

Condensed Interim Consolidated Financial Statements of

NETWORK MEDIA GROUP INC.

For the three months and six months ended May 31, 2021 and 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 May 31, 2021 and November 30, 2020
Expressed in Canadian dollars (unaudited)

	Notes	May 31, 2021	November 30, 2020
ASSETS			
Current			
Cash		\$ 245,981	\$ 685,731
Accounts receivable	4	431,618	647,328
Tax credits receivable		1,349,383	1,965,238
Prepaid expenses and deposits		81,800	57,674
		2,108,782	3,355,971
Tax credits receivable		552,220	-
Property, equipment and right of use assets	5	835,300	562,791
Investment in film and television properties	6, 13, 17	10,034,663	10,196,898
Total Assets		\$ 13,530,965	\$ 14,115,660
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Line of credit	7	\$ 1,242,000	\$ 300,000
Accounts payable and accrued liabilities	17	1,810,473	2,401,266
Interim production financing	8	499,558	1,135,365
Deferred revenue	9	1,041,341	601,354
Current lease obligations	10	342,696	320,453
		4,936,068	4,758,438
Lease obligations	10	306,353	58,008
Deferred income tax		-	82,600
Total Liabilities		5,242,421	4,899,046
Shareholders' Equity			
Share capital	11	10,663,559	10,542,611
Contributed surplus	11(d)	842,648	777,856
Deficit		(3,217,663)	(2,103,853)
Total Shareholders' Equity		8,288,544	9,216,614
Total Liabilities and Shareholders' Equity		\$ 13,530,965	\$ 14,115,660

Nature of operations (Note 1)

Approved by the Board of Directors on July 22, 2021

"Paul Gertz"

"Derik Murray"

Paul Gertz, Director

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 and six months ended May 31, 2021 and 2020

Expressed in Canadian dollars (unaudited)

	Notes	Three months ended May 31, 2021	May 31, 2020	Six months ended May 31, 2021	May 31, 2020
Total revenue	13, 18	\$ 1,233,429	\$ 2,722,345	\$ 1,594,639	\$ 6,944,333
Production costs	12(a), 13, 17	559,017	-	684,543	-
Amortization of film and television properties	6	994,737	1,445,704	1,473,020	4,763,246
Amortization of property, equipment and right of use assets	5	133,779	162,648	316,179	330,361
General and administrative	12(a), 17, 19	248,167	284,716	512,973	558,855
Impairment of investment in film and television properties	6	909	35,000	43,275	35,000
Selling and distribution		-	-	11,056	9,783
Share-based compensation	11(c), 17	84,068	82,733	176,443	146,495
Foreign exchange loss (gain)		9,481	(43,159)	(17,568)	(99,384)
Forgiveness of debt and reversal of accounts payable		(185,797)	(241)	(371,595)	(1,554)
		1,844,361	1,967,401	2,828,326	5,742,802
Income (Loss) before other items		(610,932)	754,944	(1,233,687)	1,201,531
Financing expense (income), net	12(b)	9,985	(8,912)	22,651	47,868
Income (Loss) before income taxes		(620,917)	763,856	(1,256,338)	1,153,663
Income tax expense (recovery)		-	98,900	(82,600)	190,400
Net and comprehensive income (loss) for the period		\$ (620,917)	\$ 664,956	\$ (1,173,738)	\$ 963,263
Income (loss) per share					
- basic		\$ (0.01)	\$ 0.01	\$ (0.02)	\$ 0.01
- diluted		\$ (0.01)	\$ 0.01	\$ (0.02)	\$ 0.01
Weighted average number of shares outstanding					
- basic		74,420,296	73,335,845	74,272,148	73,335,845
- diluted		74,420,296	75,956,924	74,272,148	78,549,512

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, 2021 and 2020

Expressed in Canadian dollars (unaudited)

	Notes	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)	-	-	146,495	-	146,495
Reclassification of fair value of expired/cancelled stock options	11(c)	-	-	(6,164)	6,164	-
Net and comprehensive income for the period		-	-	-	963,263	963,263
Balance as at May 31, 2020		73,505,371	\$ 10,410,757	\$ 895,508	\$ (2,828,893)	\$ 8,477,372
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)	-	-	176,443	-	176,443
Reclassification of fair value of expired/cancelled stock options	11(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

See accompanying notes to these condensed interim consolidated financial statements

NETWORK MEDIA GROUP INC.
Condensed Interim Consolidated Statements of Cash Flows
For the three and six months ended May 31, 2021 and 2020
Expressed in Canadian dollars (unaudited)

	Three months ended		Six months ended	
	May 31,	May 31,	May 31,	May 31,
	2021	2020	2021	2020
Operating activities				
Income (loss) for the period	\$ (620,917)	\$ 664,956	\$ (1,173,738)	\$ 963,263
Items not involving cash:				
Amortization of property, equipment and right of use assets	133,779	162,648	316,179	330,361
Amortization of film and television properties	994,737	1,445,704	1,473,020	4,763,246
Impairment of investment in film and television properties	909	35,000	43,275	35,000
Share-based compensation	84,068	82,733	176,443	146,495
Forgiveness of debt and reversal of accounts payable	(185,797)	(241)	(371,595)	(1,554)
Income tax expense (recovery)	-	98,900	(82,600)	190,400
	406,779	2,489,700	380,984	6,427,211
Net changes in non-cash working capital items				
Accounts receivable	(144,815)	591,924	215,710	(497,429)
Tax credits receivable	(182,428)	2,507,043	298,886	4,062,192
Prepaid expenses and deposits	(4,610)	30,142	(24,126)	36,090
Accounts payable and accrued liabilities	286,120	794,352	(236,945)	792,866
Accrued interest	10,192	47,923	28,227	138,082
Deferred revenue	(413,562)	(1,184,986)	439,987	(2,487,911)
Net cash provided by (used in) operating activities	(42,324)	5,276,098	1,102,723	8,471,101
Financing activities				
Issuance of shares for cash	-	-	69,225	75,000
Interim production financing	-	150,000	-	1,373,000
Line of credit	535,000	(20,000)	942,000	(10,000)
Repayment of interim production financing	(2,283)	(2,936,415)	(655,627)	(4,377,766)
Repayment of lease obligations	(112,007)	(133,751)	(272,944)	(290,429)
Net cash provided by (used in) financing activities	420,710	(2,940,166)	82,654	(3,230,195)
Investing activities				
Purchase of property and equipment	(53,563)	(1,540)	(53,563)	(23,128)
Investment in film and television properties, net of tax credits	(1,036,354)	(2,381,009)	(1,524,071)	(4,933,509)
Investment in properties under development	(95,242)	184,951	(47,493)	(114,980)
Net cash used in investing activities	(1,185,159)	(2,197,598)	(1,625,127)	(5,071,617)
Net increase (decrease) in cash	(806,773)	138,334	(439,750)	169,289
Cash, beginning of period	1,052,754	1,213,409	685,731	1,182,454
Cash, end of period	\$ 245,981	\$ 1,351,743	\$ 245,981	\$ 1,351,743

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 and six months ended May 31, 2021 and 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 \$2,827,286 and a deficit of \$3,217,663 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. 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. Delayed productions have commenced and operations are returning to normal. 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 22, 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 and six months ended May 31, 2021 and 2020 were approved for issue by the Board of Directors on July 22, 2021.

NETWORK MEDIA GROUP INC.

Notes to the Condensed Interim Consolidated Financial Statements

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

	May 31,		November 30,
	2021		2020
Receivables from broadcasters	\$ 259,296	\$	612,098
Input tax credits and other receivables	172,322		35,230
	\$ 431,618	\$	647,328

NETWORK MEDIA GROUP INC.
Notes to the Condensed Interim Consolidated Financial Statements
For the three months and six months ended May 31, 2021 and 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	38,010	-	-	-	550,678	588,688
Expired leases	-	-	-	-	(474,418)	(474,418)
Balance at May 31, 2021	\$ 942,398	\$ 89,510	\$ 61,148	\$ -	\$ 1,240,580	\$ 2,333,636
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	26,887	1,650	3,777	-	283,865	316,179
Expired leases	-	-	-	-	(474,418)	(474,418)
Balance at May 31, 2021	\$ 771,032	\$ 74,665	\$ 39,748	\$ -	\$ 612,891	\$ 1,498,336
Carrying amount						
November 30, 2020	\$ 160,243	\$ 16,495	\$ 25,177	\$ -	\$ 360,876	\$ 562,791
May 31, 2021	\$ 171,366	\$ 14,845	\$ 21,400	\$ -	\$ 627,689	\$ 835,300

There were no disposals, impairment write-downs or any reversals of previous write-downs of property and equipment during the six months ended May 31, 2021 and 2020.

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	13,734	536,944	-	-	550,678
Expired leases	(66,912)	(407,506)	-	-	(474,418)
Balance at May 31, 2021	\$ 13,734	\$ 818,796	\$ 34,186	\$ 373,864	\$ 1,240,580
Accumulated amortization					
Balance at November 30, 2020	\$ 66,912	\$ 493,531	\$ 7,111	\$ 235,890	803,444
Amortization expense	549	204,228	3,554	75,534	283,865
Expired leases	(66,912)	(407,506)	-	-	(474,418)
Balance at May 31, 2021	\$ 549	\$ 290,253	\$ 10,665	\$ 311,424	\$ 612,891
Carrying amount					
November 30, 2020	\$ -	\$ 195,827	\$ 27,075	\$ 137,974	\$ 360,876
May 31, 2021	\$ 13,185	\$ 528,543	\$ 23,521	\$ 62,440	\$ 627,689

NETWORK MEDIA GROUP INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months and six months ended May 31, 2021 and 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	147,493	1,733,944	1,286	1,882,723
Tax credits accrued	-	(428,151)	(512)	(428,663)
Funding taken into deferred revenue	(100,000)	-	-	(100,000)
Transferred to properties completed and released	-	(1,030,983)	1,030,983	-
Amounts written off and impaired	(43,275)	-	-	(43,275)
Amortization	-	-	(1,473,020)	(1,473,020)
Balance, May 31, 2021	<u><u>\$ 1,197,798</u></u>	<u><u>\$ 1,928,662</u></u>	<u><u>\$ 6,908,203</u></u>	<u><u>\$ 10,034,663</u></u>
As at May 31, 2021				
Cost	<u><u>\$ 1,197,798</u></u>	<u><u>\$ 1,928,662</u></u>	<u><u>\$ 30,415,409</u></u>	<u><u>\$ 33,541,869</u></u>
Accumulated amortization	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>(23,507,206)</u></u>	<u><u>(23,507,206)</u></u>
Carrying amount	<u><u>\$ 1,197,798</u></u>	<u><u>\$ 1,928,662</u></u>	<u><u>\$ 6,908,203</u></u>	<u><u>\$ 10,034,663</u></u>
As at November 30, 2020				
Cost	\$ 1,193,580	\$ 1,653,852	\$ 29,383,652	\$ 32,231,084
Accumulated amortization	<u>-</u>	<u>-</u>	<u>(22,034,186)</u>	<u>(22,034,186)</u>
Carrying amount	<u><u>\$ 1,193,580</u></u>	<u><u>\$ 1,653,852</u></u>	<u><u>\$ 7,349,466</u></u>	<u><u>\$ 10,196,898</u></u>

During the three months and six months ended May 31, 2021, interest of \$nil and \$4,893 (2020 – \$25,055 and \$55,038) 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 May 31, 2021, outstanding borrowings were \$135,000 (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 May 31, 2021 received loans totalling \$927,000 (November 30, 2020 – \$nil). 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 May 31, 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 and six months ended May 31, 2021 and 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 May 31, 2021, the Company had a deferred revenue balance of \$1,041,341 (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	535,125	-	-	535,125
Interest expense	4,748	3,022	637	8,407
Lease payments	(214,498)	(54,455)	(3,991)	(272,944)
Lease obligations balance at May 31, 2021	529,595	95,089	24,365	649,049
Less: non-current portion	(271,337)	(17,608)	(17,408)	(306,353)
Current portion of lease liabilities	\$ 258,258	\$ 77,481	\$ 6,957	\$ 342,696

The carrying amount of the leased computer equipment as of May 31, 2021 is \$58,469 (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 and six months ended May 31, 2021 and 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 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

During the six months ended May 31, 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 and six months ended May 31, 2021 and 2020
Expressed in Canadian dollars (unaudited)

11. Share capital and reserves (continued)

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

	As at May 31, 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	\$ 0.20
Cancelled	(178,500)	\$ 0.16	(1,235,000)	\$ 0.19
Exercised	(461,500)	\$ 0.15	(1,100,000)	\$ 0.13
Outstanding, end of period	<u>10,917,920</u>	<u>\$ 0.15</u>	<u>8,972,920</u>	<u>\$ 0.15</u>

As at May 31, 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	0.16	July 28, 2021
2,842,000	2,842,000	\$ 0.14	1.16	July 27, 2022
1,560,000	1,040,001	\$ 0.15	1.88	April 19, 2023
400,000	266,667	\$ 0.12	2.20	August 13, 2023
250,000	166,667	\$ 0.12	2.48	November 23, 2023
1,600,000	533,333	\$ 0.13	3.13	July 15, 2024
400,000	133,333	\$ 0.15	3.41	October 28, 2024
1,000,000	333,333	\$ 0.20	3.76	March 2, 2025
2,495,000	-	\$ 0.16	4.54	December 14, 2025
<u>10,917,920</u>	<u>5,686,254</u>	<u>\$ 0.15</u>	<u>2.68</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	\$ 0.16	\$ 0.16	122%	0.41%	\$ 0.16	5.0

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11. Share capital and reserves (continued)

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

For the three months and six months ended May 31, 2021, the Company recognized compensation expense in relation to these options of \$84,068 and \$176,443 (2020 – \$82,733 and \$146,495), which is included in profit or loss.

(d) *Contributed surplus*

Contributed surplus consists of the following amounts:

	May 31, 2021	November 30, 2020
Outstanding options	\$ 1,010,973	\$ 946,181
Convertible debt	134,326	134,326
Share exchange for Network Entertainment Inc.	(302,651)	(302,651)
	\$ 842,648	\$ 777,856

12. Supplemental statement of net and comprehensive income disclosure

(a) *Employee benefit expenses*

Total salaries and wages recognized in profit or loss for the three and six months ended May 31, 2021 is \$259,070 and \$552,947 (2020 – \$132,111 and \$208,756) of which \$155,151 and \$318,430 was recorded as direct production costs (2020 – \$nil and \$nil) and \$103,919 and \$234,517 was recorded as general and administration (2020 – \$132,111 and \$208,756).

(b) *Financing expense (income), net*

Financing expenses are comprised of the following:

		Three months ended May 31, 2021	Three months ended May 31, 2020	Six months ended May 31, 2021	Six months ended May 31, 2020
Interest income		\$ -	\$ (39,955)	\$ (476)	\$ (43,351)
Interest expense on interim production financing	8	4,780	17,044	9,910	58,702
Interest expense on line of credit	7	2,282	5,824	5,016	9,137
Interest expense on lease obligations	10	2,923	8,175	8,201	23,380
Net financing expense		\$ 9,985	\$ (8,912)	\$ 22,651	\$ 47,868

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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 six months ended May 31, 2021 were recorded as follows:

- Reduction to direct production costs of \$342,484 (2020 – \$nil), and;
- Reduction to investment in film and television properties of \$428,663 (2020 – \$895,980).

During the six months ended May 31, 2021, the Company received:

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

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 six months ended May 31, 2021 would result in a \$63,264 (2020 – \$217,518) 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, \$230,959 (2020 – \$909,783), \$88,581 (2020 – \$1,192,057) and \$591,951 (2020 – \$1,196,620).

A five percent fluctuation in the US dollar closing rate at May 31, 2021 would result in a net change to profit or loss of \$13,621 (2020 – \$45,261).

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14. Financial instruments (continued)

(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.

As at May 31, 2021, there are \$48,342 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 \$22,084 (2020 – \$69,065) during the six months ended May 31, 2021.

(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.

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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.

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 six months ended May 31, 2021, the Company paid or accrued wages and recognized share-based compensation to key management personnel in the following manner:

	<u>May 31,</u> <u>2021</u>	<u>May 31,</u> <u>2020</u>
Short-term employee benefits	\$ 331,400	\$ 338,680
Share-based compensation	103,470	82,926
	\$ 434,870	\$ 421,606
Recorded as:		
General and administrative expenses	\$ 7,800	\$ 8,680
Share-based compensation	103,470	82,926
Direct production costs	184,800	-
Investment in film and television properties	138,800	330,000
	\$ 434,870	\$ 421,606
Options issued	1,200,000	1,000,000

Accounts payable and accrued liabilities at May 31, 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.

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18. Revenue

		Three months ended	Three months ended	Six months ended	Six months ended
	Notes	May 31,	May 31,	May 31,	May 31,
		2021	2020	2021	2020
Production revenue		\$ 204,298	\$ 2,526,050	\$ 204,298	\$ 6,634,116
Contract production services revenue		802,807	-	1,018,354	-
Distribution revenue		142,390	194,495	208,998	305,717
Other revenue	13	83,934	1,800	162,989	4,500
		\$ 1,233,429	\$ 2,722,345	\$ 1,594,639	\$ 6,944,333

Of the Company's \$1,594,639 (2020 – \$6,944,333) in revenues for the six months ended May 31, 2021, \$329,355 (2020 – \$82,071) was attributable to external customers located in Canada, \$1,063,527 (2020 – \$6,761,890) was attributable to external customers located in the U.S., and \$201,757 (2020 – \$100,372) was attributable to other external customers.

19. General and administrative expenses

		Three months ended	Three months ended	Six months ended	Six months ended
	Notes	May 31,	May 31,	May 31,	May 31,
		2021	2020	2021	2020
Insurance		\$ 7,705	\$ 5,438	\$ 18,780	\$ 10,517
Interest and bank charges		12,374	18,578	28,753	36,890
Office and general		26,926	10,606	48,704	79,141
Professional fees		37,390	59,173	74,660	96,969
Rent and utilities		-	954	-	2,378
Salaries and wages	12(a), 17	103,919	132,111	234,517	208,756
Technology and licenses		50,329	25,644	78,834	59,381
Telecommunications		3,200	5,796	8,715	12,424
Transfer agent and filing fees		5,445	4,951	19,131	9,558
Travel		879	21,465	879	42,841
		\$ 248,167	\$ 284,716	\$ 512,973	\$ 558,855

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20. 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,
	2021	2020	2021	2020
Amount included in prior year projects in progress transferred to productions completed and released	\$ 1,030,983	\$ 993,875	\$ 1,030,983	\$ 3,171,511
Tax credits receivable included in production costs	\$ 487,387	\$ (2,073,093)	\$ 1,593,217	\$ 2,049,972
Accounts payable included in production costs	\$ 87,210	\$ 258,008	\$ 760,214	\$ 1,561,923
Fair value of options exercised	\$ -	\$ -	\$ 51,723	\$ 58,145
Fair value of options cancelled	\$ -	\$ 6,164	\$ 59,928	\$ 6,164
IFRS 16 adoption of right of use assets	\$ -	\$ -	\$ -	\$ 450,084

ii. Interest paid

Interest paid during the three and six months ended May 31, 2021 was \$5,412 and \$65,074 (2020 – \$195,798 and \$277,354).