



SCORE  
MEDIA

## SCORE MEDIA REPORTS CONTINUED GROWTH IN OPERATING PROFIT

*Operating Profit of \$4.1 million for the 9 months ended May 31, 2005,  
An increase of \$3.7 million over 9 months ended May 31, 2004*

### HIGHLIGHTS

- **Financial Highlights**

Three months ended May 31, 2005:

- Consolidated revenue was \$7.3 million – an increase of 30.3% compared to prior year
- Operating Profit (see "Definitions") was \$2.3 million - an increase of \$1.5 million compared to the prior year.
- Net income was \$1.8 million - an increase of \$1.4 million compared to the prior year.

Nine months ended May 31, 2005:

- Consolidated revenue was \$19.0 million – an increase of 24.8% compared to the prior year.
- Operating Profit was \$4.1 million - an increase of \$3.7 million compared to the prior year.
- Net income was \$2.4 million - an increase of \$3.6 million compared to the prior year.

- **Operating Highlights**

- On May 26, 2005 the Company entered into a \$15 million credit facility with a Canadian chartered bank. The credit facility is comprised of a \$10 million, 5-year term loan maturing on August 31, 2010, and a \$5 million revolving credit facility. The proceeds of the loans made under this new credit facility were used to retire all existing credit facilities of Score Media and its wholly-owned subsidiary, The Score Television Network Ltd., as well as for general corporate purposes.
- During the third quarter, the Company launched Score Poker.com, an interactive, "play for fun" poker website, that the Company believes is the largest "play for fun" poker website in Canada.

"Score Media's third quarter results were very strong, and build on the momentum generated in the first half of fiscal 2005" said John Levy, Chairman and Chief Executive Officer. "Sales and operating profit continued to exceed expectations, and are providing the fuel to fire growth opportunities for our Company."

## DEFINITIONS

The Company focuses its analysis on "Net income (loss) before interest, income taxes, depreciation and amortization" and Net income (loss). Net income (loss) before interest, income taxes, depreciation and amortization and Net income (loss) are reconciled in the table below. Net income (loss) before interest, income taxes, depreciation and amortization is calculated as earnings (loss) from continuing operations before interest, income taxes, depreciation and amortization. Net income (loss) from continuing operations before interest, income taxes, depreciation and amortization for the quarter ended May 31, 2005 was \$2.3 million compared to a net income before interest, income taxes, depreciation and amortization of \$0.8 million for the quarter ended May 31, 2004. For the nine months ended May 31, 2005, net income before interest, income taxes, depreciation and amortization was \$4.1 million compared to \$0.4 million in the same period last year, an improvement of \$3.7 million.

Net income (loss) before interest, income taxes, depreciation and amortization is not a measure of performance under Canadian GAAP. Net income (loss) before interest, income taxes, depreciation and amortization should not be considered in isolation or as a substitute for net income (loss) prepared in accordance with Canadian GAAP or as a measure of operating performance or profitability. Net income (loss) before interest, income taxes, depreciation and amortization does not have a standardized meaning prescribed by GAAP and is not necessarily comparable to similar measures presented by other companies.

The Company uses net income (loss) before interest, income taxes, depreciation and amortization to remove acquisition and investment related charges (such as depreciation and amortization), discontinued operations, and income taxes which in the Company's view do not adequately reflect its core operating results and is a standard measure that is commonly reported and widely used in the industry to assist understanding and compare operating results.

The following tables reconcile net income (loss) to net income (loss) before interest, income taxes, depreciation and amortization:

	<b>Three months ended May 31, 2005</b>	<b>Three months ended May 31, 2004</b>
Income for the period	\$ 1,876	\$ 392
Less:		
Income from discontinued operations	148	230
Add back:		
Depreciation and amortization	318	276
Interest expense	273	334
Income before interest, income taxes, depreciation and amortization	\$ 2,319	\$ 772

	Nine months ended May 31, 2005	Nine months ended May 31, 2004
Income (loss) for the period	\$ 2,542	\$ (1,214)
Less:		
Income from discontinued operations	148	270
Add back:		
Depreciation and amortization	886	820
Interest expense	771	1,070
Income (loss) before interest, income taxes, depreciation and amortization	\$ 4,051	\$ 406

### Consolidated Results

The following selected financial data of the Corporation as it relates to the two years ended May 31, 2005, is derived from the audited financial statements of the Corporation.

Quarterly Results	Revenue	Income (loss) from continuing operations	Income (loss) from discontinued operations	Net income (loss)	Income (loss) per share from continuing operations	Income (loss) per share
	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$)	(\$)
May 31, 2005	7,326	1,728	148	1,876	0.02	0.02
February 28, 2005	5,587	153	-	153	0.00	0.00
November 30, 2004	6,046	513	-	513	0.01	0.01
August 31, 2004	4,766	(568)	1,353	785	(0.01)	0.01
May 31, 2004	5,623	161	231	392	0.00	0.00
February 29, 2004	4,383	(617)	117	(500)	(0.01)	(0.01)
November 30, 2003	5,191	(1,027)	(77)	(1,104)	(0.01)	(0.01)
August 31, 2003	4,278	(1,421)	(204)	(1,625)	(0.02)	(0.02)
May 31, 2003	5,477	(617)	925	308	(0.01)	0.00

### Three Months Ended May 31, 2005

Revenue for the third quarter increased by \$1.7 million to \$7.3 million compared to \$5.6 million in the prior year. This increase was largely due to greater television subscriber revenue reflecting the effects of a new wholesale rate structure that was implemented with several broadcast distribution undertakings in the first and second quarters of fiscal 2005. Advertising revenue during the third quarter increased by \$0.4 million compared to the prior year, despite the adverse effect of a National Hockey League strike that affected other sports specialty television networks. The Score was successful in identifying, producing and marketing several new live

event sports programs, as well as launching new news programs, which together sustained advertising revenue during a fiscal quarter where other networks reported advertising declines.

*Operating expenses excluding rights fees* were \$4.9 million during the quarter, compared to \$4.6 million in the prior year, representing an increase of \$0.3 million. This increase resulted from higher marketing expenses associated with media advertising and greater occupancy costs resulting from a new property lease at The Score's facilities.

*Program rights expenses* were \$0.4 million during the quarter, compared to \$0.2 million in the prior year. The increase in program rights at The Score reflects higher program rights fees for Toronto Raptors basketball as well as NCAA basketball.

*Net income from continuing operations before interest, income taxes, depreciation and amortization* was \$2.3 million compared to \$0.8 million in the same period last year, an increase of \$1.5 million. During the third quarter, the Company disposed of an investment whose carrying value had been nil, and realized a gain on sale of \$277,000.

*Interest expense* for the second quarter of approximately \$0.3 million was comparable to the prior year.

*Depreciation and amortization expense* of \$0.3 million in the second quarter was comparable to the prior year. For the third quarter, fixed asset additions were approximately \$0.3 million compared to \$56 thousand in the prior year.

*Net income* for the three months ended May 31, 2005 was \$1.9 million or \$0.02 per share based on a weighted average 82.8 million Class A Subordinate Voting Shares and Special Voting Shares outstanding, an improvement of \$1.5 million compared to \$0.4 million or nil per share based on a weighted average 82.6 million Class A Subordinate Voting Shares and Special Voting Shares outstanding in the prior year. For the three months ended May 31, 2005, net income included \$0.1 million of income from discontinued operations and for the three months ended, May 31, 2004, net income included \$0.2 million of income from discontinued operations.

### ***Nine Months Ended May 31, 2005***

*Revenues* for the nine months ended May 31, 2005 increased to \$19.0 million from \$15.2 million for the same period last year, an increase of \$3.8 million. Advertising revenues for the nine months ended May 31, 2005 increased by approximately \$0.4 million compared to the prior year. Subscriber fee revenue increased by approximately \$3.4 million, due to the effects of a new wholesale rate structure that was implemented with several broadcast distribution undertakings in the first and second quarters of fiscal 2005.

*Operating expenses excluding rights fees* were \$14.1 million for the nine months ended May 31, 2005 compared to \$13.1 million in the prior year, representing an increase of \$1.0 million. This increase resulted from greater marketing expenses discussed above as well as expenses associated with federal tariffs for music rights, greater CRTC license fees, increased staffing and greater occupancy costs resulting from a new property lease at The Score's facilities.

*Program rights* were \$1.0 million during the nine month period ended May 31, 2005, compared to \$1.7 million in the prior year. Certain program rights for the nine month period ended February 28, 2005 increased for live events such as Toronto Raptors basketball and NCAA basketball, but decreased overall, reflecting lower program rights fees on World Wrestling Entertainment properties as well as lower program rights costs for other programs.

*Interest expense* for the nine month period ended May 31, 2005 was \$0.8 million compared to the \$1.1 million in the prior year. The decrease of approximately \$0.3 million reflects lower borrowings of bank debt and related party debt due to improved cash flow from operations and cash proceeds from the sale of PrideVision's Canadian operations in the prior year.

*Depreciation and amortization expense* for the nine month period ended May 31, 2005 was \$0.9 million compared to \$0.8 million in the prior year. For the nine month period ended May 31, 2005, fixed asset additions were approximately \$1.4 million compared to \$0.8 million in the prior year. The increase in fixed assets resulted primarily from new investment in broadcast studio equipment.

*Net income* for the nine months ended May 31, 2005 was \$2.5 million, or \$0.03 per share based on a weighted average 82.8 million Class A Subordinate Voting Shares and Special Voting Shares outstanding compared to a loss of \$1.2 million or (\$0.01) per share based on a weighted average 82.6 million Class A Subordinate Voting Shares and Special Voting Shares outstanding in the prior year, an increase of \$3.7 million. For the nine months ended May 31, 2005, net income included \$0.1 million of income from discontinued operations and for the nine months ended May 31, 2004, net income included \$0.3 million of income from discontinued operations.

## **Liquidity and Capital Resources**

*Cash flows provided by continuing operations* for the three months ended May 31, 2005 were \$1.1 million compared to cash flows used in continuing operations of \$92 thousand in the prior year reflecting significantly improved income from continuing operations in the current year. Cash flows provided by discontinued operations were \$159 thousand compared to cash flows provided by discontinued operations of \$35 thousand in the prior year.

*Cash flows provided by continuing operations* for the nine months ended May 31, 2005 were \$1.0 million compared to cash flows used in continuing operations of \$38 thousand in the prior year reflecting significantly improved income from continuing operations in the current year mitigated in part by negative working capital movements. Cash flows provided by discontinued operations for the nine months ended May 31, 2005 were \$0.5 million compared to cash flows used in discontinued operations of \$0.2 million in the prior year.

For the balance of fiscal 2005 and for fiscal 2006, the Company anticipates that cash flows provided by operations will increase compared to fiscal 2004 based on anticipated increases in both advertising and subscriber revenues with more moderate increases in operating expenses. The Company has sufficient working capital lines of credit to support its operations.

*Cash flow used in financing activities* was \$0.4 million for the three months ended May 31, 2005 compared to cash flow provided by financing activities of \$22,000 in the prior year. This resulted from refinancing its bank lines of credit as well as a line of credit provided by Levfam Finance Inc., a related party, with a new credit facility provided by its banker on May 26, 2005. Cash flow provided by financing activities was \$0.1 million for the nine months ended May 31, 2005 compared to \$22,000 for the comparable period in the prior year. During the nine months ended May 31, 2005, the Company drew down \$10.0 million by way of a new five year reducing term loan, and \$2.0 million from a new working capital line of credit provided by its bank, and repaid all amounts owing to Levfam Finance Inc.

*Cash flow used in investment activities* for the three months ended May 31, 2005 was \$0.7 million compared to cash flow used in investment activities of \$0.8 million in the prior year. The decrease in cash flow used in investment activities reflects increased fixed asset additions to expand and improve programming and production facilities at The Score Television Network, but significantly lower deferred charges compared to the prior year. Deferred charges were higher in the prior year as a result of a financing charge paid to extend the Company's bank lines of credit. For the entire fiscal 2005 year, the Company anticipates that expenditures on new and replacement fixed assets will be approximately \$1.8 million, which can be financed by cash flows from operations.

Other than the credit facilities described below, the Company has no other financial instruments and thus believes that there are no price, credit or liquidity risks that it could be subject to from such instruments.

The following is a summary of the significant financing activities undertaken by the Company during the last two years to secure financing for its ongoing business operations:

#### *The Score*

In April 2004, the Company's subsidiary, The Score, amended its bank credit facility, which was initially established December 2001. The amended bank credit facility then allowed The Score to borrow up to \$14.0 million by way of prime rate loans, bankers' acceptances or letters of guarantee. The bank credit facility was to mature on August 31, 2005 but was repaid in full on May 26, 2005 from borrowings by Score Media, its parent company, under a new bank line of credit discussed below.

#### *Score Media*

In April 2002, the Company entered into a secured standby credit facility of up to \$2.3 million with Levfam Finance Inc., a company related by virtue of common control. The credit facility bore interest at 12% per annum. The credit facility was subsequently amended in November 2002 and August 2003 and was scheduled to mature on August 31, 2005.

On May 26, 2005 the Company entered into a \$15.0 million credit facility with a Canadian chartered bank. The credit facility is comprised of a \$10.0 million, 5-year term loan maturing on August 31, 2010, and a \$5.0 million revolving credit facility. The proceeds of the loans made under this new credit facility were used to retire all existing credit facilities of Score Media, including the secured

standby credit facility with Levfam Finance Inc. and a bank line of credit provided to its wholly-owned subsidiary, The Score Television Network Ltd. This new bank credit facility is available for general corporate purposes.

The provisions of the Company's new bank credit facility impose restrictions, the most significant of which are restrictions on investments, sales of assets, distributions to shareholders, restrictions on new or renewed programming rights agreements, and the maintenance of certain financial covenants. Financial covenants include total funded debt to earnings before interest, taxes, depreciation and amortization (EBITDA) and maximum capital expenditure amounts. As at May 31, 2005, the entire \$10.0 million 5-year term loan and \$2.0 million of the \$5.0 million revolving credit facility had been drawn.

With this financing arrangement in place, the Company believes that there are sufficient resources to fund operations.

The Company's successful execution of its business plan is dependant upon a number of factors that involve risks and uncertainty. In particular, revenues in the specialty television industry, including subscription and advertising revenues are dependant upon audience acceptance, which cannot be accurately predicted.

#### **Related Party Transactions**

The Company and Levfam Finance Inc. are related by virtue of common control. Levfam Finance Inc. had provided a credit facility to Score Media, the parent company, up to May 26, 2005 when that credit facility was repaid in full.

Interest on the Levfam Finance Inc. credit facility to Score Media amounted to approximately \$34,000 during the three months ended May 31, 2005 compared to approximately \$38,000 in the corresponding quarter of the prior year. Interest on the Levfam Finance Inc. credit facility during the nine months ended May 31, 2005 amounted to \$71,000 compared to \$113,000 in the corresponding period of the prior year.

During the three months ended May 31, 2005 the Company retained legal services from a firm, one of whose partners is a director of the Company. These services were provided in the ordinary course of business and the fees for services rendered amounted to approximately \$5,000 for the three months ended May 31, 2005, compared to \$27,000 for the three months ended May 31, 2004. For the nine month period ended May 31, 2005, the total for services rendered amounted to approximately \$35,000, compared to \$ 47,000 in the corresponding period of the prior year.

A second director provided consulting services for the Company during the three months ended May 31, 2005 and received approximately \$5,000 for such services, compared to \$3,000 in the corresponding quarter of the prior year. For the nine month period ended May 31, 2005, the total for services rendered amounted to approximately \$23,000, compared to \$9,000 in the corresponding period of the prior year. All related party transactions have been recorded at their fair values.

## Contractual Obligations

The Company has no debt guarantees, capital leases or long-term obligations other than loans which are disclosed on the Consolidated Balance Sheets as at May 31, 2005, and August 31, 2004.

Contractual operating obligations as at May 31, 2005 are as follows:

<b>Contractual Obligations (in thousands of dollars)</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>Thereafter</b>	<b>Total</b>
Operating lease obligations	\$342	\$1,290	\$510	\$396	\$562	\$3,100
Programming rights obligations	\$186	\$705	\$112	-	-	\$1,003
Term Loan			\$1,000	\$1,000	\$8,000	\$10,000
Revolving Credit Facility		\$2,000				\$2,000

## Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Significant estimates are used in determining the allowance for doubtful accounts, the recoverability of fixed assets and deferred charges. In making such estimates and assumptions, management consults with employees knowledgeable in the area; gathers relevant information; where appropriate, seeks advice from qualified third parties, and, makes judgments, which in the opinion at that time, represent fair, balanced and appropriate conservative estimates and assumptions.

## Stock-based compensation and other stock based payments

In 2003, the CICA amended Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments", to require the recording of compensation expense on the granting of all stock-based compensation awards, including stock options to employees, calculated using the fair value method. The Company adopted this standard on September 1, 2004.

In accordance with the transition rules, the Company determined the fair value of stock options granted to employees since September 2002, using the Black-Scholes Option Pricing model. Prior periods were not re-stated and the Company recorded an adjustment to its opening deficit in the amount of \$74,000 representing the expense for the 2003 and 2004 fiscal year. The offset

to the deficit is an increase in contributed surplus. The estimated impact of adopting this accounting standard in 2005 will be an increase in compensation expense of approximately \$120,000 for fiscal 2005. For the three month period ended May 31, 2005, stock based compensation expense amounted to \$35,000. In the nine month period ending May 31, 2005, stock-based compensation amounted to \$93,000.

## **Other**

Please refer to the attached interim Consolidated Financial Statements, including the Notes to the Financial Statements.

## **About Score Media Inc.**

Score Media Inc. (TSX: Scr.sv) is a media company focused on the specialty television sector through its main asset, The Score Television Network ("The Score"). The Score is a national specialty television service providing sports, news, information, highlights and live event programming, available across Canada in over 5.5 million homes.

### *Forward-looking (safe harbour) statement*

*Statements made in this news release that relate to future plans, events or performances are forward-looking statements. Any statement containing words such as "believes", "plans", "expects" or "intends" and other statements which are not historical facts contained in this release are forward-looking, and these statements involve risks and uncertainties and are based on current expectations. Consequently, actual results could differ materially from the expectations expressed in these forward-looking statements.*

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For further information, please contact:

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## Score Media Inc. (formerly Headline Media Group Inc.)

### Consolidated Balance Sheets

(in thousands of dollars)

(unaudited)

	May 31, 2005	August 31, 2004
		(Restated - Note 1)
Assets		
Current assets:		
Cash and cash equivalents	\$ 469	\$ 626
Accounts receivable	5,560	3,660
Prepaid expenses and deposits	302	308
Current assets of discontinued operations (note 1)	-	626
	<u>6,331</u>	<u>5,220</u>
Fixed assets	3,024	2,111
Deferred charges	677	711
	<u>\$ 10,032</u>	<u>\$ 8,042</u>
Liabilities and Shareholders' Deficiency		
Current liabilities:		
Operating Loan (note 3)	\$ 2,000	\$ 11,865
Accounts payable and accrued liabilities	3,384	3,878
Current liabilities of discontinued operations (note 1)	106	393
	<u>5,490</u>	<u>16,136</u>
Term Loan (note 3)	10,000	-
Shareholders' deficiency		
Capital stock	78,942	78,848
Contributed surplus	696	622
Deficit	(85,096)	(87,564)
	<u>(5,458)</u>	<u>(8,094)</u>
Basis of presentation (note 1)	<u>\$ 10,032</u>	<u>\$ 8,042</u>

See accompanying notes to consolidated financial statements

**Score Media Inc. (formerly Headline Media Group Inc.)**  
**Consolidated Statements of Operations and Deficit**  
**(in thousands of dollars, except per share amounts)**  
**(unaudited)**

	Three months ended		Nine months ended	
	May 31		May 31	
	2005	2004	2005	2004
	(Restated - Note 1)		(Restated - Note 1)	
Revenue	\$ 7,326	\$ 5,623	\$ 18,959	\$ 15,196
Production and other direct expenses	2,811	2,976	8,570	8,576
Selling, general and administrative expenses	2,099	1,666	5,571	4,497
Program rights	374	209	1,044	1,717
	<u>5,284</u>	<u>4,851</u>	<u>15,185</u>	<u>14,790</u>
Income before undernoted	2,042	772	3,774	406
Gain on sale of investment	277	-	277	-
Income before interest, income taxes, depreciation and amortization	2,319	772	4,051	406
Interest expense	273	334	771	1,070
Depreciation	189	233	506	682
Amortization	129	43	380	138
Income (loss) before income taxes	1,728	162	2,394	(1,484)
Income taxes	-	-	-	-
Income (loss) from continuing operations	1,728	162	2,394	(1,484)
Income from discontinued operations (note 1)	148	230	148	270
Net income (loss) for the period	\$ 1,876	\$ 392	\$ 2,542	\$ (1,214)
Deficit, beginning of period	(86,972)	(88,743)	(87,564)	(87,137)
Adjustment for change in accounting for stock option compensation (note 2)	-	-	(74)	-
Deficit, end of period	<u>\$ (85,096)</u>	<u>\$ (88,351)</u>	<u>\$ (85,096)</u>	<u>\$ (88,351)</u>
Income (loss) per share from continuing operations				
Basic and diluted	\$ 0.02	\$ 0.00	\$ 0.03	\$ (0.02)
Income (loss) per share - basic and diluted	\$ 0.02	\$ 0.00	\$ 0.03	\$ (0.01)
Weighted average number of Class A Subordinate Voting and Special Voting Shares outstanding - Basic	82,773,284	82,640,711	82,773,284	82,638,451
Diluted	<u>83,037,522</u>	<u>82,640,711</u>	<u>82,829,582</u>	<u>82,638,451</u>

See accompanying notes to consolidated financial statements

**Score Media Inc. (formerly Headline Media Group Inc.)**

**Consolidated Statements of Cash Flows**

**(in thousands of dollars)**

**(unaudited)**

	Three months ended		Nine months ended	
	May 31,		May 31,	
	2005	2004	2005	2004
	(Restated - Note 1)		(Restated - Note 1)	
Cash provided by (used in):				
Operations				
Income (loss) from continuing operations	\$ 1,728	\$ 162	\$ 2,394	\$ (1,484)
Items not involving cash:				
Depreciation	189	233	506	682
Amortization	23	43	62	138
Interest amortization	106	56	318	192
Non-cash compensation expense (note 2)	35	7	93	31
Change in non-cash operating working capital balances:				
Accounts receivable	(750)	(964)	(1,900)	(1,256)
Prepaid expenses and deposits	71	45	6	1,019
Accounts payable and accrued liabilities	(320)	326	(494)	640
Cash Flows provided by (used in) Continuing Operations	1,082	(92)	985	(38)
Cash Flows provided (used in) by Discontinued Operations	159	35	486	(229)
Cash Flows provided by (used in) Operating Activities	1,241	(57)	1,471	(267)
Financing:				
Issuance of common shares	-	22	1	22
Loans	(390)	-	135	-
	(390)	22	136	22
Investments:				
Fixed assets	(345)	(56)	(1,419)	(760)
Deferred charges	(345)	(699)	(345)	(852)
	(690)	(755)	(1,764)	(1,612)
Increase (decrease) in cash and cash equivalents from continuing operations	161	(790)	(157)	(1,857)
Cash and cash equivalents, beginning of period	308	1,569	626	2,636
Cash and cash equivalents, end of period	469	779	469	779

See accompanying notes to consolidated financial statements

## Score Media Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three and nine months ended May 31, 2005 and May 31, 2004 (unaudited)

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### Nature of operations

Score Media Inc. ("Score Media" or the "Company") is a media company focused on the specialty television sector through its main asset, The Score Television Network ("The Score"). The Score is a national specialty television service providing sports, news, information, highlights and live event programming, available across Canada in approximately 5.5 million homes. On February 22, 2005, the Company's shareholders approved a change in the name of the Company to Score Media Inc.

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. The disclosures contained in these unaudited interim consolidated financial statements do not include all requirements of generally accepted accounting principles for annual financial statements. The unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended August 31, 2004.

The unaudited interim consolidated financial statements reflect all adjustments, which are, in the opinion of management, necessary to present fairly the financial position of the Company as of May 31, 2005 and the results of operations and cash flows for the three and nine months ended May 31, 2005 and May 31, 2004.

### 1. Basis of Presentation

#### *Discontinued Operations*

On November 28, 2003, the Board of Directors of PrideVision Inc. approved an agreement to sell the Canadian operations of PrideVision TV, a Category 1 digital specialty television service, focused on the gay, lesbian, bisexual and transgender communities. The financial results of PrideVision TV have been reflected as discontinued operations since November 28, 2003. On July 29, 2004, PrideVision Inc. was sold for total cash proceeds of \$1,350 and the assumption of approximately \$900 in liabilities, for a total gain of \$1,600 which was recorded in the fourth quarter of fiscal 2004.

Throughout fiscal 2004, Score Media operated St. Clair Group Investments Inc. ("St. Clair"), a Canadian sports marketing and specialty publishing company. During fiscal 2004, the operations of St. Clair were substantially restructured, and ultimately discontinued in October 2004 as a result of certain sports marketing contracts which were not renewed.

The results of PrideVision TV and St. Clair have been excluded from continuing operations in the statements of operations and deficit for all periods presented.

The following summarizes the balance sheet and statement of operations information for the Company's discontinued operations:

## Score Media Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three and nine months ended May 31, 2005 and May 31, 2004 (unaudited)

### 1. Basis of Presentation (cont.)

<b>Balance Sheet</b>	<b>May 31, 2005</b>	<b>August 31, 2004</b>
Current assets	\$ -	\$ 626
Current liabilities	106	393
<b>Net assets (liabilities) of discontinued operations</b>	<b>\$ (106)</b>	<b>\$ 233</b>

Current assets of discontinued operations comprise mainly cash, accounts receivable and prepaid expenses for both 2005 and 2004. Current liabilities comprise mainly trade payables, deferred program rights and accrued liabilities in St. Clair.

<b>Three and Nine months ended May 31, 2005</b>	<b>St. Clair</b>	<b>PrideVision</b>	<b>Total</b>
Revenue	\$ -	\$ -	\$ -
Operating Expenses	-	(148)	(148)
Income (loss) from continuing operations before interest, income taxes, depreciation and amortization	-	148	148
	-	-	-
<u>Depreciation and amortization</u>	-	-	-
<u>Income (loss) from discontinued operations</u>	-	148	148

<b>Three months ended May 31, 2004</b>	<b>St. Clair</b>	<b>PrideVision</b>	<b>Total</b>
Revenue	\$ 914	\$ -	\$ 914
Operating Expenses	552	-	552
Income (loss) from continuing operations before interest, income taxes, depreciation and amortization	362	-	362
	-	-	-
Depreciation and amortization	-	-	43
<u>Loss on sale of fixed assets</u>	-	-	89
<u>Income from discontinued operations</u>	-	-	230

## Score Media Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three and nine months ended May 31, 2005 and May 31, 2004 (unaudited)

### 1. Basis of Presentation (cont.):

<b>Nine months ended May 31, 2004</b>	<b>St. Clair</b>	<b>PrideVision</b>	<b>Total</b>
Revenue	\$ 3,257	\$ 309	\$ 3,566
Operating Expenses	2,858	164	3,022
Income (loss) from continuing operations before interest, income taxes, depreciation and amortization	399	145	544
Interest income	-	-	7
Depreciation and amortization	-	-	192
Loss on sale of fixed assets	-	-	89
Income from discontinued operations	-	-	270

### 2. Significant accounting policies:

The unaudited interim consolidated financial statements are based upon accounting principles consistent with those used and described in the August 31, 2004 consolidated financial statements, except as follows:

#### *Stock-based compensation:*

Effective September 1, 2004, Canadian GAAP requires the Company to estimate the fair value of stock-based compensation granted to employees and to expense the fair value over the estimated vesting period of the stock options. In accordance with the transition rules, the Company determined the fair value of stock options granted to employees since September 1, 2002, using the Black-Scholes Option Pricing model. Prior periods were not re-stated and the Company recorded an adjustment to its opening deficit in the amount of \$74 representing the expense for the 2003 and 2004 fiscal years. The offset to the deficit is an increase in contributed surplus. The estimated impact of adopting this accounting standard in 2005 will be an increase in compensation expense of approximately \$120 for fiscal 2005. For the three month period ended May 31, 2005, an expense with respect to stock based compensation in the amount of \$35 has been recorded. In the nine month period ending May 31, 2005, a total expense of \$93 has been recorded.

In the 3 months ended May 31, 2004, based on stock options issued subsequent to September 1, 2002, the stock based compensation expense for this period would have been \$6 and the pro-forma income for the three months ended May 31, 2004 would have been \$386 or \$0.00 per share. In the 9 months ending May 31, 2004, the stock based compensation expense for this

## Score Media Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three and nine months ended May 31, 2005 and May 31, 2004 (unaudited)

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### 2. Significant accounting policies (cont.):

period would have been \$37 and the pro-forma loss for the nine months ended May 31, 2004 would have been \$1,251 or \$0.01 per share.

During the nine months ended May 31, 2005, 645,000 options were granted. The weighted average estimated fair value at the date of the grant for the options granted was \$0.30. The fair value of each option granted was estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

	Three and Nine months ended May 31, 2005	Three and Nine months ended May 31, 2004
Risk-free interest rate	4%	4%
Dividend yield	—	-
Volatility factor of the future expected market price of common shares	95%	95%
Weighted average expected life of the options	5 years	5 years

Subsequent to the end of the third quarter, options to acquire 1,000,000 Class A Subordinate Voting Shares were granted on July 1, 2005, at an exercise price of \$0.52 per share; 500,000 options vest on July 1, 2005 and 500,000 vest on July 1, 2006.

### 3. Loans:

On May 26, 2005 the Company entered into a \$15.0 million credit facility with a Canadian chartered bank. The credit facility is comprised of a \$10.0 million, 5-year term loan maturing on August 31, 2010, and a \$5.0 million revolving credit facility. The proceeds of the loans made under this new credit facility were used to retire all existing credit facilities of Score Media (including the secured standby credit facility with Levfam Finance Inc. and a bank line of credit provided to its wholly-owned subsidiary, The Score Television Network Ltd.). The amended credit facility allows the Company to borrow by way of prime rate loans, bankers' acceptances ("BAs") or letters of guarantee. This bank credit facility is available for general corporate purposes.

The provisions of the Company's new bank credit facility impose restrictions, the most significant of which are restrictions on investments, sales of assets, distributions to shareholders, restrictions on new or renewed programming rights agreements, and the maintenance of certain financial covenants. Financial covenants include total funded debt to earnings before interest, taxes, depreciation and amortization (EBITDA), and maximum capital

## Score Media Inc.

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### 4. Capital stock:

expenditure amounts. As at May 31, 2005, \$10.0 million of the 5-year term loan and \$2.0 million of the revolving credit facility had been drawn.

Capital stock consists of the following:

	May 31, 2005	Aug 31, 2004
<b>Authorized</b>		
Unlimited Senior Preference Shares		
Unlimited Junior Preference Shares		
10,000 Special Voting shares, convertible into Class A Subordinate Voting shares on a one-for-one basis at the option of the shareholder		
Unlimited Class A Subordinate Voting shares		
Unlimited Class B Subordinate Voting shares, convertible into Class A Subordinate Voting shares on a one-for-one basis at the option of the shareholder		
<b>Issued</b>		
82,763,284 Class A Subordinate Voting shares (August 31, 2004 – 82,760,784);	\$78,912	\$ 78,818
10,000 Special Voting shares (August 31, 2004 – 10,000)	30	30
	<u>\$78,942</u>	<u>\$ 78,848</u>

### *Stock Option Plan:*

The following table summarizes the outstanding options of the Plan:

Nine months ended May 31, 2005	Number	Exercise price	Weighted average exercise price	Options exercisable
Outstanding options, September 1, 2004	2,305,000	\$0.28 - \$3.11	\$2.02	1,862,500
Granted	645,000	\$0.43	\$0.43	
Cancelled	(90,000)	\$0.28 - \$3.00	\$1.76	
Exercised	(2,500)	\$0.28	\$0.28	
Outstanding options, May 31, 2005	2,857,500	\$0.28 – \$3.13	\$1.67	2,139,167

## Score Media Inc.

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### 4. Capital stock (cont.):

As at May 31, 2005 the weighted average remaining contractual life of the options exercisable and outstanding was 0.7 years and 1.5 years, respectively.

#### *Employee Share Purchase Plan:*

Effective January 1, 2005, the Company established an employee share purchase plan in order to facilitate the acquisition of common shares of Score Media Inc. and the retention of such common shares by eligible employees. The plan allows the employees to voluntarily participate in a share purchase program. Under the terms of the plan, eligible employees may have up to 5% of their compensation deducted from their pay to contribute towards the purchase of common shares. The Company will make a contribution equal to the amount of the compensation contributed by each employee one year from the date of the initial contribution. The Score Media Inc. common shares are purchased by an independent broker through the facilities of the Toronto Stock Exchange, and are held by a custodian on behalf of the plan participants.

### 5. Segmented information:

The Company has one business unit - The Score Television Network Ltd - which operates substantially in Canada; thus operations are not presented on a segmented basis.

### 6. Related Party Transactions:

Interest on the Levfam Finance Inc. credit facility to Score Media amounted to approximately \$34 during the three months ended May 31, 2005 compared to approximately \$38 in the corresponding quarter of the prior year. Interest on the Levfam Finance Inc. credit facility during the nine months ended May 31, 2005 amounted to \$71 compared to \$113 in the corresponding period of the prior year. The facility was repaid in full on May 26, 2005 from the proceeds of a new bank credit facility.

During the three months ended May 31, 2005 the Company retained legal services from a firm, one of whose partners is a director of the Company. These services were provided in the ordinary course of business and the fees for services rendered amounted to approximately \$5 the three months ended May 31, 2005, compared to \$27 for the three months ended May 31, 2004. For the nine month period ended May 31, 2005, the total for services rendered amounted to approximately \$35, compared to \$ 47 in the corresponding period of the prior year.

A second director provided consulting services for the Company during the three months ended May 31, 2005 and received approximately \$5 for such services, compared to \$3 in the

## **Score Media Inc.**

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### **6. Related Party Transactions (cont.):**

corresponding quarter of the prior year. For the nine month period ended May 31, 2005, the total for services rendered amounted to approximately \$23, compared to \$9 in the corresponding period of the prior year. All related party transactions have been recorded at their fair values.

### **7. Economic Dependence:**

During the nine months ended May 31, 2005, two customers represented 13 % and 12 % of the Company's consolidated revenues.