Company issued 600,000 common shares on the exercise of stock options for proceeds of \$75,000, as follows:

- a. 300,000 options on December 3, 2019 when stock price was \$0.18
- b. 300,000 options on February 12, 2020 when stock price was \$0.21

(c) *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 a maximum of 14,500,000 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 ended February 28, 2021 and February 29, 2020
Expressed in Canadian dollars (unaudited)

11. Share capital and reserves (continued)

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

	As at February 28, 2021		As at November 30, 2020	
	Number of Options	Weighted Ave. Exercise Price	Number of Options	Weighted Ave. Exercise Price
Outstanding, beginning of year	8,972,920	\$ 0.15	10,307,920	\$ 0.15
Granted	2,585,000	\$ 0.16	1,000,000	\$ 0.13
Cancelled	(88,500)	\$ 0.15	(1,235,000)	\$ 0.15
Exercised	(461,500)	\$ 0.15	(1,100,000)	\$ 0.07
Outstanding, end of period	<u>11,007,920</u>	<u>\$ 0.15</u>	<u>8,972,920</u>	<u>\$ 0.15</u>

As at February 28, 2021, the following stock options are outstanding and exercisable:

<i>Number of options outstanding</i>	<i>Number of options exercisable</i>	<i>Exercise price</i>	<i>Remaining life (yrs)</i>	<i>Expiry</i>
370,920	370,920	\$ 0.20	0.41	July 28, 2021
2,842,000	2,842,000	\$ 0.14	1.41	July 27, 2022
1,560,000	1,040,001	\$ 0.15	2.14	April 19, 2023
400,000	266,667	\$ 0.12	2.45	August 13, 2023
250,000	166,667	\$ 0.12	2.73	November 23, 2023
1,600,000	533,333	\$ 0.13	3.38	July 15, 2024
400,000	133,333	\$ 0.15	3.67	October 28, 2024
1,000,000	-	\$ 0.20	4.01	March 2, 2025
2,585,000	-	\$ 0.16	4.79	December 14, 2025
<u>11,007,920</u>	<u>5,352,921</u>	<u>\$ 0.14</u>	<u>2.95</u>	

Vesting terms for the 2,585,000 options granted December 14, 2020 are one third vesting 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 2020	1,000,000	\$ 0.20	\$ 0.20	113%	0.78%	\$ 0.16	5.0
Year ended 2021	2,585,000	\$ 41.36	\$ 0.16	122%	0.41%	\$ 0.16	5.0

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Expressed in Canadian dollars (unaudited)

11. Share capital and reserves (continued)

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

For the three months ended February 28, 2021, the Company recognized compensation expense in relation to these options of \$92,375 (2020 – \$63,762), which is included in profit or loss.

(d) *Contributed surplus*

Contributed surplus consists of the following amounts:

	February 28, 2021	November 30, 2020
Outstanding options	\$ 926,905	\$ 946,181
Convertible debt	134,326	134,326
Share exchange for Network Entertainment Inc.	(302,651)	(302,651)
	\$ 758,580	\$ 777,856

12. Supplemental statement of net and comprehensive income disclosure

(a) *Employee benefit expenses*

Total salaries and wages recognized in profit or loss is \$293,887 (2020 – \$76,645) of which \$163,279 was recorded as direct production costs (2020 – \$nil) and \$130,598 was recorded as general and administration (2020 – \$76,645).

(b) *Financing expenses*

Financing expenses are comprised of the following:

	Note	February 28, 2021	February 29, 2020
Interest income		\$ (476)	\$ (3,396)
Interest expense on interim production financing	8	5,130	41,658
Interest expense on line of credit	7	2,734	3,313
Interest expense on lease obligations	10	5,278	15,205
		\$ 12,666	\$ 56,780
Net financing expense			

13. Government assistance

Refundable tax credits relating to production activities of the Company are claimed from the federal and provincial governments in Canada. The refundable tax credits for the three months ended February 28, 2021 were recorded as follows:

- Reduction to direct production costs of \$201,129 (2020 – \$nil), and;
- Reduction to investment in film and television properties of \$128,832 (2020 – \$368,302).

During the three months ended February 28, 2021, the Company received:

- \$251,770 from the Canada Emergency Wage Subsidy (“CEWS”) and was recorded as a reduction of salaries and wages within production costs, and;
- \$77,705 from the Canada Emergency Rent Subsidy (“CERS”) and was recorded as other revenue.

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14. 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 is exposed to various risks related to its financial instruments as follows:

Risks arising from financial instruments

(i) *Foreign exchange risk*

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

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

A five percent fluctuation in the US dollar rate impacting US dollar revenues during the three months ended February 28, 2021 would result in a \$13,794 (2020 – \$208,251) 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, \$905,007 (2020 – \$663,302), \$100,776 (2020 – \$1,758,604) and \$677,740 (2020 – \$1,026,334).

A five percent fluctuation in the US dollar closing rate at February 28, 2021 would result in a net change to profit or loss of \$16,401 (2020 – \$69,765).

(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 February 28, 2021, there are \$91,297 of accounts receivable past due, over 30 days, but not considered impaired (2020 – \$130,006).

(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 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 \$20,641 (2020 – \$69,065) during the three months ended February 28, 2021.

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14. 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.

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 defines capital as the aggregate of its shareholders' equity and long-term debt less cash.

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 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. 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 three months ended February 28, 2021, the Company paid or accrued wages and recognized share-based compensation to key management personnel in the following manner:

	February 28, 2021	February 29, 2020
Short-term employee benefits	\$ 168,650	\$ 173,430
Share-based compensation	54,227	30,821
	\$ 222,877	\$ 204,251
Recorded as:		
General and administrative expenses	\$ 3,900	\$ 8,680
Share-based compensation	54,227	30,821
Direct production costs	75,000	-
Investment in film and television properties	89,750	164,750
	\$ 222,877	\$ 204,251
Options issued	1,200,000	-

Accounts payable and accrued liabilities at February 28, 2021 includes, \$13,650 (November 30, 2020 – \$13,650) owed to a company controlled by an Officer of the Company. Amounts due to related parties are unsecured, non-interest bearing and due on demand.

18. Revenue

	February 28, 2021	February 29, 2020
Production revenue	\$ -	\$ 4,108,066
Contract production services revenue	215,547	-
Distribution revenue	66,608	111,222
Other revenue	79,055	2,700
	\$ 361,210	\$ 4,221,988

Of the Company's \$361,210 (2020 – \$4,221,988) in revenues for the three months ended February 28, 2021, \$85,320 (2020 – \$56,970) was attributable to external customers located in Canada, \$235,628 (2020 – \$4,155,329) was attributable to external customers located in the U.S., and \$40,262 (2020 – \$9,689) was attributable to other external customers.

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19. General and administrative expenses

	February 28, 2021	February 29, 2020
Insurance	\$ 11,075	\$ 5,079
Interest and bank charges	16,379	18,312
Office and general	21,778	68,535
Professional fees	37,270	37,796
Rent and utilities	-	1,424
Salaries and wages	130,598	76,645
Technology and licenses	28,505	33,737
Telecommunications	5,515	6,628
Transfer agent and filing fees	13,686	4,607
Travel	-	21,376
	\$ 264,806	\$ 274,139

20. Supplemental cash flow information

i. Non-cash investing and financing activities

	February 28, 2021	February 29, 2020
Amount included in prior year projects in progress transferred to productions completed and released	\$ -	\$ 2,177,636
Tax credits receivable included in production costs	\$ 1,105,830	\$ 4,123,065
Accounts payable included in production costs	\$ 673,004	\$ 1,303,915
Fair value of options exercised	\$ 51,723	\$ 58,145
Fair value of options cancelled	\$ 59,928	\$ -
IFRS 16 adoption of right of use assets	\$ -	\$ 571,493

ii. Interest paid

Interest paid during the three months ended February 28, 2021 was \$59,662 (2020 – \$81,556).

21. Subsequent events

Subsequent to February 28, 2021, the Company:

- i. Received an additional \$88,408 from the CEWS program;
- ii. Received an additional \$27,165 from the CERS program, and;
- iii. Received draws totalling \$445,000 from the EDC secured COVID relief funding program.