

Condensed Interim Consolidated Financial Statements of

NETWORK MEDIA GROUP INC.

For the three months ended February 28, 2015 and 2014

(Unaudited – prepared by management)

**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 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, 2015 and November 30, 2014

Expressed in Canadian dollars (unaudited)

	Note	February 28, 2015	November 30, 2014
ASSETS			
Current			
Cash		\$ 219,858	\$ 82,763
Accounts receivable		201,870	307,327
Tax credits receivable		711,153	711,304
Prepaid expenses and deposits		14,983	12,988
		1,147,864	1,114,382
Tax credits receivable		348,077	134,931
Property and equipment	4	64,709	50,469
Investment in film and television properties	5	1,940,101	1,556,758
		\$ 3,500,751	\$ 2,856,540
SHAREHOLDERS' DEFICIENCY AND LIABILITIES			
Current			
Accounts payable and accrued liabilities		\$ 483,610	\$ 591,717
Interim production financing	6(a)	1,216,375	679,530
Deferred revenue	7	830,275	830,275
Short-term debt	6(b)	1,012,678	506,275
Current portion of convertible debt	8	-	383,374
Current portion of long-term debt	6(c)	78,604	90,857
		3,621,542	3,082,028
Share capital	9	7,335,688	7,085,688
Contributed surplus		561,941	419,731
Convertible debt - equity allocation		-	95,052
Deficit		(7,890,365)	(7,702,047)
Total equity (deficiency) attributable to shareholders of the Company		7,264	(101,576)
Non-controlling interest	9(e)	(128,055)	(123,912)
Shareholders' deficiency		(120,791)	(225,488)
		\$ 3,500,751	\$ 2,856,540

Contingent liabilities (Note 14)

Approved by: the Board of Directors on April 27, 2015

“Robert Pirooz”

“Derik Murray”

Robert Pirooz, Director

Derik Murray, Director

See accompanying notes to these condensed interim consolidated financial statements

NETWORK MEDIA GROUP INC.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

For the three months ended February 28, 2015 and 2014

Expressed in Canadian dollars (unaudited)

	Note	Three months ended February 28, 2015	February 28, 2014
Revenue		\$ 13,773	\$ 25,008
Direct production costs and amortization of film and television properties		-	(10,766)
		13,773	14,242
Amortization of acquired program rights	5	20,000	20,000
Amortization of property and equipment	4	4,375	1,783
Impairment of projects in development	5	3,361	-
Selling, general and administrative	9(c), 17	152,353	120,659
Financing expense, net	10(b)	26,145	46,499
		206,234	188,941
Loss and comprehensive loss for the period		(192,461)	(174,699)
Loss attributed to non-controlling interest	9(e)	4,143	2,991
Loss attributed to shareholders of the Company		\$ (188,318)	\$ (171,708)
Loss per share			
- basic and diluted		\$ (0.00)	\$ (0.00)
Weighted average number of shares outstanding			
- basic and diluted		54,376,400	51,963,017

See accompanying notes to these condensed interim consolidated financial statements

NETWORK MEDIA GROUP INC.

Condensed Interim Consolidated Statements of Changes in Shareholders' Deficiency

For the three months ended February 28, 2015 and 2014

Expressed in Canadian dollars (unaudited)

	Note	Number of Shares	Issued Capital	Contributed Surplus	Equity Reserve	Accumulated Deficit	Total	Non- Controlling Interest	Total
Balance as at December 1, 2013		47,802,017	\$ 6,713,786	\$ 328,804	\$ 134,326	\$ (7,598,219)	\$ (421,303)	\$ (124,356)	\$ (545,659)
Issuance of shares for cash	9(b)	5,129,997	359,100	-	-	-	359,100	-	359,100
Issuance of stock options	9(c)	-	-	15,116	-	-	15,116	-	15,116
Loss and comprehensive loss for the period		-	-	-	-	(171,708)	(171,708)	(27,226)	(198,934)
Balance as at February 28, 2014		52,932,014	\$ 7,072,886	\$ 343,920	\$ 134,326	\$ (7,769,927)	\$ (218,795)	\$ (151,582)	\$ (370,377)
Balance as at December 1, 2014		53,150,370	\$ 7,085,688	\$ 419,731	\$ 95,052	\$ (7,702,047)	\$ (101,576)	\$ (123,912)	\$ (225,488)
Issuance of shares for cash	9(b)	1,250,000	250,000	-	-	-	250,000	-	250,000
Issuance of stock options	9(c)	-	-	47,158	-	-	47,158	-	47,158
Repayment of convertible debt	8	-	-	95,052	(95,052)	-	-	-	-
Loss and comprehensive loss for the period		-	-	-	-	(188,318)	(188,318)	(4,143)	(192,461)
Balance as at February 28, 2015		54,400,370	\$ 7,335,688	\$ 561,941	\$ -	\$ (7,890,365)	\$ 7,264	\$ (128,055)	\$ (120,791)

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, 2015 and 2014

Expressed in Canadian dollars (unaudited)

	February 28, 2015	February 28, 2014
Operating activities		
Loss for the period	\$ (192,461)	\$ (174,699)
Items not involving cash:		
Amortization of acquired program rights	20,000	20,000
Amortization of property and equipment	4,375	1,783
Impairment of projects in development	3,361	-
Stock based compensation	47,158	15,116
Accretion of discount on convertible debt	7,438	18,865
Net changes in non-cash working capital items	(110,129)	(118,935)
Accounts receivable	105,457	(20,509)
Tax credits receivable	(212,995)	(75,829)
Prepaid expenses and deposits	(1,995)	(1,773)
Accounts payable and accrued liabilities	(36,720)	39,805
Accrued interest	31,295	(8,637)
Deferred revenue	-	40,000
Net cash used in operating activities	(225,087)	(145,878)
Financing activities		
Issuance of shares for cash	250,000	359,100
Interim production financing	525,000	175,000
Repayment of convertible debt	(375,000)	-
Repayment of convertible debt interest	(15,812)	-
Repayment of long-term debt	(15,300)	(7,800)
Advances from short-term debt	490,000	-
Net cash provided by financing activities	858,888	526,300
Investing activities		
Purchase of property and equipment	(18,615)	-
Investment in film properties	(461,645)	(263,671)
Advances for properties under development	-	10,000
Investment in properties under development	(16,446)	(7,988)
Net cash used in investing activities	(496,706)	(261,658)
Net increase in cash	137,095	118,763
Cash, beginning of period	82,763	75,425
Cash, end of period	\$ 219,858	\$ 194,188

SUPPLEMENTAL DISCLOSURE

Interest paid	\$ 15,000	\$ 39,523
Income taxes paid	\$ -	\$ -

NON-CASH INVESTING AND FINANCING ACTIVITIES (Note 18)

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, 2015 and 2014
(Expressed in Canadian dollars) (unaudited)

1. Nature of operations

Network Media Group Inc. ("Network Media" or the "Company") was incorporated on July 12, 2010 under the Business Corporation Act of the Province of British Columbia. Network Media 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 deficiency of \$2,473,678 and accumulated deficit of \$7,890,365. These conditions indicate the existence of 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 access sufficient capital until it has profitable operations. These unaudited 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 liquidate its liabilities and commitments in other than the normal course of operations and at amounts different from those in these condensed consolidated interim financial statements.

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

2. Basis of presentation

(a) Statement of compliance

These 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, 2014. 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, 2014.

The condensed interim consolidated financial statements of the Company for the quarter ended February 28, 2015 were approved for issue by the Board of Directors on April 27, 2015.

(b) Basis of measurement

These condensed interim consolidated financial statements have been prepared on a going concern basis under the historical cost convention.

(c) Functional currency

The condensed interim consolidated financial statements are presented in Canadian dollars, the functional currency of the Company.

NETWORK MEDIA GROUP INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended February 28, 2015 and 2014

(Expressed in Canadian dollars) (unaudited)

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, 2014. Refer to note 3 of the Company's consolidated financial statements for the year ended November 30, 2014 for more information on new accounting standards and amendments not yet effective.

Basis of consolidation

The condensed interim consolidated financial statements comprise the financial statements of Network Media and its subsidiaries. The active companies within the condensed interim consolidated financial statements are as follows:

- Network Media Group Inc.
- Network Entertainment Inc.
- Network Films One Inc.
- Network Films Two Inc.
- Network Films 3D Inc.
- Network Films Four Inc.
- Network Films Five Inc.
- Network Films Six Inc.
- Network Films Seven Inc.
- Network Films Eight Inc.
- Network Pictures Twelve Inc.

Network Media owns 96% of its directly held subsidiary, Network Entertainment Inc. ("Network Entertainment"), which in turn owns 100% of the remaining subsidiaries in the group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Control exists when the Company (i) has power over the investee, (ii) exposure or rights to variable returns from its involvement with the investee, and (iii) the ability to use its power over the investee to affect the amount of the investor's return. With regards to subsidiaries that are not wholly owned by the Company, the non-controlling interest in the subsidiary is presented as a separate component within shareholders' equity.

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

The comparative financial statements have been reclassified where applicable in order to conform to the presentation used in the current period. The reclassifications are not of a material nature.

NETWORK MEDIA GROUP INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended February 28, 2015 and 2014

(Expressed in Canadian dollars) (unaudited)

4. Property, plant and equipment

	Computer Equipment	Furniture and Office Equipment	Total
Cost			
Balance at December 1, 2013	\$ 371,589	\$ 65,049	\$ 436,638
Disposals	(3,989)	-	(3,989)
Additions	41,655	-	41,655
Balance at November 30, 2014	\$ 409,255	\$ 65,049	\$ 474,304
Additions	18,615	-	18,615
Balance at February 28, 2015	\$ 427,870	\$ 65,049	\$ 492,919
Accumulated amortization			
Balance at December 1, 2013	\$ 351,433	\$ 59,619	\$ 411,052
Amortization expense	11,697	1,086	12,783
Balance at November 30, 2014	363,130	60,705	423,835
Amortization expense	4,158	217	4,375
Balance at February 28, 2015	\$ 367,288	\$ 60,922	\$ 428,210
Carrying amount			
November 30, 2014	\$ 46,125	\$ 4,344	\$ 50,469
February 28, 2015	\$ 60,582	\$ 4,127	\$ 64,709

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

NETWORK MEDIA GROUP INC.
Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended February 28, 2015 and 2014
(Expressed in Canadian dollars) (unaudited)

5. Investment in film and television properties

	February 28, 2015	November 30, 2014
Projects in development	\$ 90,623	\$ 77,538
Projects in progress	651,384	276,129
Program rights acquired	400,000	400,000
Accumulated amortization	(313,333)	(293,333)
	86,667	106,667
Productions completed and released		
Capitalized production costs	24,798,599	24,783,596
Government tax credits and assistance	(7,471,444)	(7,471,444)
Accumulated amortization	(16,215,728)	(16,215,728)
	1,111,427	1,096,424
	\$ 1,940,101	\$ 1,556,758

Projects in development

During the quarter ended February 28, 2015, investments in certain projects in development were considered impaired and the carrying amount was reduced by \$3,361 (2014 - nil). This impairment has been disclosed separately on the face of the consolidated statement of comprehensive income. In addition, during the quarter, interest of \$11,846 (2014 - \$2,024) has been capitalized to investment in film and television properties.

Program rights

During the year ended November 30, 2011, the Company acquired certain program rights from the Chief Executive Officer of the Company in consideration for common shares with a fair value of \$400,000. These rights are being amortized on a straight line basis over five years.

The continuity of investment in film and television programs is as follows:

	February 28, 2015	November 30, 2014
Net opening investment in film and television properties	\$ 1,556,758	\$ 1,594,921
Cost of productions (completed and released and in progress), net of government assistance	390,258	901,960
Increase in development costs, net of projects which commenced production during the year	16,446	30,054
Impairment of development costs	(3,361)	(32,908)
Amortization	(20,000)	(937,269)
	\$ 1,940,101	\$ 1,556,758

NETWORK MEDIA GROUP INC.
Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended February 28, 2015 and 2014
(Expressed in Canadian dollars) (unaudited)

6. Interim production financing and long term debt

a) Interim production financing

February 28, 2015	November 30, 2014
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Certain subsidiaries of the Company have secured interim bank loans to finance the cost of producing their respective productions. These loans bear interest at prime plus 2.50% 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, as well as a postponement of claims by the Officers and Directors of the Company, as noted in the interim production financing below.

\$ 1,216,375	\$ 679,530
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b) Short-term debt

The Company has issued a series of unsecured promissory notes to a third party and a director of the Company in the amount of \$990,619 plus accrued interest for a total of \$1,012,678 as at February 28, 2015 (November 30, 2014 - \$506,275). The promissory notes accrue interest at 8% per annum which is paid semi-annually.

c) Long-term debt

February 28, 2015	November 30, 2014
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Demand loan with interest accruing at 15% per annum compounded monthly, secured by a general security agreement of the Company. Full repayment of the balance is due August 31, 2015.

\$ 78,304	\$ 84,257
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Non-revolving term facility in the amount of \$36,000 with a floating rate term loan bearing interest at prime plus 3.20%, secured by a general security agreement from a subsidiary of the Company and a postponement of claim from the Company. Monthly payments of \$2,100 plus accrued interest are required until the balance is repaid on March 1, 2015.

300	6,600
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78,604	90,857
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Less current portion

(78,604)	(90,857)
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\$ -	\$ -
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The Company considers that the fair value of the interim production financing and long-term debt is equal to the carrying value.

NETWORK MEDIA GROUP INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended February 28, 2015 and 2014

(Expressed in Canadian dollars) (unaudited)

7. Deferred revenue

Deferred revenue represents distribution and development advances. The distribution advances will be taken into income upon completion of projects in progress. The development advances are from unrelated third parties for development of current and future projects. Repayment of the advances is contingent upon commencement of principal photography. In the event that the projects are not produced, the development advances are typically forgiven by the third party. As at February 28, 2015, the Company had received payments from customers in excess of revenue recognized of \$830,275 (2014 - \$830,275) and this amount has been recognized in the statement of financial position as deferred revenue.

8. Convertible debt

The Company had issued a series of convertible debentures totalling \$625,000 with the following features:

- Interest rate of 8% per annum
- Maturing 2 years after issuance
- Convertible at the option of the holder at \$0.15 per share

Depending on the date of issuance, the fair value of the liability component was determined based on the present value of the expected future cash flows from principal and interest using a 4% and 7% premium in order to value the debentures as if they did not have a conversion feature. The difference between the face value of the debentures and the present value of future cash flows is the equity component of the debentures.

During the period ended February 28, 2015, the Company repaid the remaining \$375,000 to fully extinguish the convertible debt balances and recognized interest and accretion expense of \$6,627 (2014 - \$31,194).

9. Share capital and reserves

(a) Authorized

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

(b) Issued share capital

- i. During the period ended February 28, 2015, the Company completed a private placement and issued 1,250,000 common shares at \$0.20 per common share for net receipts of \$250,000.
- ii. During the period ended February 28, 2014, the Company completed a private placement and issued 5,129,997 common shares at \$0.07 per share for net receipts of \$359,100.

NETWORK MEDIA GROUP INC.
Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended February 28, 2015 and 2014
(Expressed in Canadian dollars) (unaudited)

9. Share capital and reserves (continued)

(c) *Share based payment reserve*

Pursuant to the Company's 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 10% of the outstanding shares of the Company. Options granted under the plan have contractual option terms not exceeding 10 years and vesting periods which are determined by the Company's Board of Directors.

	As at February 28, 2015		As at November 30, 2014	
	Number of Options	Weighted Ave. Exercise Price	Number of Options	Weighted Ave. Exercise Price
Outstanding, beginning of period	5,315,000	\$ 0.17	3,952,500	\$ 0.17
Granted	550,000	\$ 0.10	1,362,500	\$ 0.18
Cancelled	(450,000)	\$ 0.13	-	\$ -
Outstanding, end of period	<u>5,415,000</u>	<u>\$ 0.17</u>	<u>5,315,000</u>	<u>\$ 0.17</u>

As at February 28, 2015, the following stock options are outstanding and exercisable:

<i>Number of options</i>	<i>Exercise price</i>	<i>Expiry</i>
600,000	\$ 0.10	December 30, 2015
2,502,500	\$ 0.20	December 29, 2016
300,000	\$ 0.12	March 21, 2015
100,000	\$ 0.10	June 3, 2018
250,000	\$ 0.07	February 12, 2019
556,250	\$ 0.20	July 16, 2019
550,000	\$ 0.10	February 12, 2019
<u>4,858,750</u>		

For the quarter ended February 28, 2015 the Company recognized compensation expense in relation to these options of \$47,158 (2014 - \$15,116), which is included in selling, general and administrative expenses in the condensed interim consolidated statement of loss and comprehensive loss.

Subsequent to February 28, 2015, 300,000 stock options expired unexercised.

NETWORK MEDIA GROUP INC.
Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended February 28, 2015 and 2014
(Expressed in Canadian dollars) (unaudited)

9. Share capital and reserves (continued)

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

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. All other assumptions are summarized below:

Grant Date	Options Granted	Annual Volatility Rate	Risk Free Interest Rate	Fair Value at Grant Date	Expected Life
Dec. 30, 2010	600,000	142.0%	2.46%	\$ 0.22	5
Dec. 29, 2011	2,502,500	100.0%	1.27%	\$ 0.12	5
Mar 12, 2012	300,000	155.0%	1.55%	\$ 0.15	5
June 3, 2013	100,000	97.0%	1.46%	\$ 0.10	5
Feb 12, 2014	250,000	123.0%	1.67%	\$ 0.05	5
July 19, 2014	1,112,500	131.0%	1.51%	\$ 0.07	5
Feb 26, 2015	550,000	152.0%	0.74%	\$ 0.08	5
					5,415,000

(d) *Non-controlling interest*

One shareholder of Network Entertainment elected not to participate in the share exchange with Network Media Group Inc. As a result, 800,000 common shares (approximately 4% of the share capital) of Network Entertainment were not converted to those of the Company and are held privately by third parties.

The non-controlling interests are comprised of the following:

Balance, December 1, 2013	\$ (124,356)
<u>Non-controlling interest's share of income for Network Entertainment for the year</u>	<u>444</u>
Balance, November 30, 2014	(123,912)
<u>Non-controlling interest's share of loss for Network Entertainment for the period</u>	<u>(4,143)</u>
<u>Balance, February 28, 2015</u>	<u>\$ (128,055)</u>

NETWORK MEDIA GROUP INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended February 28, 2015 and 2014

(Expressed in Canadian dollars) (unaudited)

10. Supplemental statement of comprehensive income disclosure

(a) *Employee benefit expenses*

Total employee benefit expense recognized in the condensed interim statement of comprehensive loss is \$12,096 (2014 – \$37,193).

(b) *Financing expenses*

Financing expenses are comprised of the following:

	Three months ended	
	February 28, 2015	February 28, 2014
Financing expenses, net		
Interest and accretion on convertible debt	\$ 6,627	\$ 31,194
Interest expense on long-term debt	19,518	15,305
Net financing expense	<u>\$ 26,145</u>	<u>\$ 46,499</u>

11. Government assistance

Refundable tax credits relating to production activities of the Company are claimed from the Canadian federal and provincial governments. The refundable tax credits recorded as a reduction to investment in film and television production for the quarter ended February 28, 2015 were \$215,297 (2014 - \$75,829).

NETWORK MEDIA GROUP INC.
Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended February 28, 2015 and 2014
(Expressed in Canadian dollars) (unaudited)

12. Financial instruments

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 drop 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 closing rate at February 28, 2015 would result in a change to comprehensive loss of \$nil for the period ended February 28, 2015 (2014 - \$nil).

The Company is also exposed to foreign exchange risk on its accounts receivable balances that are denominated in US dollars, being \$nil as at February 28, 2015 (November 30, 2014 - \$106,747).

(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.

(iii) *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 and by borrowing against earned tax credits through operating lines of credit and issuances of common shares. The Company manages liquidity risk by continuously monitoring actual and forecast cash flows.

The Company's liabilities will require additional capital in order to meet the payment expectations of the debts.

NETWORK MEDIA GROUP INC.
Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended February 28, 2015 and 2014
(Expressed in Canadian dollars) (unaudited)

13. 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 properties, and provide a return to its shareholders in the form of capital appreciation.

The Company's capital is comprised of the following:

	February 28, 2014	November 30, 2014
Current portion of long-term debt	\$ 78,604	\$ 90,857
Short-term debt	1,012,678	506,275
Convertible debt	-	383,374
Less: Cash	(219,858)	(82,763)
Net debt	871,424	897,743
Total shareholders' deficiency	(120,791)	(225,488)
	\$ 750,633	\$ 672,255

In order to facilitate management of capital, the Company prepares 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.

The Company believes that through operations and production financing of its proprietary projects it will generate sufficient liquidity to meet cash requirements for the next twelve months.

14. Contingent liabilities

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

As of February 28, 2015, the Company is involved in a business dispute with a former client regarding services provided by the Company. The Company has also entered into a legal action against the former customer. The parties are currently engaged in settlement discussions. No amounts have been accrued or allowed for in the financial statement as at February 28, 2015.

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 accounts payable which are no longer contingent.

15. Related parties

During the period ended February 28, 2015, the Company paid or accrued \$75,000 for wages (2014-\$60,000) to officers and directors.

At February 28, 2015, the Company had secured promissory notes outstanding, including accrued interest, of \$880,076 (November 30, 2014 - \$506,275) owing to a director of the Company. The secured promissory notes bear interest at 8% per annum, and are due on demand (Note 6).

NETWORK MEDIA GROUP INC.
Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended February 28, 2015 and 2014
(Expressed in Canadian dollars) (unaudited)

16. Commitments

The Company has entered into a lease commitment for office space which will require the following payments:

- \$73,253 in the fiscal year ended November 30, 2015
- \$25,147 in the fiscal year ended November 30, 2016

17. Selling, general and administrative expenses

	Three months ended February 28, 2015	Three months ended February 28, 2014
Interest and bank charges	\$ 645	\$ 635
Office and general	13,123	16,768
Insurance	5,075	4,361
Professional fees	20,760	32,447
Rent and utilities	4,050	4,312
Salaries and wages	12,096	37,193
Sales and distribution expenses	32,452	-
Stock based compensation	47,158	15,116
Transfer agent and filing fees	11,743	5,460
Travel	3,842	6,029
Loss (gain) on foreign exchange	1,409	(1,662)
	\$ 152,353	\$ 120,659

18. Non-cash investing and financing activities

	Three months ended February 28, 2015	Three months ended February 28, 2014
Accounts payable included in production costs	\$ 60,314	\$ 259,866