Condensed Interim Consolidated Financial Statements of

NETWORK MEDIA GROUP INC.

For the three and six months ended May 31, 2015 and 2014

(Unaudited – prepared by management)

N E T W O R K

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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 statements 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 May 31, 2015 and November 30, 2014

Expressed in Canadian dollars (unaudited)

	Note		**May 31, 2015**		November 30, 2014
ASSETS					
Current					
Cash		$	**172,665**	$	82,763
Accounts receivable			**168,807**		307,327
Tax credits receivable			**711,153**		711,304
Prepaid expenses and deposits			**20,983**		12,988
			1,073,608		1,114,382
Tax credits receivable			**458,300**		134,931
Property and equipment	4		**125,090**		50,469
Investment in film and television properties	5		**2,223,954**		1,556,758
		$	**3,880,952**	$	2,856,540
SHAREHOLDERS' DEFICIENCY AND LIABILITIES					
Current					
Accounts payable and accrued liabilities		$	**397,998**	$	591,717
Interim production financing	6(a)		**1,462,088**		679,530
Short-term debt	6(b)		**1,032,653**		506,275
Current portion of long-term debt	6(c)		**72,189**		90,857
Deferred revenue	7		**1,120,233**		830,275
Current portion of financing lease obligations	8		**21,389**		-
Current portion of convertible debt	9		-		383,374
			4,106,550		3,082,028
Financing lease obligations	8		**40,126**		-
			4,146,676		3,082,028
Share capital	10		**7,335,688**		7,085,688
Contributed surplus			**569,571**		419,731
Convertible debt - equity allocation			**-**		95,052
Deficit			**(8,037,864)**		(7,702,047)
Total deficiency attributable to shareholders of the Company			**(132,605)**		(101,576)
Non-controlling interest	10(d)		**(133,119)**		(123,912)
Shareholders' deficiency			**(265,724)**		(225,488)
		$	**3,880,952**	$	2,856,540

Approved by: the Directors

"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 and six months ended May 31, 2015 and 2014

Expressed in Canadian dollars (unaudited)

	Note	Three months ended May 31, 2015	Three months ended May 31, 2014	Six months ended May 31, 2015	Six months ended May 31, 2014
Production revenue		**$ -**	$ 175,000	**$ -**	$ 175,000
Other revenue		**31,565**	11	**45,338**	25,019
Revenue		**31,565**	175,011	**$ 45,338**	$ 200,019
Direct production costs and amortization of film and television properties		**(4,267)**	(136,254)	**(4,267)**	(147,020)
		27,298	38,746	**41,071**	52,999
Amortization of acquired program rights	5	**20,000**	20,000	**40,000**	40,000
Amortization of property and equipment	4	**9,624**	2,648	**13,999**	4,431
Impairment of projects in development	5	**-**	4,280	**3,361**	4,280
Selling, general and administrative	10(c), 19	**126,836**	130,381	**279,189**	251,040
Financing expense, net	11(b)	**23,401**	36,961	**49,546**	83,460
		179,861	194,270	**386,095**	383,211
Loss and comprehensive loss for the period		**(152,563)**	(155,524)	**(345,024)**	(330,212)
Loss attributed to non-controlling interest	10(d)	**5,064**	2,877	**9,207**	5,868
Loss attributed to shareholders of the Company		**$ (147,499)**	$ (152,647)	**$ (335,817)**	$ (324,344)
Loss per share					
- basic and diluted		**$ (0.00)**	$ (0.00)	**$ (0.01)**	$ (0.01)
Weighted average number of shares outstanding					
- basic and diluted		**54,400,373**	52,932,017	**54,352,296**	52,452,841

See accompanying notes to these consolidated financial statements

NETWORK MEDIA GROUP INC.

Condensed Interim Consolidated Statements of Changes in Shareholders' Deficiency

For the six months ended May 31, 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	10(b)	5,129,997	359,100	-	-	-	359,100	-	359,100
Issuance of stock options	10(c)	-	-	15,116	-	-	15,116	-	15,116
Loss and comprehensive loss for the period		-	-	-	-	(324,344)	(324,344)	(5,868)	(330,212)
Balance as at May 31, 2014		**52,932,014**	**$ 7,072,886**	**$ 343,920**	**$ 134,326**	**$ (7,922,563)**	**$ (371,431)**	**$ (130,224)**	**$ (501,655)**
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	10(b)	1,250,000	250,000	-	-	-	250,000	-	250,000
Issuance of stock options	10(c)	-	-	54,788	-	-	54,788	-	54,788
Repayment of convertible debt	9			95,052	(95,052)	-	-	-	-
Loss and comprehensive loss for the period		-	-	-	-	(335,817)	(335,817)	(9,207)	(345,024)
Balance as at May 31, 2015		**54,400,370**	**$ 7,335,688**	**$ 569,571**	**$ -**	**$ (8,037,864)**	**$ (132,605)**	**$ (133,119)**	**$ (265,724)**

See accompanying notes to these consolidated financial statements

NETWORK MEDIA GROUP INC.

Condensed Interim Consolidated Statements of Cash Flows
For the three and six months ended May 31, 2015 and 2014
Expressed in Canadian dollars (unaudited)

	May 31, 2015	May 31, 2014	May 31, 2015	May 31, 2014
Operating activities				
Loss for the period	$ **(152,563)**	$ (155,513)	$ **(345,024)**	$ (330,212)
Items not involving cash:				
Amortization of acquired program rights	**20,000**	20,000	**40,000**	40,000
Amortization of property and equipment	**9,624**	2,648	**13,999**	4,431
Amortization of film and television properties	**3,313**	131,762	**3,313**	131,762
Impairment of projects in development	**-**	4,280	**3,361**	4,280
Stock based compensation	**7,630**	-	**54,788**	15,116
Accretion of discount on convertible debt	**-**	20,341	**7,438**	39,206
Net changes in non-cash working capital items	**(111,996)**	23,518	**(222,125)**	(95,417)
Accounts receivable	**33,063**	28,099	**138,520**	7,590
Tax credits receivable	**(110,223)**	350,489	**(323,218)**	274,660
Prepaid expenses and deposits	**(6,000)**	581	**(7,995)**	(1,192)
Accounts payable and accrued liabilities	**(103,556)**	95,529	**(140,276)**	135,334
Accrued interest	**51,890**	2,940	**83,185**	(5,697)
Deferred revenue	**289,958**	95,000	**289,958**	135,000
Net cash (used in) provided by operating activities	**43,136**	596,156	**(181,951)**	450,278
Financing activities				
Issuance of shares for cash	**-**	-	**250,000**	359,100
Interim production financing	**327,000**	115,000	**852,000**	290,000
Financing lease received	**66,977**	-	**66,977**	-
Repayment of financing lease obligations	**(5,462)**	-	**(5,462)**	-
Repayment of convertible debt	**-**	-	**(375,000)**	-
Repayment of convertible debt interest	**-**	-	**(15,812)**	-
Repayment of long-term debt	**(3,368)**	(20,100)	**(18,668)**	(20,100)
Advances from short-term debt	**-**	-	**490,000**	-
Repayment of interim production financing	**(116,250)**	(410,000)	**(116,250)**	(410,000)
Net cash (used in) provided by financing activities	**268,897**	(307,300)	**1,127,785**	219,000
Investing activities				
Purchase of property and equipment	**(70,005)**	(11,535)	**(88,620)**	(11,535)
Investment in film properties	**(292,278)**	(369,710)	**(753,923)**	(633,381)
Advances for properties under development	**10,000**	10,000	**10,000**	20,000
Investment in properties under development	**(6,943)**	(15,544)	**(23,389)**	(23,532)
Net cash used in investing activities	**(359,226)**	(386,790)	**(855,932)**	(648,448)
Net increase (decrease) in cash	**(47,193)**	(97,934)	**89,902**	20,830
Cash, beginning of period	**219,858**	194,188	**82,763**	75,425
Cash, end of period	$ **172,665**	$ 96,255	$ **172,665**	$ 96,255
SUPPLEMENTAL DISCLOSURE				
Interest paid	$ **9,259**	$ 10,000	$ **24,259**	$ 49,523
Income taxes paid	$ **-**	$ -	$ **-**	$ -

NON-CASH INVESTING AND FINANCING ACTIVITIES (Note 20)

See accompanying notes to these consolidated financial statements

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 $3,032,942 and accumulated deficit of $8,037,864. 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 interim consolidated 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 May 31, 2015 were approved for issue by the Board of Directors on July 28, 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.

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 Films Nine 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.

(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		88,620		-		88,620
Balance at May 31, 2015	**$**	**497,875**	**$**	**65,049**	**$**	**562,924**
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		13,565		434		13,999
Balance at May 31, 2015	**$**	**376,695**	**$**	**61,139**	**$**	**437,834**
Carrying amount						
November 30, 2014	$	46,125	$	4,344	$	50,469
May 31, 2015	**$**	**121,180**	**$**	**3,910**	**$**	**125,090**

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

5. Investment in film and television properties

	May 31, 2015	November 30, 2014
Projects in development	**$ 87,566**	$ 77,538
Projects in progress	**956,634**	276,129
Program rights acquired	**400,000**	400,000
Accumulated amortization	**(333,333)**	(293,333)
	66,667	106,667
Productions completed and released		
Capitalized production costs	**24,803,572**	24,783,596
Government tax credits and assistance	**(7,471,444)**	(7,471,444)
Accumulated amortization	**(16,219,041)**	(16,215,728)
	1,113,087	1,096,424
	$ 2,223,954	$ 1,556,758

(Expressed in Canadian dollars) (unaudited)

5. Investment in film and television properties (continued)

Projects in development
During the three and six months ended May 31, 2015, investments in certain projects in development were considered impaired and the carrying amount was reduced by $nil and $3,361 (2014 - $4,280 and $4,280). This impairment has been disclosed separately on the face of the consolidated statement of comprehensive income. In addition, during the three and six month period ended May 31, 2015, interest of $17,178 and $33,905 (2014 - $2,496 and $4,520) 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:

	May 31, 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	**700,482**	901,960
Increase in development costs, net of projects which commenced production during the year	**13,389**	30,054
Impairment of development costs	**(3,361)**	(32,908)
Amortization	**(43,313)**	(937,269)
	$ 2,223,954	$ 1,556,758

6. Interim production financing and long term debt

a) Interim production financing

	May 31, 2015	November 30, 2014
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.	**$ 1,462,088**	$ 679,530

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 $1,032,653 as at May 31, 2015 (November 30, 2014 - $506,275). The promissory notes accrue interest at 8% per annum which is paid semi-annually.

(Expressed in Canadian dollars) (unaudited)

6. Interim production financing and long term debt (continued)

c) Long-term debt

		May 31, 2015		November 30, 2014
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.	**$**	**72,189**	$	84,257
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.		**-**		6,600
		72,189		90,857
Less current portion		**(72,189)**		(90,857)
	$	**-**	$	-

The Company considers that the fair value of the interim production financing and long-term debt is equal to the carrying value.

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 May 31, 2015, the Company had received payments from customers in excess of revenue recognized of $1,120,233 (November 30, 2014 - $830,275) and this amount has been recognized in the statement of financial position as deferred revenue.

8. Financing lease obligations

The Company leases certain of its operating equipment and computer software under finance leases. The Company's obligations under finance leases are secured by the lessor's title to the leased assets. Interest rates underlying the obligations under the finance lease are fixed at respective contract dates ranging from 5.05% per annum with a lease term of three years.

Future minimum lease payments under these finance leases are as follows:

	Total	< 1 year	> 1 year
Future minimum lease payments	$ 66,014	$ 24,005	$ 42,009
Less: imputed interest	4,499	2,616	1,883
Carrying value	$ 61,515	$ 21,389	$ 40,126

9. 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 futures 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 six month period ended May 31, 2015, the Company repaid the remaining $375,000 to fully extinguish the convertible debt balances and during the three and six month period ending May 31, 2015 recognized interest and accretion expense of $6,627 and $6,627 (2014 - $32,944 and $64,138).

10. Share capital and reserves

(a) Authorized

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

(b) Issued share capital

i. During the period ended May 31, 2015, the Company completed a private placement with a director of the Company, issuing 1,250,000 common shares at $0.20 per common share for net receipts of $250,000.

ii. During the period ended May 31, 2014, the Company completed a private placement and issued 5,129,997 common shares for net receipts of $359,100.

(Expressed in Canadian dollars) (unaudited)

10. 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 May 31, 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
Expired	**(300,000)**	**$**	**0.12**	-	$	-
Cancelled	**(450,000)**	**$**	**0.13**	-	$	-
Outstanding, end of period	**5,115,000**	**$**	**0.17**	5,315,000	$	0.17

As at May 31, 2015, the following stock options are outstanding and exercisable:

Number of options		*Exercise price*	Expiry
600,000	$	0.10	December 30, 2015
2,502,500	$	0.20	December 29, 2016
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
4,558,750			

For the three and six month period ended May 31, 2015, the Company recognized compensation expense in relation to these options of $7,630 and $54,788 (2014 - $nil and $15,116), which is included in selling, general and administrative expenses in the condensed interim consolidated statement of loss and comprehensive loss.

(Expressed in Canadian dollars) (unaudited)

10. 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 of the options issued. In all the calculations the expected life was five years and 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
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
	5,115,000				

(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)
Non-controlling interest's share of income for Network Entertainment for the year	444
Balance, November 30, 2014	(123,912)
Non-controlling interest's share of loss for Network Entertainment for the period	(9,207)
Balance, May 31, 2015	$ (133,119)

(Expressed in Canadian dollars) (unaudited)

11. Supplemental statement of comprehensive income disclosure

(a) Employee benefit expenses

Total employee benefit expense recognized in the condensed interim statement of comprehensive loss for three and six months ended May 31, 2015 is $13,191 and $25,287 (2014 – $32,194 and $69,387) of which was recognized as a general and administrative expense.

(b) Financing income and expenses

Financing income and expenses are comprised of the following:

	Three months ended		Six months ended	
	May 31, 2015	May 31, 2014	**May 31, 2015**	May 31, 2014
Financing expenses, net				
Interest income	**$ -**	$ (777)	**$ -**	$ (777)
Interest and accretion on convertible debt	**-**	32,944	**6,627**	64,138
Interest expense on debt	**23,401**	4,794	**42,919**	20,099
Net financing expense	**$ 23,401**	$ 36,961	**$ 49,546**	$ 83,460

12. 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 direct production costs and investment in film and television production for the three and six month periods ended May 31, 2015 was $110,223 and $325,520 (2014 - $38,824 and $114,653).

13. 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 May 31, 2015 would result in a change to comprehensive loss of $1,419 for the period ended May 31, 2015 (2014 - $8,751).

(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

(Expressed in Canadian dollars) (unaudited)

14. 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:

	May 31, 2015	November 30, 2014
Long-term debt	$ 72,189	$ 90,857
Short-term debt	1,032,653	506,275
Financing lease obligation	61,515	-
Convertible debt	-	383,374
Less: Cash	(172,665)	(82,763)
Net debt	993,692	897,743
Total shareholders' deficiency	(265,724)	(225,488)
	$ 727,968	$ 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.

15. 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 May 31, 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 May 31, 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.

16. Related parties

During the three and six month periods ended May 31, 2015, the Company paid or accrued $75,000 and $150,000 of wages (2014 - $60,000 and $120,000) to officers and directors.

At May 31, 2015, the Company had secured promissory notes outstanding, including accrued interest, of $929,146 (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). During the three and six month periods ending May 31, 2015, the Company accrued interest of $17,959 and $38,527 (2014 – $nil and $nil)

(Expressed in Canadian dollars) (unaudited)

17. Subsequent events

Subsequent to May 31, 2015, the Company:

i. Received $711,153 of tax credits receivable
ii. Repaid $602,217 of interim production financing and accrued interest

18. 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

19. Selling, general and administrative expenses

	Three months ended May 31, 2015	Three months ended May 31, 2014	**Six months ended May 31, 2015**	Six months ended May 31, 2014
Interest and bank charges	**$ 379**	$ 652	**$ 1,024**	$ 1,287
Office and general	**26,239**	32,426	**39,362**	49,194
Insurance	**4,698**	2,103	**9,773**	6,464
Professional fees	**29,658**	28,128	**50,418**	60,575
Rent and utilities	**21,365**	21,022	**25,415**	25,334
Salaries and wages	**13,191**	32,194	**25,287**	69,387
Sales and distribution expenses	**31,290**	-	**63,742**	-
Stock based compensation	**7,630**	-	**54,788**	15,116
Transfer agent and filing fees	**2,898**	6,235	**14,641**	11,695
Travel	**(75)**	11,635	**3,767**	17,664
Gain on foreign exchange	**(10,437)**	(4,014)	**(9,028)**	(5,676)
	$ 126,836	$ 130,381	**$ 279,189**	$ 251,040

20. Non-cash investing and financing activities

	Three months ended May 31, 2015	Three months ended May 31, 2014	**Six months ended May 31, 2015**	Six months ended May 31, 2014
Accounts payable included in production costs	**$ 17,944**	$ (10,668)	**$ 78,258**	$ 249,198