

Condensed Interim Consolidated Financial Statements of

NETWORK MEDIA GROUP INC.

For the three and six months ended May 31, 2016 and 2015

(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 Professional Accountants for a review of interim financial statements by an entity's auditor.

NETWORK MEDIA GROUP INC.
Condensed Interim Consolidated Statements of Financial Position
As at May 31, 2016 and November 30, 2015
Expressed in Canadian dollars (unaudited)

	Note	May 31, 2016	November 30, 2015
ASSETS			
Current			
Cash and cash equivalents		\$ 293,221	\$ 170,814
Accounts receivable	4	779,950	1,761,298
Tax credits receivable		2,314,430	626,437
Prepaid expenses and deposits		31,850	19,533
		3,419,451	2,578,082
Tax credits receivable		-	585,961
Property and equipment	5	373,195	118,588
Investment in film and television properties	6	2,503,064	2,407,913
		\$ 6,295,710	\$ 5,690,544
SHAREHOLDERS' EQUITY AND LIABILITIES			
Current			
Accounts payable and accrued liabilities	17	\$ 1,102,155	\$ 527,375
Interim production financing	7(a)	1,777,664	1,855,918
Deferred revenue	8	742,769	1,704,737
Short-term debt	7(b), 17	1,348,370	1,272,715
Current portion of financing lease obligations	9	22,495	21,935
Current portion of long-term debt	7(c)	19,515	46,836
		5,012,968	5,429,516
Cash settled share based payment	11(b)	4,363	665
Financing lease obligations	9	17,631	29,021
		5,034,962	5,459,202
Share capital	11	7,335,688	7,335,688
Contributed surplus		616,671	612,501
Deficit		(6,619,572)	(7,601,591)
Total equity attributable to shareholders of the Company		1,332,787	346,598
Non-controlling interest	11(c)	(72,039)	(115,256)
Shareholders' equity		1,260,748	231,342
		\$ 6,295,710	\$ 5,690,544

Nature of Operations (Note 1)

Contingent liabilities (Note 16)

Approved on behalf of the Board of 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 Income (Loss) and Comprehensive Income (Loss)

For the three and six month periods ended May 31, 2016 and 2015

Expressed in Canadian dollars (unaudited)

	Note	Three months ended		Six months ended	
		May 31, 2016	May 31, 2015	May 31, 2016	May 31, 2015
Production revenue		\$ 2,796,064	\$ -	\$ 5,311,896	\$ -
Distribution and royalty revenue		187,516	31,565	278,347	45,338
Total revenue		2,983,580	31,565	5,590,243	45,338
Direct production costs and amortization of film and television properties		(2,278,218)	(4,267)	(4,012,327)	(4,267)
		705,362	27,298	1,577,916	41,071
Amortization of acquired program rights	6	6,667	20,000	26,667	40,000
Amortization of property and equipment	5	21,216	9,624	39,977	13,999
Impairment of investment in film and television properties	6	13,853	-	13,853	3,361
Selling and distribution		7,195	31,290	18,783	63,742
General and administrative	20	172,201	105,983	329,476	224,475
Foreign exchange loss (gain)		37,446	(10,437)	38,361	(9,028)
		258,578	156,460	467,117	336,549
Earnings (loss) before financing expense		446,784	(129,162)	1,110,799	(295,478)
Financing expense, net	12(b)	35,219	23,401	85,563	49,546
Income (loss) and comprehensive income (loss) for the period		411,565	(152,563)	1,025,236	(345,024)
Loss (income) attributed to non-controlling interest	11(c)	(15,660)	5,064	(43,217)	9,207
Income (loss) attributed to shareholders of the Company		\$ 395,905	\$ (147,499)	\$ 982,019	\$ (335,817)
Income (loss) per share					
- basic		\$ 0.01	\$ (0.00)	\$ 0.02	\$ (0.01)
- diluted		\$ 0.01	\$ (0.00)	\$ 0.02	\$ (0.01)
Weighted average number of shares outstanding					
- basic		54,400,373	54,400,373	54,400,373	54,352,296
- diluted		54,684,069	54,400,373	54,542,996	54,352,296

See accompanying notes to these condensed interim consolidated financial statements

NETWORK MEDIA GROUP INC.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

For the six months ended May 31, 2016 and 2015

Expressed in Canadian dollars (unaudited)

	Note	Number of Shares	Issued Capital	Contributed Surplus	Equity Allocation	Accumulated Deficit	Total	Non- Controlling Interest	Total
Balance as at November 30, 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		1,250,000	250,000	-	-	-	250,000	-	250,000
Issuance of stock options	11(b)	-	-	54,788	-	-	54,788	-	54,788
Repayment of convertible debt	10	-	-	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)
Balance as at November 30, 2015		54,400,370	\$ 7,335,688	\$ 612,501	\$ -	\$(7,601,591)	346,598	\$ (115,256)	231,342
Issuance of stock options	11(b)	-	-	4,170	-	-	4,170	-	4,170
Income and comprehensive income for the period		-	-	-	-	982,019	982,019	43,217	1,025,236
Balance as at May 31, 2016		54,400,370	\$ 7,335,688	\$ 616,671	\$ -	\$(6,619,572)	\$ 1,332,787	\$ (72,039)	\$ 1,260,748

See accompanying notes to these condensed interim consolidated financial statements

NETWORK MEDIA GROUP INC.
Condensed Interim Consolidated Statements of Cash Flows
For the three and six month periods ended May 31, 2016 and 2015
Expressed in Canadian dollars (unaudited)

	Three months ended		Six months ended	
	May 31, 2016	May 31, 2015	May 31, 2016	May 31, 2015
Operating activities				
Income (loss) for the period	\$ 395,905	\$ (147,499)	\$ 982,019	\$ (335,817)
Items not involving cash:				
Non-controlling interest	15,660	(5,064)	43,217	(9,207)
Amortization of acquired program rights	6,667	20,000	26,667	40,000
Amortization of property and equipment	21,216	9,624	39,977	13,999
Amortization of film and television properties	74,782	3,313	511,209	3,313
Impairment of investment in film and television properties	13,853	-	13,853	3,361
Share-based compensation	4,568	7,630	7,868	54,788
Accretion of discount on convertible debt	-	-	-	7,438
	532,651	(111,996)	1,624,810	(222,125)
Net changes in non-cash working capital items				
Accounts receivable	(14,957)	33,063	981,348	138,520
Tax credits receivable	(632,633)	(110,223)	(1,102,032)	(323,218)
Prepaid expenses and deposits	806	(6,000)	(12,317)	(7,995)
Accounts payable and accrued liabilities	(35,096)	(103,556)	324,047	(140,276)
Accrued interest	85,635	51,890	101,792	83,185
Deferred revenue	(85,814)	289,958	(961,968)	289,958
Net cash provided by (used in) operating activities	(149,408)	43,136	955,680	(181,951)
Financing activities				
Issuance of shares for cash	-	-	-	250,000
Interim production financing	-	327,000	-	852,000
Repayment of interim production financing	(171,000)	(116,250)	(171,000)	(116,250)
Financing lease received	-	66,977	-	66,977
Repayment of financing lease obligations	(5,449)	(5,462)	(10,830)	(5,462)
Repayment of convertible debt	-	-	-	(375,000)
Repayment of convertible debt interest	-	-	-	(15,812)
Repayment of long-term debt	-	(3,368)	(33,392)	(18,668)
Repayment of short-term debt	(13,911)	-	(27,321)	-
Advances from short-term debt	100,000	-	100,000	490,000
Net cash provided by (used in) financing activities	(90,360)	268,897	(142,543)	1,127,785
Investing activities				
Purchase of property and equipment	(33,042)	(70,005)	(294,584)	(88,620)
Investment in film and television properties, net of tax credits	95,736	(292,278)	(316,484)	(753,923)
Advances for properties under development	-	10,000	9,391	10,000
Investment in properties under development	(37,153)	(6,943)	(89,053)	(23,389)
Net cash provided by (used in) investing activities	25,541	(359,226)	(690,730)	(855,932)
Net increase (decrease) in cash	(214,227)	(47,193)	122,407	89,902
Cash and cash equivalents, beginning of period	507,448	219,858	170,814	82,763
Cash and cash equivalents, end of period	\$ 293,221	\$ 172,665	\$ 293,221	\$ 172,665
SUPPLEMENTAL DISCLOSURE (Note 21)				
Interest paid	\$ 1,643	\$ 9,259	\$ 45,007	\$ 24,259
Income taxes paid	\$ -	\$ -	\$ -	\$ -

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 and six months ended May 31, 2016 and 2015
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 \$1,593,517 and accumulated deficit of \$6,619,572. 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

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, 2015. 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, 2015.

The condensed interim consolidated financial statements of the Company for the three and six month periods ended May 31, 2016 were approved for issue by the Board of Directors on July 28, 2016.

(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 and six months ended May 31, 2016 and 2015

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, 2015. Refer to note 3 of the Company's consolidated financial statements for the year ended November 30, 2015 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 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 Fourteen Inc.
- Network Entertainment Corp.

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 and six months ended May 31, 2016 and 2015
Expressed in Canadian dollars (unaudited)

4. Accounts receivable

	May 31, 2016	November 30, 2015
Receivables from broadcasters	\$ 615,074	\$ 1,660,532
Input tax credits and other receivables	164,876	100,766
	<u>\$ 779,950</u>	<u>\$ 1,761,298</u>

5. Property, plant and equipment

	Computer Equipment	Computer Software	Furniture and Office Equipment	Leasehold Improvements	Total
Cost					
Balance at November 30, 2014	\$ 409,255	\$ -	\$ 65,049	\$ -	\$ 474,304
Additions	94,453	2,542	1,410	-	98,405
Balance at November 30, 2015	503,708	2,542	66,459	-	572,709
Additions	274,060	-	8,524	12,000	294,584
Balance at May 31, 2016	777,768	2,542	74,983	12,000	867,293
Accumulated amortization					
Balance at November 30, 2014	363,130	-	60,705	-	423,835
Amortization expense	28,005	1,271	1,010	-	30,286
Balance at November 30, 2015	391,135	1,271	61,715	-	454,121
Amortization expense	37,441	636	900	1,000	39,977
Balance at May 31, 2016	\$ 428,576	\$ 1,907	\$ 62,615	\$ 1,000	\$ 494,098
Carrying amount					
November 30, 2015	\$ 112,573	\$ 1,271	\$ 4,744	\$ -	\$ 118,588
May 31, 2016	\$ 349,192	\$ 635	\$ 12,368	\$ 11,000	\$ 373,195

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 and six months ended May 31, 2016 and 2015
Expressed in Canadian dollars (unaudited)

6. Investment in film and television properties

	Projects in development	Projects in progress	Program rights acquired	Productions completed and released	Total
Opening balance, November 30, 2014	\$ 77,538	\$ 276,129	\$ 106,667	\$ 1,096,424	\$ 1,556,758
Additions	49,787	1,138,184	-	1,916,717	3,104,688
Tax credits / Grant received	(10,000)	(542,056)	-	(518,010)	(1,070,066)
Transferred to projects in progress	(1,927)	1,927	-	-	-
Transferred to productions completed and released	-	(276,129)	-	276,129	-
Amounts written off and impaired	(10,652)	-	-	(66,175)	(76,827)
Amortization	-	-	(80,000)	(1,026,640)	(1,106,640)
Opening balance, November 30, 2015	104,746	598,055	26,667	1,678,445	2,407,913
Additions	89,053	318,557	-	881,838	1,289,448
Tax credits received	-	(182,593)	-	(469,367)	(651,960)
Funding taken into income	9,391	-	-	-	9,391
Transferred to productions completed and released	-	(350,698)	-	350,698	-
Amounts written off and impaired	(13,853)	-	-	-	(13,853)
Amortization	-	-	(26,667)	(511,208)	(537,875)
Ending balance, May 31, 2016	\$ 189,337	\$ 383,321	\$ -	\$ 1,930,406	\$ 2,503,064
As at May 31, 2016					
Cost	\$ 189,337	\$ 383,321	\$ 400,000	\$ 5,955,980	\$ 6,928,638
Accumulated amortization	-	-	(400,000)	(4,025,574)	(4,425,574)
Net book value	\$ 189,337	\$ 383,321	\$ -	\$ 1,930,406	\$ 2,503,064

Projects in development

During the three and six months ended May 31, 2016, investments in certain projects in development were considered impaired and the carrying amount was reduced by \$13,853 and \$13,853 (2015- \$nil and \$3,361). This impairment has been disclosed separately on the face of the consolidated statements of comprehensive income. In addition, during the three and six month periods ended May 31, 2016, interest of \$6,709 and \$16,045 (2015 - \$17,178 and \$33,905) 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. As at May 31, 2016, these program rights were fully amortized and had a carrying value of \$nil.

7. Interim production financing, short-term, and long term debt

a) 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 rates ranging from prime plus 2.25 to prime plus 2.50% per annum and are repayable on demand. Each loan is secured by the tax credits receivable and accounts receivable of the respective subsidiary and a general security agreement over the assets of the Company, as well as a postponement of claims by an Officer and Director of the Company.

NETWORK MEDIA GROUP INC.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and six months ended May 31, 2016 and 2015
Expressed in Canadian dollars (unaudited)

7. Interim production financing, short-term, and long term debt (continued)

b) Short-term debt

The Company has issued unsecured promissory notes to a third party and a Director of the Company with a principal amount totalling \$199,890. These promissory notes accrue interest at 8% per annum, which is paid semi-annually.

The Company has also issued debentures to a third party and a Director of the Company totalling \$1,100,000. These debentures matured on March 31, 2016, accrue interest at a rate of 8% per annum payable semi-annually, and grant the holders a royalty on net profits from certain completed film properties as well as future film properties commenced (greenlit) during the term of the debenture. The Company is required to pay the holders of the debentures a royalty in respect of each \$1.00 of the principal outstanding, both before and after maturity, equal to 0.00000091% of the net profits of the film properties.

The Company and debenture holders have extended the maturity date of the debentures beyond March 31, 2016, but have not finalized terms with the debenture holders.

The continuity schedule of short term debt is below:

	Promissory Notes	Debentures	Total Short-term debt
Total short-term debt payable, November 30, 2014	\$ 506,275	\$ -	\$ 506,275
Issued up to June 30, 2015	590,000	-	590,000
Accrued interest to June 30, 2015	43,108	-	43,108
Promissory notes converted to debentures	(1,100,000)	1,100,000	-
Interest paid to promissory note holder	(6,101)	-	(6,101)
Balance as at June 30, 2015	33,282	1,100,000	1,133,282
Issued October 2, 2015	100,000	-	100,000
Accrued interest from July 1 to November 30, 2015	2,545	36,888	39,433
Total short term-debt payable, November 30, 2015	\$ 135,827	\$ 1,136,888	\$ 1,272,715
Principal repaid	(33,392)	-	(33,392)
Advances received	100,000	-	100,000
Interest paid	(3,341)	(37,813)	(41,154)
Accrued interest for the period	5,263	44,938	50,201
Total short-term debt payable, May 31, 2016	\$ 204,357	\$ 1,144,013	\$ 1,348,370

c) Long-term debt

Long-term debt consists of a third party 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 September 15, 2016.

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 and six months ended May 31, 2016 and 2015
Expressed in Canadian dollars (unaudited)

8. 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, 2016, the Company had received payments from customers in excess of revenue recognized of \$742,769 (November 30, 2015 - \$1,704,737) and this amount has been recognized in the statement of financial position as deferred revenue.

9. Financing lease obligations

The Company leased certain operating equipment under a finance lease. The Company's obligations under the finance lease are secured by the lessor's title to the leased assets. The interest rate is fixed at 5.05% per annum with a lease term of three years. At the end of the lease term, the Company has an option to purchase the equipment for \$1.

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

	Total	< 1 year	> 1 year
Future minimum lease payments	\$ 42,009	\$ 24,005	\$ 18,004
Less: imputed interest	1,883	\$ 1,510	\$ 373
Carrying value	\$ 40,126	\$ 22,495	\$ 17,631

The carrying value of the leased equipment as at May 31, 2016 is \$48,391 (November 30, 2015 – \$56,931).

10. 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

The convertible debt was fully repaid during the period ended May 31, 2015.

During the three and six months periods ended May 31, 2016, the Company recognized interest and accretion expense of \$nil and \$nil (2015 - \$6,627 and \$6,627).

NETWORK MEDIA GROUP INC.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and six months ended May 31, 2016 and 2015
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11. Share capital and reserves

(a) *Authorized*

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

(b) *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 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, 2016		As at November 30, 2015	
	Number of Options	Weighted Ave. Exercise Price	Number of Options	Weighted Ave. Exercise Price
Outstanding, beginning of period	5,440,037	\$ 0.18	5,315,000	\$ 0.17
Granted	300,000	\$ 0.20	1,497,537	\$ 0.16
Expired	(300,000)	\$ 0.12	(300,000)	\$ 0.12
Cancelled	-	\$ -	(1,072,500)	\$ 0.14
Outstanding, end of period	<u>5,440,037</u>	<u>\$ 0.18</u>	<u>5,440,037</u>	<u>\$ 0.18</u>

As at May 31, 2016, the following stock options are outstanding and exercisable:

<i>Number of options outstanding</i>	<i>Number of options exercisable</i>	<i>Exercise price</i>	<i>Remaining life (yrs)</i>	<i>Expiry</i>
2,180,000	2,180,000	\$ 0.20	0.58	December 29, 2016
100,000	100,000	\$ 0.10	2.01	June 3, 2018
250,000	250,000	\$ 0.07	2.70	February 12, 2019
2,060,037	1,112,500	\$ 0.20	3.13	July 16, 2019
550,000	550,000	\$ 0.10	3.74	February 26, 2020
300,000	-	\$ 0.20	3.13	July 16, 2019
<u>5,440,037</u>	<u>4,192,500</u>	<u>\$ 0.18</u>	<u>2.13</u>	

NETWORK MEDIA GROUP INC.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and six months ended May 31, 2016 and 2015
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11. Share capital and reserves (continued)

(b) *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	Exercise Price	Share Price	Annual Volatility Rate	Risk Free Interest Rate	Fair Value at Grant Date	Expected Life
Feb. 12, 2014	250,000	\$ 0.07	\$ 0.045	123.0%	1.67%	\$ 0.05	5
July 19, 2014	1,112,500	\$ 0.20	\$ 0.12	131.0%	1.51%	\$ 0.07	5
Feb. 26, 2015	550,000	\$ 0.10	\$ 0.08	133.0%	0.74%	\$ 0.07	5
Oct. 29, 2015	947,537	\$ 0.20	\$ 0.06	146.0%	0.82%	\$ 0.04	3.72
Mar 21, 2016	300,000	\$ 0.20	\$ 0.08	147.0%	0.66%	\$ 0.06	3.32

For the three and six month periods ended May 31, 2016, the Company recognized compensation expense in relation to these options of \$2,003 and \$2,003 (2015 - \$7,630 and \$54,788), which is included in general and administrative expenses in profit and loss.

On October 29, 2015, the Company entered into a Phantom Stock Award Agreement with the Executive Chairman of the Board of Directors, which evidences an equity compensation award to the Executive Chairman based on the grant of 439,963 phantom shares (the "Phantom Shares") (52,463 of these Phantom Shares vest on July 16, 2017 and 387,500 vest on the earlier of July 16, 2018 or a change of control or sale of the Company or death of the holder). The Phantom Shares may be settled in cash, at the option of the Director and each Phantom Share has an initial value of \$0.20 and a value at any time thereafter equal to the listed closing price of the Company's common shares, but in no case less than \$0.20. Settlement of the Phantom Shares will be no later than July 16, 2019. The Phantom Shares issued will be forfeited if the Company grants the holder options pursuant to the Company's Stock Option Plan in settlement of the Phantom Shares.

On March 21, 2016, the Company granted the Executive Chairman of the Board of Directors 300,000 stock options. The Executive Chairman of the Board of Directors forfeited 52,463 Phantom Shares that were to vest July 16, 2017 and 247,537 Phantom Shares that were to vest July 16, 2018, leaving 139,963 Phantom Shares outstanding.

As at May 31, 2016, the Phantom Shares had a fair value of \$4,363 (November 30, 2015 – \$665) and is recorded as a liability and is classified as cash settled share based payments.

The Company used the Black-Scholes option-pricing model to determine the estimated fair value of the Phantom Shares as at May 31, 2016 with the following assumptions:

- Exercise price - \$0.20
- Share price - \$0.18
- Annual volatility rate – 147%
- Risk free interest rate – 0.79%
- Fair value at grant date - \$0.14
- Expected life – 3.13 years

For the three and six month periods ended May 31, 2016, the Company recognized compensation expense in relation to these options of \$2,565 and \$5,865 (2015- \$nil and \$nil), which is included in general and administrative expenses in profit and loss.

NETWORK MEDIA GROUP INC.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and six months ended May 31, 2016 and 2015
Expressed in Canadian dollars (unaudited)

11. Share capital and reserves (continued)

(c) *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, November 30, 2014	\$ (123,912)
<u>Non-controlling interest's share of income for Network Entertainment for the year</u>	<u>8,656</u>
Balance, November 30, 2015	(115,256)
<u>Non-controlling interest's share of income for Network Entertainment for the period</u>	<u>43,217</u>
<u>Balance, May 31, 2016</u>	<u>\$ (72,039)</u>

12. Supplemental statement of comprehensive income disclosure

(a) *Employee benefit expenses*

Total salaries and wages recognized in the condensed interim statement of comprehensive income (loss) for three and six month periods ended May 31, 2016 is \$193,088 and \$284,5601 (2015 – \$13,191 and \$25,287) of which \$250,209 was recorded as direct production costs (2015 - \$nil) and \$34,351 (2015 - \$25,287) was recognized as general and administrative expenses.

(b) *Financing income and expenses*

Financing income and expenses are comprised of the following:

	Three months ended		Six months ended	
	May 31, 2016	May 31, 2015	May 31, 2016	May 31, 2015
Financing expenses				
Interest and accretion on convertible debt (Note 10)	\$ -	\$ -	\$ -	\$ 6,627
Interest expense on debt (Note 7)	35,219	23,401	85,563	42,919
Financing expense	\$ 35,219	\$ 23,401	\$ 85,563	\$ 49,546

13. 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, 2016 was \$625,251 and \$1,094,650 (2015 - \$110,223 and \$325,520).

NETWORK MEDIA GROUP INC.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and six months ended May 31, 2016 and 2015
Expressed in Canadian dollars (unaudited)

14. 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, 2016 would result in a change to comprehensive income (loss) of \$272,792 for the period ended May 31, 2016 (2015 - \$1,419).

The Company is also exposed to foreign exchange risk on its accounts receivable balances that are denominated in US dollars, being \$406,864 as at May 31, 2016 (November 30, 2015 - US\$1,199,300).

A five percent fluctuation in the US dollar closing rate at May 31, 2016 would result in a change to comprehensive income (loss) of \$26,650 for the period ended May 31, 2016 (2015 - \$1,494).

(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.

If the market interest rates had changed 100 basis points, the Company's cost of capital would have fluctuated \$9,043 during the period ended May 31, 2016 (2015 - \$5,091).

NETWORK MEDIA GROUP INC.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and six months ended May 31, 2016 and 2015
Expressed in Canadian dollars (unaudited)

14. Financial instruments (continued)

(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

15. Capital management

The Company's objectives when managing capital are to safeguard its assets, maintain a competitive cost structure, continue as a going concern in order to pursue the development of its film 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, 2016	November 30, 2015
Long-term debt	\$ 19,515	\$ 46,836
Short-term debt	1,348,370	1,272,715
Financing lease obligation	40,126	50,956
Cash settled share based payments	4,363	665
Less: Cash	(293,221)	(170,814)
Net debt	1,119,153	1,200,358
Total shareholders' equity	1,260,748	231,342
	\$ 2,379,901	\$ 1,431,700

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.

NETWORK MEDIA GROUP INC.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and six months ended May 31, 2016 and 2015
Expressed in Canadian dollars (unaudited)

16. Contingent liabilities

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

As of May 31, 2016, 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, 2016.

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.

17. Related parties

Related parties are defined as Officers and Directors of the Company as well as any companies that are controlled by Officers or Directors of the Company. During the six month period ended May 31, 2016, the Company:

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

	May 31, 2016	May 31, 2015
Short-term employee benefits	\$ 326,342	\$ 75,000
Share-based compensation	<u>7,869</u>	<u>47,158</u>
	<u>\$ 334,211</u>	<u>\$ 122,158</u>
Recorded as:		
General and administration	\$ 9,566	\$ 47,158
Direct production costs	<u>34,500</u>	<u>-</u>
Investment in film and television properties	<u>290,145</u>	<u>75,000</u>
	<u>\$ 334,211</u>	<u>\$ 122,158</u>
Options issued	<u>300,000</u>	<u>550,000</u>

- Incurred interest of \$43,432 (2015 - \$35,735) on short term debt provided by a Director of the Company.
- Received an advance of \$100,000 and repaid \$36,733 of principal and accrued interest on promissory notes held by a Director of the Company.

At May 31, 2016, the Company owed \$21,647 (November 30, 2015 - \$26,829) to a Director and Officer of the Company. Amounts due to related parties are unsecured, non-interest bearing and due on demand.

At May 31, 2016, the Company had secured promissory notes and debentures outstanding, including accrued interest, of \$204,357 and \$969,398 (November 30, 2015 - \$135,827 and \$969,042), respectively, owing to a Director of the Company. The secured promissory notes bear interest at 8% per annum, and are due on demand (Note 7b).

NETWORK MEDIA GROUP INC.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and six months ended May 31, 2016 and 2015
Expressed in Canadian dollars (unaudited)

18. Subsequent events

Subsequent to May 31, 2016, the Company:

- i. Received \$665,642 of tax credits and accrued interest which were used to reduce interim production financing by an equal amount;
- ii. Received additional interim production financing in the amount of \$520,000;
- iii. Repaid \$50,000 of promissory note payable to a Director of the Company;
- iv. Held its Annual General Meeting (“AGM”) of its shareholders where approval was received to amend its stock option plan to a fixed plan where the maximum number of common shares reserved for issuance was set at 10,880,074.

19. Commitments

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

- \$91,858 in the fiscal year ended November 30, 2016
- \$173,027 in the fiscal year ended November 30, 2017
- \$178,707 in the fiscal year ended November 30, 2018
- \$109,200 in the fiscal year ended November 30, 2019
- \$100,587 in the fiscal year ended November 30, 2020
- \$33,893 in the fiscal year ended November 30, 2021

20. General and administrative expenses

	Note	Three months ended May 31, 2015	Three months ended May 31, 2014	Six months ended May 31, 2016	Six months ended May 31, 2015
Interest and bank charges		\$ 4,150	\$ 379	\$ 7,524	\$ 1,024
Office and general		54,458	26,239	107,034	39,362
Insurance		806	4,698	6,240	9,773
Professional fees		53,950	29,658	68,117	50,418
Rent and utilities		40,807	21,365	54,354	25,415
Salaries and wages	17	3,391	13,191	44,863	25,287
Share-based compensation	11b, 17	4,569	7,630	7,869	54,788
Transfer agent and filing fees		1,788	2,898	10,558	14,641
Travel		8,282	(75)	22,917	3,767
		\$ 172,201	\$ 105,983	\$ 329,476	\$ 224,475

NETWORK MEDIA GROUP INC.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and six months ended May 31, 2016 and 2015
Expressed in Canadian dollars (unaudited)

21. Non-cash investing and financing activities

i. Non-cash investing and financing activities

	Three months ended May 31, 2016	Three months ended May 31, 2015	Six months ended May 31, 2016	Six months ended May 31, 2015
Accounts payable included in production costs	\$ (230,000)	\$ (10,668)	\$ (250,733)	\$ 78,258

ii. Cash and cash equivalents

As at May 31, 2016, the Company held \$90,000 of cash equivalents (2015 – \$5,000).