Condensed Interim Consolidated Financial Statements of

NETWORK MEDIA GROUP INC.

For the three months ended February 29, 2020 and February 28, 2019

(Unaudited – prepared by management)

N E T W O R K

www.networkmediagroup.ca

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statement have been prepared by and are the responsibility of the Company’s management.

The Company’s independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Professional Accountants for a review of interim financial statements by an entity’s auditor.

NETWORK MEDIA GROUP INC.

Condensed Interim Consolidated Statements of Financial Position

As at February 29, 2020 and November 30, 2019

Expressed in Canadian dollars (unaudited)

	Note		**February 29, 2020**		November 30, 2019
ASSETS					
Current					
Cash and cash equivalents		**$**	**1,213,409**	$	1,182,454
Accounts receivable	4		**2,026,035**		936,682
Tax credits receivable			**3,517,080**		4,998,475
Prepaid expenses and deposits			**122,547**		128,495
			6,879,071		7,246,106
Tax credits receivable			**912,364**		590,276
Property and equipment	5		**471,211**		488,635
Right of use assets	3, 6		**571,493**		-
Investment in film and television properties	7, 14, 18		**11,110,564**		11,425,431
Total Assets		**$**	**19,944,703**	$	19,750,448
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current					
Line of credit	8	**$**	**245,000**	$	235,000
Accounts payable and accrued liabilities	18		**2,870,145**		2,326,858
Interim production financing	9		**4,734,957**		4,878,354
Deferred revenue	10		**3,170,571**		4,473,496
Current portion of settlement on claim	17		**25,000**		25,000
Current lease obligations	3, 11		**605,512**		96,985
			11,651,185		12,035,693
Lease obligations	3, 11		**148,235**		98,041
Deferred income tax			**415,600**		324,100
Total Liabilities			**12,215,020**		12,457,834
Shareholders' Equity					
Share capital	12		**10,410,757**		10,277,612
Contributed surplus	12(d)		**818,939**		813,322
Deficit			**(3,500,013)**		(3,798,320)
Total Shareholders' Equity			**7,729,683**		7,292,614
Total Liabilities and Shareholders' Equity		**$**	**19,944,703**	$	19,750,448

Nature of operations (Note 1)

Approved by: the Board of Directors on April 27, 2020

"Paul Gertz"

Paul Gertz, Director

"Derik Murray"

Derik Murray, Director

See accompanying notes to these condensed interim consolidated financial statements

NETWORK MEDIA GROUP INC.

Condensed Interim Consolidated Statements of Net and Comprehensive Income
For the three months ended February 29, 2020 and February 28, 2019
Expressed in Canadian dollars (unaudited)

	Note	Three months ended February 29, 2020	Three months ended February 28, 2019
Total revenue	20	**$ 4,221,988**	$ 986,248
Production costs	12(a), 14, 18	**-**	242,525
Amortization of film and television properties	7	**3,317,542**	156,220
Amortization of property, equipment and right of use assets	3, 5, 6	**167,713**	39,035
General and administrative	12(a), 18, 20	**274,139**	187,573
Selling and distribution		**9,783**	37,780
Share-based compensation	12(c), 18	**63,762**	55,603
Foreign exchange loss (gain)		**(56,225)**	79,935
Forgiveness of debt and reversal of accounts payable		**(1,313)**	(206)
		3,775,401	798,465
Income before other items		**446,587**	187,783
Financing expense, net	3, 13(b)	**56,780**	21,040
Loss on disposal of property and equipment	5	**-**	733
Income before income taxes		**389,807**	166,010
Income tax expense		**91,500**	-
Net and comprehensive income for the period		**$ 298,307**	$ 166,010
Income per share			
- basic		**$ 0.00**	$ 0.00
- diluted		**$ 0.00**	$ 0.00
Weighted average number of shares outstanding			
- basic		**72,905,371**	72,716,482
- diluted		**73,018,276**	72,716,482

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 29, 2020 and February 28, 2019
Expressed in Canadian dollars (unaudited)

	Note	Number of Common Shares		Issued Capital		Contributed Surplus		Accumulated Deficit		Total
Balance as at November 30, 2018		72,655,371	$	10,244,996	$	622,939	$	(7,528,314)	$	3,339,621
Adoption of IFRS 15		-		-		-		(299,817)		(299,817)
Balance at December 1, 2018		72,655,371		10,244,996		622,939		(7,828,131)		3,039,804
Exercise of stock options	12(c)	250,000		32,616		(15,116)		-		17,500
Issuance of stock options	12(c)	-		-		55,603		-		55,603
Net and comprehensive income for the period		-		-		-		166,010		166,010
Balance as at February 28, 2019		**72,905,371**	**$**	**10,277,612**	**$**	**663,426**	**$**	**(7,662,121)**	**$**	**3,278,917**
Balance as at November 30, 2019		72,905,371	$	10,277,612	$	813,322	$	(3,798,320)	$	7,292,614
Exercise of stock options	12(c)	600,000		133,145		(58,145)		-		75,000
Issuance of stock options	12(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**

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 29, 2020 and February 28, 2019

Expressed in Canadian dollars (unaudited)

	Three months ended **February 29, 2020**	Three months ended February 28, 2019
Operating activities		
Income for the period	**$ 298,307**	$ 166,010
Items not involving cash:		
Amortization of property, equipment and right of use assets	**167,713**	39,035
Amortization of film and television properties	**3,317,542**	156,220
Loss on disposal of property and equipment	**-**	733
Share-based compensation	**63,762**	55,603
Forgiveness of debt and reversal of accounts payable	**(1,313)**	(206)
Income tax expense	**91,500**	-
	3,937,511	417,395
Net changes in non-cash working capital items		
Accounts receivable	**(1,089,353)**	53,062
Tax credits receivable	**1,555,149**	1,009,536
Prepaid expenses and deposits	**5,948**	25,631
Accounts payable and accrued liabilities	**(1,486)**	(26,188)
Accrued interest	**90,159**	30,622
Deferred revenue	**(1,302,925)**	805,820
Net cash provided by operating activities	**3,195,003**	2,315,878
Financing activities		
Issuance of shares for cash	**75,000**	17,500
Interim production financing	**1,223,000**	225,000
Line of credit	**10,000**	(10,000)
Repayment of interim production financing	**(1,441,351)**	(744,653)
Repayment of lease obligations	**(156,678)**	(15,032)
Net cash used by financing activities	**(290,029)**	(527,185)
Investing activities		
Purchase of property and equipment	**(21,588)**	(60,232)
Investment in film and television properties, net of tax credits	**(2,552,500)**	(2,842,753)
Investment in properties under development	**(299,931)**	(47,687)
Net cash used in investing activities	**(2,874,019)**	(2,950,672)
Net increase (decrease) in cash	**30,955**	(1,161,979)
Cash and cash equivalents, beginning of period	**1,182,454**	3,597,623
Cash and cash equivalents, end of period	**$ 1,213,409**	$ 2,435,644

SUPPLEMENTAL CASH FLOW INFORMATION (Note 21)

See accompanying notes to these condensed interim consolidated financial statements

1. Nature of operations

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

The Company has a working capital deficit of $4,772,114 and a deficit of $3,500,013 which give rise to material uncertainties which may cast significant doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to continue to generate profitable operations, manage its capital and access sufficient future capital if needed. These condensed interim consolidated financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and discharge its liabilities in other than the normal course of operations and at amounts different from those in these condensed interim consolidated financial statements.

On March 11, 2020, the World Health Organization categorized COVID-19 as a pandemic. The potential economic effects within the film industry and in the global markets, including possible disruptions in the completion and delivery of the Company's film and television properties, and measures being introduced at various levels of government to curtail the spread of the virus (such as travel restrictions, closures of non-essential municipal and private operations, imposition of quarantines and social distancing) could have a material impact on the Company's operations and ability to access future capital. The extent of the impact of this outbreak and related containment measures on the Company's operations cannot be reliably estimated at the date these financial statements were released, April 27, 2020.

The Company's registered office is Suite 1500, 1055 West Georgia Street, Vancouver, British Columbia, V6E 4N7.

2. Basis of presentation

(a) Statement of compliance

The Company prepares its unaudited interim condensed 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, 2019. They do not include all of the information required for annual financial statements and should be read in conjunction with the annual audited consolidated financial statements for the year ended November 30, 2019.

The condensed interim consolidated financial statements of the Company for the three months ended February 29, 2020 and February 28, 2019 were approved for issue by the Board of Directors on April 27, 2020.

2. Basis of presentation (continued)

(b) Basis of measurement

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

(c) Functional currency

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

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

The preparation of the 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, 2019. Actual results may differ materially from these estimates.

(e) Comparative information

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

3. Significant accounting policies

Except as otherwise indicated hereunder, these 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, 2019. Refer to Note 3 of the Company’s consolidated financial statements for the year ended November 30, 2019 for more information on new accounting standards and amendments not yet effective.

Standards applied during the period

<u>IFRS 16 - Leases ("IFRS 16")</u>

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

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

3. Significant accounting policies (continued)

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

On initial application, for leases previously classified as operating leases under IAS 17, the Company has elected to record right of use assets based on the corresponding calculated lease liability at December 1, 2019 of $639,525. When measuring lease liabilities for those leases previously classified as operating leases under IAS 17, the Company discounted future lease payments using its incremental borrowing rate (“IBR” Note 11) as at December 1, 2019.

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

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

Right of use asset

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

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

Lease liability

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

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

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

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

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

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

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

Expressed in Canadian dollars

4. Accounts receivable

	February 29, 2020	November 30, 2019
Receivables from broadcasters	**$ 1,954,354**	$ 871,700
Input tax credits and other receivables	**71,681**	64,982
	$ 2,026,035	$ 936,682

5. Property and equipment

	Computer Equipment	Furniture and Office Equipment	Production Equipment	Leasehold Improvements	Total
Cost					
Balance at November 30, 2018	$ 1,087,950	$ 75,614	$ 47,258	$ 38,253	$ 1,249,075
Additions	166,071	5,981	13,890	-	185,942
Disposals	(1,759)	-	-	-	(1,759)
Balance at November 30, 2019	1,252,262	81,595	61,148	38,253	1,433,258
Additions	13,300	8,288	-	-	21,588
Balance at February 29, 2020	**$ 1,265,562**	**$ 89,883**	**$ 61,148**	**$ 38,253**	**$ 1,454,846**
Accumulated amortization					
Balance at November 30, 2018	$ 674,558	$ 67,699	$ 12,743	$ 15,951	$ 770,951
Amortization expense	148,928	2,181	12,438	11,151	174,698
Disposals	(1,026)	-	-	-	(1,026)
Balance at November 30, 2019	822,460	69,880	25,181	27,102	944,623
Amortization expense	32,733	793	2,698	2,788	39,012
Balance at February 29, 2020	**$ 855,193**	**$ 70,673**	**$ 27,879**	**$ 29,890**	**$ 983,635**
Carrying amount					
November 30, 2019	$ 429,802	$ 11,715	$ 35,967	$ 11,151	$ 488,635
February 29, 2020	**$ 410,369**	**$ 19,210**	**$ 33,269**	**$ 8,363**	**$ 471,211**

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

During the three months ended February 29, 2020, the Company had no disposals of property and equipment. During the three months ended February 28, 2019, the Company disposed of computer equipment with a carrying amount of $733 for proceeds of $nil. The sale resulted in the recognition of a loss on disposal of property and equipment of $733.

Expressed in Canadian dollars

6. Right of use assets

	Office	Vehicle	Equipment	Total
Cost				
Balance at November 30, 2019	$ -	$ -	$ -	$ -
Adoption of IFRS 16	655,231	34,186	10,777	700,194
Balance at February 29, 2020	**$ 655,231**	**$ 34,186**	**$ 10,777**	**$ 700,194**
Accumulated amortization				
Balance at November 30, 2019	$ -	$ -	$ -	$ -
Amortization expense	126,066	1,640	995	128,701
Balance at February 29, 2020	**$ 126,066**	**$ 1,640**	**$ 995**	**$ 128,701**
Carrying amount				
November 30, 2019	$ -	$ -	$ -	$ -
February 29, 2020	**$ 529,165**	**$ 32,546**	**$ 9,782**	**$ 571,493**

7. Investment in film and television properties

	Properties in development	Properties in progress	Properties completed and released	Total
Balance, November 30, 2018	$ 1,013,533	$ 4,680,500	$ 3,826,263	$ 9,520,296
Additions	262,707	10,545,724	3,802,760	14,611,191
Tax credits accrued	-	(1,841,420)	(1,397,185)	(3,238,605)
Funding taken into income	29,133	-	-	29,133
Transferred to projects in progress	(50,837)	50,837	-	-
Transferred to properties completed and released	-	(10,141,881)	10,141,881	-
Amounts written off and impaired	(138,801)	-	-	(138,801)
Amortization	-	-	(9,357,783)	(9,357,783)
Balance, November 30, 2019	1,115,735	3,293,760	7,015,936	11,425,431
Additions	299,931	1,418,003	1,653,043	3,370,977
Tax credits accrued	-	(322,088)	(46,214)	(368,302)
Transferred to properties completed and released	-	(2,177,636)	2,177,636	-
Amortization	-	-	(3,317,542)	(3,317,542)
Balance, February 29, 2020	**$ 1,415,666**	**$ 2,212,039**	**$ 7,482,859**	**$ 11,110,564**
As at February 29, 2020				
Cost	**$ 1,415,666**	**$ 2,212,039**	**$ 27,255,225**	**$ 30,882,930**
Accumulated amortization	**-**	**-**	**(19,772,366)**	**(19,772,366)**
Carrying amount	**$ 1,415,666**	**$ 2,212,039**	**$ 7,482,859**	**$ 11,110,564**
As at November 30, 2019				
Cost	$ 1,115,735	$ 3,293,760	$ 23,470,760	$ 27,880,255
Accumulated amortization	-	-	(16,454,824)	(16,454,824)
Carrying amount	$ 1,115,735	$ 3,293,760	$ 7,015,936	$ 11,425,431

During the three months ended February 29, 2020, interest of $29,983 (2019 – $13,728) 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 $250,000. Borrowing under the line of credit bears interest, payable monthly, at the bank's prime rate plus 1.8% and is secured by a general security agreement over the property of the Company. The balances payable under this agreement are due on demand. As of February 29, 2020, outstanding borrowings were $245,000 (2019 – $235,000).

9. Interim production financing

Certain subsidiaries of the Company have secured interim bank loans to finance the cost of producing their respective productions. These loans bear interest at the bank's prime rate plus 1.50% per annum and are repayable on demand. Each loan is secured by the tax credits receivable of the respective subsidiary and a general security agreement over the assets of the Company.

10. Deferred revenue

Deferred revenue represents distribution and development advances as well as contracted fees received or receivable prior to the contracted work being completed.

Distribution advances will be taken into income upon completion of properties in progress. Development advances are from unrelated third parties for development of current and future properties. Repayment of the advances is contingent upon commencement of principal photography. In the event that the properties are not produced, the development advances are typically forgiven by the third party.

As at February 29, 2020, the Company had a deferred revenue balance of $3,170,571 (2019 – $4,473,496).

11. Lease obligations

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

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

Expressed in Canadian dollars

11. Lease obligations (continued)

The Company's leases are comprised of the following:

	Office Leases	Equipment Leases	Vehicle Leases	Total
Lease obligations recognized at November 30, 2019	$ -	$ 195,026	$ -	$ 195,026
Adoption of IFRS 16	405,215	5,098	34,186	444,499
Lease obligations recognized at December 1, 2019	405,215	200,124	34,186	639,525
Leases entered into during the period	250,016	5,679	-	255,695
Interest expense	12,432	2,395	378	15,205
Lease payments	(127,776)	(27,060)	(1,842)	(156,678)
Lease obligations balance at February 29, 2020	539,887	381,262	66,908	988,057
Less: non-current portion	(43,346)	(78,708)	(26,181)	(148,235)
Current portion of lease liabilities	$ 496,541	$ 302,554	$ 40,727	$ 839,822

The carrying amount of the leased equipment as of February 29, 2020 is $203,120 (2019 – $219,357) which is included in the balance in Note 5.

12. Share capital and reserves

(a) Authorized

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

(b) Issued share capital

During the 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

During the three months ended February 28, 2019, the Company issued 250,000 common shares on the exercise of stock options for proceeds of $17,500 when the Company's stock price was $0.14.

(c) Share-based payment reserve

Pursuant to the Company's equity-settled stock option plan, Directors may, from time to time, authorize the granting of options to Directors, employees and consultants of the Company to a maximum of 20% of the outstanding shares of the Company which is limited to 14,500,000 options. Options granted under the plan have contractual option terms not exceeding 10 years and vesting periods as determined by the Company's Board of Directors.

During the three months ended February 29, 2020, no stock options were cancelled or expired (2019 – 40,000), resulting in a reclassification of amounts totalling $nil (2019 – $nil) from contributed surplus to accumulated deficit.

Expressed in Canadian dollars

12. Share capital and reserves (continued)

(c) Share based payment reserve (continued)

	As at February 29, 2020			As at November 30, 2019		
	Number of Options		**Weighted Ave. Exercise Price**	Number of Options		Weighted Ave. Exercise Price
Outstanding, beginning of year	**10,307,920**	**$**	**0.15**	8,487,920	$	0.15
Granted	-	**$**	-	2,110,000	$	0.13
Cancelled	-	**$**	-	(40,000)	$	0.15
Exercised	**(600,000)**	**$**	**0.13**	(250,000)	$	0.07
Outstanding, end of period	**9,707,920**	**$**	**0.15**	10,307,920	$	0.15

As at February 29, 2020, the following stock options are outstanding and exercisable:

Number of options outstanding	*Number of options exercisable*		*Exercise price*	*Remaining life (yrs)*	Expiry
375,920	375,920	$	0.20	1.41	July 28, 2021
3,312,000	3,312,000	$	0.14	2.41	July 27, 2022
1,000,000	1,000,000	$	0.20	2.79	December 12, 2022
2,260,000	1,120,000	$	0.15	3.39	April 19, 2023
400,000	133,333	$	0.12	3.45	August 13, 2023
250,000	83,333	$	0.12	3.73	November 23, 2023
1,710,000	-	$	0.13	4.38	July 15, 2024
400,000	-	$	0.15	4.67	October 28, 2024
9,707,920	6,024,587	$	0.15	3.15	

The Company uses the Black-Scholes option-pricing model to determine the estimated fair value, at the grant date, of the options issued. In all the calculations the annual dividend yield was assumed to be $nil, and expected volatility was based on historical volatility. All other assumptions are summarized below:

Grant Date	Options Granted		Exercise Price		Share Price	Annual Volatility Rate	Risk Free Interest Rate		Fair Value at Grant Date	Expected Life
Year ended 2019	2,110,000	$	0.13	$	0.15	109%	1.46%	$	0.12	5.0

For the three months ended February 29, 2020, the Company recognized compensation expense in relation to these options of $63,762 (2019 – $55,603), which is included in profit or loss.

Expressed in Canadian dollars

12. Share capital and reserves (continued)

(d) Contributed surplus

Contributed surplus consists of the following amounts:

		February 29, 2020		November 30, 2019
Outstanding options	**$**	**987,264**	$	981,647
Convertible debt		**134,326**		134,326
Share exchange for Network Entertainment Inc.		**(302,651)**		(302,651)
	$	**818,939**	$	813,322

13. Supplemental statement of net and comprehensive income disclosure

(a) Employee benefit expenses

Total salaries and wages recognized in profit or loss is $76,645 (2019 – $52,759) of which $nil was recorded as direct production costs (2019 – $10,034) and $76,645 was recorded as general and administration (2019 – $42,725).

(b) Financing expenses

Financing expenses are comprised of the following:

	Note		February 29, 2020		February 28, 2019
Interest income		**$**	**(3,396)**	$	-
Interest expense on interim production financing	9		**41,658**		16,895
Interest expense on line of credit	8		**3,313**		1,985
Interest expense on lease obligations	3, 11		**15,205**		2,160
Net financing expense		**$**	**56,780**	$	21,040

14. Government assistance

Refundable tax credits relating to production activities of the Company are claimed from the federal and provincial governments in Canada. The refundable tax credits for the three months ended February 29, 2020 were recorded as follows:

- Reduction to direct production costs of $nil (2019 – $27,278), and;
- Reduction to investment in film and television properties of $368,302 (2019 – $985,457).

15. Financial instruments

The fair values of the Company's financial instruments approximate the carrying values. The Company is exposed to various risks related to its financial instruments as follows:

Risks arising from financial instruments

(i) Foreign exchange risk

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

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

A five percent fluctuation in the US dollar rate impacting US dollar revenues during the three months ended February 29, 2020 would result in a $208,251 (2019 – $49,052) 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, $663,032 (2019 – $123,281), $1,758,604 (2019 – $47,464) and $1,026,334 (2019 – $18,266).

A five percent fluctuation in the US dollar closing rate at February 29, 2020 would result in a net change to profit or loss of $69,765 (2019 – $152,479).

(ii) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company is subject to credit risk with respect to cash and cash equivalents and accounts receivable. The Company's maximum exposure to credit risk at the end of the reporting period is the carrying value of these assets. Substantially all of the Company's customers are in the entertainment industry and are subject to normal industry credit risks. Credit risk is managed through a credit approval process and monitoring procedures.

All cash and cash equivalent balances are held at a major Canadian banking institution.

At February 29, 2020, there are $387,531 of accounts receivable past due, over 30 days, but not considered impaired (2019 – $180,706).

(iii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest rate risk arises on interest-bearing financial instruments recognized in the statement of financial position such as interim production financing.

If the market interest rates had changed 100 basis points, the Company's cost of capital would have fluctuated by $69,065 (2019 – $23,505) during the three months ended February 29, 2020.

15. Financial instruments (continued)

(iv) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company's liquidity needs can be met through a variety of sources. The Company generates cash from operations, by borrowing against earned tax credits through interim production financing, and by issuances of common shares. The Company manages liquidity risk by continuously monitoring actual and forecast cash flows.

The Company will require additional capital in order to meet the payment expectations related to its debts. Accounts payable and accrued liabilities are due on standard commercial terms.

16. Capital management

The Company's objectives when managing capital are to safeguard its assets, maintain a competitive cost structure, continue as a going concern in order to pursue the development of its film and television properties, and provide a return to its shareholders in the form of capital appreciation. The Company defines capital as the aggregate of its shareholders' equity and long-term debt less cash and cash equivalents.

In order to facilitate management of capital, the Company continues to prepare annual expenditure budgets that are updated as necessary and dependent on various factors, including successful deployment of capital and industry conditions. The annual and updated budgets are approved by the Board of Directors.

17. Contingent liabilities

The Company and its subsidiaries may from time to time, be a party to certain legal disputes and claims arising from employment or commercial issues in the normal course of business.

The Company was involved in a business dispute with a former customer regarding services provided by the Company. The Company had also entered into legal action against the former customer. A mediation session was held between the Company and the former customer in an effort to settle the matter. The claim was settled, and the Company was required to pay the former customer $100,000 with the final payment of $25,000 due March 4, 2020.

The Company and its subsidiaries may, from time to time, enter into royalty or rights agreements for the use of images, stock footage, names and similar items. The Company is liable to pay for the use of these rights contingent on achieving particular production milestones. As these milestones are achieved, the Company accrues the related royalties and rights payable which are no longer contingent.

Expressed in Canadian dollars

18. Related parties

Key management personnel are those persons having the authority and responsibility for planning, directing, and controlling activities of the entity, directly or indirectly. Related parties are defined as key management personnel as well as any companies that are controlled by Officers or Directors of the Company. During the three months ended February 29, 2020, the Company:

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

		February 29, 2020		February 28, 2019
Short-term employee benefits	**$**	**173,430**	$	160,435
Share-based compensation		**30,821**		23,226
	$	**204,251**	$	183,661
Recorded as:				
General and administrative expenses	**$**	**8,680**	$	13,402
Share-based compensation		**30,821**		23,226
Investment in film and television properties		**164,750**		147,033
	$	**204,251**	$	183,661

Accounts payable and accrued liabilities at February 29, 2020 includes, $21,650 (2019 – $13,650) owed to a company controlled by an Officer of the Company. Amounts due to related parties are unsecured, non-interest bearing and due on demand.

19. Revenue

		February 29, 2020		February 28, 2019
Production revenue	**$**	**4,108,066**	$	609,688
Contract production services revenue		**-**		294,495
Distribution revenue		**111,222**		82,065
Other revenue		**2,700**		-
	$	**4,221,988**	$	986,248

Of the Company's $4,221,988 (2019 – $986,248) in revenues for the three months ended February 29, 2020, $56,970 (2019 – $5,203) was attributable to external customers located in Canada, $4,155,329 (2019 – $926,533) was attributable to external customers located in the U.S., and $9,689 (2019 – $54,512) was attributable to external customers located in the U.K.

Expressed in Canadian dollars

20. General and administrative expenses

		February 29, 2020		February 28, 2019
Insurance	$	5,079	$	5,469
Interest and bank charges		18,312		3,241
Office and general		68,535		33,888
Professional fees		37,796		75,515
Rent and utilities		1,424		-
Salaries and wages		76,645		42,725
Technology and licenses		33,737		1,878
Telecomunications		6,628		1,226
Transfer agent and filing fees		4,607		11,650
Travel		21,376		11,982
	$	274,139	$	187,573

21. Supplemental cash flow information

i. Non-cash investing and financing activities

		Three months ended February 29, 2020		Three months ended February 28, 2019
Amount included in prior year projects in progress transferred to productions completed and released	$	2,177,636	$	633,126
Tax credits receivable included in production costs	$	4,123,065	$	3,463,215
Accounts payable included in production costs	$	1,303,915	$	362,927
Fair value of options exercised	$	58,145	$	32,616
IFRS 16 adoption of right of use assets	$	571,493	$	-

ii. Interest paid

Interest paid during the three months ended February 29, 2020 was $81,556 (2019 – $68,827).

22. Subsequent events

Subsequent to February 29, 2020 the Company:

i. Received draws from existing interim production financing totalling $150,000, and;
ii. Issued 1,000,000 options to the new Chairman of the Board of Directors on March 2, 2020, exercisable at $0.20 per share for a five year term, and vesting: one third every one, two and three years from the grant date.