



H E A D L I N E
M E D I A G R O U P

Q1 – 2002

Consolidated Financial Statements

For the Three Months Ended

November 30, 2001

(unaudited)



**HEADLINE MEDIA GROUP INC.
ANNOUNCES FIRST QUARTER FINANCIAL RESULTS**

TORONTO, Ontario – January 24, 2002

Headline Media Group Inc. announced its results today for the first quarter ended November 30, 2001.

HIGHLIGHTS

- On December 20, 2001 the Company completed a new credit facility for its subsidiary, The Score Television Network Ltd. (“The Score”). The new credit facility allows The Score to borrow up to \$15 million and matures February 28, 2004.
- Revenues for the first quarter increased 43.5% over the prior year reflecting a full quarter’s results for St. Clair Group Investments Inc. (“St. Clair”).

The Company has three business units “Broadcasting”, “Sports and Entertainment Marketing” and “Corporate”. The Broadcasting group consists of the Company’s specialty television networks, The Score and PrideVision TV. The Sports and Entertainment Marketing group consists of St. Clair.

Three Months Ended November 30, 2001

Revenues for the first quarter rose to \$8.0 million, an increase of \$2.4 million or 43.5% over revenues of \$5.6 million for the same period last year. The increase was primarily due to the inclusion of \$2.8 million in St. Clair revenues for the quarter. Revenue in the Broadcasting group was \$0.4 million lower as compared to the prior year due to the discontinuance of radio broadcasting.

Operating expenses, excluding program rights, were \$8.1 million during the quarter, compared to \$4.9 million in the prior year, representing an increase of \$3.2 million. Approximately \$2.6 million of the increase was attributable to the inclusion of St. Clair operations for the quarter. Operating expenses in the quarter were slightly higher in the Broadcasting group reflecting costs associated with the PrideVision TV operations.

Program rights were \$5.6 million during the quarter, compared to \$2.7 million in the prior year. Rights fees for the quarter were \$0.5 million in St. Clair and \$5.1 million in the Broadcasting group. The increase in program rights in the Broadcast group reflects program rights costs for PrideVision, as well as rights fees for WWF programming, which commenced in the second quarter of fiscal 2001.

Loss before interest, taxes, depreciation and amortization was \$5.7 million for the first quarter, compared with \$2.0 million in the same quarter last year.

Interest income for the first quarter was \$0.4 million compared to nil in the prior year, representing interest earned on the cash, cash equivalents and short-term investments held by the Company during the period.

Interest expense for the first quarter was \$0.5 million, which was consistent with the prior year. The increase in interest expense as a result of the increase in the average bank loan outstanding was offset by lower interest rates in the current period compared to the prior year.

Taxes for the first quarter were \$0.1 million reflecting corporate taxes payable by the Company.

Depreciation expense was \$0.4 million in the quarter compared to \$0.3 million in the prior year, reflecting a higher net book value of fixed assets than in the prior year.

Amortization expense was \$0.3 million in the quarter compared to \$0.1 million in the prior year, representing an increase of \$0.2 million. The increase was primarily attributable to the amortization of goodwill on the acquisition of St. Clair.

Net loss for the first quarter was \$6.6 million or \$0.10 per share based on a weighted average 64.9 million Class A Subordinate Voting Shares outstanding, compared to a net loss of \$2.9 million or \$0.07 per share based on a weighted average 40.0 million Class A Subordinate Voting Shares outstanding in the prior year.

Broadcasting Group

Revenues for the Broadcasting group were \$5.2 million for the quarter compared to \$5.6 million in the prior year. Excluding the reduction in revenue associated with the discontinuance of radio broadcasts, advertising revenues were flat during the quarter compared to the prior year, reflecting a general softening in advertising. Radio broadcasts contributed \$0.4 million in revenue in the first quarter of the prior year. Subscriber revenue increased by 12.6% in the quarter, which reflects an increase in the total number of subscribers for The Score to 5.2 million as at November 30, 2001 from 4.7 million as at November 30, 2000. There was no subscriber fee revenue generated by PrideVision during the quarter as a result of a free preview period, which runs to January 2002.

Operating expenses, excluding program rights, were \$4.8 million in the quarter, which was the same as in the prior year. Operating expenses for PrideVision were \$1.3 million in the quarter, compared to nil in the prior year. Operating expenses for The Score decreased by \$1.3 million to

\$3.5 million in the quarter reflecting reduced production costs associated with Major League baseball broadcasts for the Playoffs and World Series, the implementation of cost containment programs and cost savings associated with the discontinuation of radio broadcasts.

Program rights for the quarter were \$5.1 million compared to \$2.7 million in the prior year, representing an increase of \$2.4 million. The increase reflects program rights for PrideVision of \$1.2 million, as well as increases in broadcast rights fees for The Score associated with the acquisition of WWF programs. The increase in rights fees for The Score was partially offset by the elimination of rights fees for radio broadcasts.

Operating loss before interest, taxes, depreciation and amortization for the first quarter was \$4.6 million, compared with \$1.9 million in the same quarter last year. The increased loss was primarily attributable to the operating costs, including program acquisition rights fees for PrideVision of \$2.5 million.

Sports and Entertainment Marketing Group

Revenue for St. Clair was \$2.8 million in the first quarter.

St. Clair's operating loss before interest, taxes, depreciation and amortization for the first quarter was \$0.4 million.

Corporate

Operating loss before interest, taxes, depreciation and amortization for the first quarter was \$0.7 million compared to \$0.1 million. Operating expenses included executive compensation, public relations costs, professional fees, capital taxes and other expenses. The increase in operating expenses reflects a full quarter of operating as a public company versus less than one month in the prior year.

Liquidity and Capital Resources

Cash flow used in operations for the three months ended November 30, 2001 increased to \$7.2 million from cash flow used in operations of \$5.6 million in the prior year.

Cash flow from financing activities was \$1.4 million for the three months ended November 30, 2001 compared to cash flow from financing activities of \$29.4 million in the prior year. In the prior year, as part of the reverse takeover transaction, the Company completed a private placement of \$27.5 million.

At November 30, 2001, total long-term bank loans were \$12.9 million, an increase of \$1.4 million over the balance at August 31, 2001 of \$11.5 million.

On December 20, 2001, the Company completed a new credit facility for its subsidiary, The Score with its current lender. The new revolving credit facility allows The Score to borrow up to \$15 million in prime rate loans, BAs or letters of guarantee and matures February 28, 2004.

Prime rate loans bear interest at the prime rate plus 3.25%. BAs bear interest at BA rates plus 4.25%.

Cash flow from investment activities for the three months ended November 30, 2001 was \$6.1 million compared to cash flow used in investment activities of \$0.6 million the prior year. The increase in cash flow primarily reflects the sale of short-term investments. Total capital expenditures for the three months ended November 30, 2001 were \$0.4 million or \$0.2 million lower than the prior year's expenditures of \$0.6 million.

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

About Headline Media Group Inc.

Headline Media Group Inc. (TSE: HMG) is a media company focused on the specialty television sector. The Score television network is a national specialty television service providing sports, news, information, highlights and live event programming. PrideVision is a digital specialty television service focused on the Canadian gay and lesbian community that was launched in September 2001.

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.

For further information, please contact:

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Headline Media Group Inc.

Consolidated Balance Sheets

(in thousands of dollars)

	November 30, 2001 (unaudited)	August 31, 2001	November 30, 2000 (unaudited)
Assets			
Current Assets:			
Cash and cash equivalents	\$ 13,158	\$ 12,883	\$ 23,190
Short-term investments	17,082	24,567	-
Marketable securities	-	-	741
Accounts receivable	7,010	4,408	5,209
Prepaid expenses and deposits	2,753	1,708	219
Program acquisitions and productions	2,001	2,808	-
	42,004	46,374	29,359
Program acquisitions and productions	310	312	-
Fixed assets	5,425	5,396	4,278
Deferred charges	3,669	2,972	997
Investments	-	-	2,516
Goodwill	3,833	3,939	-
	\$ 55,241	\$ 58,993	\$ 37,150
Liabilities and Shareholders' Equity (Deficiency)			
Current liabilities:			
Accounts payable and accrued liabilities	10,947	9,314	4,357
Program acquisition rights payable	1,714	2,597	-
Unearned revenue	2,982	2,011	2
	15,643	13,922	4,359
Program acquisition rights payable	217	523	
Bank loan (note 2)	12,895	11,501	10,065
Due to related companies	-	-	25
Shareholders' equity (deficiency)			
Capital stock (note 1)	73,347	73,349	43,644
Warrants	302	302	-
Contributed surplus	320	320	320
Deficit	(47,483)	(40,924)	(21,263)
	26,486	33,047	22,701
	\$ 55,241	\$ 58,993	\$ 37,150

Headline Media Group Inc.

Consolidated Statements of Operations and Deficit
(in thousands of dollars, except per share amounts)
(unaudited)

	Three months ended	
	November 30,	
	2001	2000
Revenue	\$ 8,008	\$ 5,580
Production and other direct expenses	4,784	3,083
Selling, general and administrative expenses	3,321	1,782
Program rights	5,604	2,676
	<u>13,709</u>	<u>7,541</u>
Loss before interest, taxes, depreciation and amortization	(5,701)	(1,961)
Interest income	(400)	(19)
Interest expense	473	539
Depreciation	396	315
Amortization	321	96
	<u>(6,491)</u>	<u>(2,892)</u>
Loss before taxes	(6,491)	(2,892)
Taxes	68	-
	<u>(6,559)</u>	<u>(2,892)</u>
Loss for the period	(6,559)	(2,892)
Deficit, beginning of period	(40,924)	(18,371)
Deficit, end of period	<u>\$ (47,483)</u>	<u>\$ (21,263)</u>
Loss per share, basic and diluted	<u>\$ (0.10)</u>	<u>\$ (0.07)</u>
Weighted average number of Class A Subordinate Voting and Special Voting Shares outstanding	<u>64,878,032</u>	<u>40,041,596</u>

Headline Media Group Inc.

Consolidated Statements of Cash Flows

(in thousands of dollars)

(unaudited)

	Three months ended	
	November 30,	
	2001	2000
Cash provided by (used in):		
Operations		
Loss for the period	\$ (6,559)	\$ (2,892)
Items not involving cash:		
Depreciation	396	315
Amortization	321	96
Change in non-cash operating working capital balances:		
Accounts receivable	(2,602)	(1,611)
Prepaid expenses and deposits	(1,045)	255
Program acquisition rights payable	(304)	-
Accounts payable and accrued liabilities	1,633	(1,656)
Unearned revenue	971	(154)
	<u>(7,189)</u>	<u>(5,647)</u>
Financing:		
Issuance (repurchase) of common shares	(2)	28,080
Due to/from related companies	-	33
Bank term loans	1,394	1,304
	<u>1,392</u>	<u>29,417</u>
Investments:		
Program acquisition and productions	(76)	-
Fixed assets	(425)	(573)
Sale of short-term investments	7,485	-
Deferred charges	(912)	(32)
	<u>6,072</u>	<u>(605)</u>
Increase in cash and cash equivalents	275	23,165
Cash and cash equivalents, beginning of period	12,883	25
Cash and cash equivalents, end of period	<u>\$ 13,158</u>	<u>\$ 23,190</u>
Supplemental cash flow information:		
Interest paid	\$ 226	\$ 272
Non-cash financing and investing activities:		
Issuance of common shares of The Score as repayment of related party indebtedness	-	4,390
Issuance of Class A Subordinate Voting Shares for investment in Cogency Semiconductor Inc.	-	1,034
Issuance of Class A Subordinate Voting Shares on acquisition of OCI, less cash and cash equivalents of \$2,115	-	1,784

Headline Media Group Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three months ended November 30, 2001 (unaudited)

The unaudited consolidated financial statements have been prepared using the same accounting policies and methods of application as those of Headline Media Group Inc. (or the “Company”) as set out in the consolidated financial statements of the Company contained in the 2001 Annual Report, except as otherwise noted below. Accordingly, these financial statements and accompanying notes should be read in conjunction with such audited consolidated financial statements contained therein.

Nature of operations

Headline Media Group is a media company whose primary assets are two specialty television service properties, each of which is focused on a distinct market segment, and a sports marketing and specialty publishing company. The Score Television Network Ltd. (“The Score”) operates the Company’s first specialty television network and provides sports news, information and highlights as well as live event sports programming. The Company’s second principal property is PrideVision Inc. (“PrideVision”), which is targeted to the interests of the gay community, and was launched in September, 2001. St. Clair Group Investments Inc. (“St. Clair”) is the Company’s Canadian sports marketing and specialty publishing company.

1. Capital stock:

Capital stock consists of the following:

	November 30, 2001	August 31, 2001	November 30, 2000
Authorized			
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			
Issued			
64,866,796 Class A Subordinate Voting shares (August 31, 2001 – 64,868,196; November 30, 2000 – 52,284,745)	\$73,317	\$ 73,319	\$ 43,614
10,000 Special Voting shares (August 31, 2001 – 10,000; November 30, 2000 – 10,000)	30	30	30
	<hr/> \$73,347	<hr/> \$ 73,349	<hr/> \$43,644

Headline Media Group Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three months ended November 30, 2001 (unaudited)

1. Capital stock (continued):

Details of share capital transactions from September 1, 2001 to November 30, 2001 are as follows:

	<u>Number of shares issued</u>		<u>Amount credited to capital</u>	
	<u>Class A</u>	<u>Special Voting</u>	<u>Class A</u>	<u>Special Voting</u>
Balance, September 1, 2001	64,868,196	10,000	\$ 73,319	\$ 30
Shares purchased for cancellation:				
Cash	(1,400)	--	(2)	--
Balance, November 30, 2001	64,866,796	10,000	\$ 73,317	\$ 30

Stock Option Plan:

On July 27, 2000, the Board of Directors of the Company, as approved by the shareholders of the Company on November 21, 2000, adopted a stock option plan (the "Plan") under which the Board of Directors, or a committee appointed for such purpose, may from time to time grant to directors, officers, full-time employees of, or consultants to, the Company options to acquire Class A shares. 5,228,000 of the Class A shares issued and outstanding from time to time are reserved for issue under the Plan. Under the Plan, the exercise price must not be less than the market price of the Class A shares at the date of the grant. An option's maximum term is 10 years.

No compensation expense has been recognized related to stock options issued under the Plan. Any consideration paid on the exercise of stock options is credited to share capital. If stock options are repurchased, the excess of consideration paid over the carrying amount of the stock option is cancelled and charged to accumulated deficit.

Headline Media Group Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three months ended November 30, 2001 (unaudited)

1. Capital stock (continued):

The following table summarizes the outstanding options of the Plan:

Three months ended November 30, 2001	Number	Exercise price	Weighted average exercise price	Options exercisable
Outstanding options, beginning of period	2,132,333	\$3.00 – 3.13	\$ 3.01	--
Granted	--	--	--	--
Exercised	--	--	--	--
Cancelled	(6,250)	3.00	3.00	--
Outstanding options, end of period	2,126,083	\$3.00 – 3.13	\$3.01	547,084

As at November 30, 2001 the weighted average remaining contractual life of the options exercisable and outstanding was 3.4 years and 3.9 years, respectively.

2. Bank loan:

On December 20, 2001, the Company completed a new credit facility for its subsidiary, The Score Television Network Ltd. ("The Score") with its current lender. The new revolving credit facility allows The Score to borrow up to \$15,000 in prime rate loans, BAs or letters of guarantee and matures February 28, 2004. Prime rate loans bear interest at the prime rate plus 3.25%. BAs bear interest at BA rates plus 4.25%.

Loans under the facility are secured by a pledge of substantially all of the assets of The Score, including the pledge of The Score shares and the subordination and pledge of shareholder loans and intercompany debt from the Company to The Score. As part of the closing of the transaction, the Company also loaned The Score \$17,000. The loan is pledged and subordinate to the new credit facility. The Score has also settled the repayment fee of \$1,750 related to the previous credit facility and paid an upfront fee of \$450 upon closing of the transaction.

Headline Media Group Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three months ended November 30, 2001 (unaudited)

2. Bank loan (continued):

The provisions of the new credit facility impose restrictions on The Score, the most significant of which are debt incurrence and debt maintenance costs, restrictions on additional investments, sales of assets, payment of management fees or other distributions to shareholders, restrictions on entering into new or renewed programming rights agreements, and the maintenance of certain financial covenants. Financial covenants include meeting minimum subscriber levels, minimum revenue amounts, maximum EBITDA losses, maximum capital expenditure amounts and maximum total debt to total contributed capital requirements.

3. Segmented information:

The Company has three business units comprised of broadcasting, sports and entertainment marketing and Corporate. The broadcasting group consists of the Company's specialty television networks, The Score and PrideVision. The sports and entertainment marketing group consists of the operations of St. Clair, being advertising and event sponsorship program publications for sports and theatre events. The Corporate group consists of corporate operations. Management measures the results of operations based on the earnings before interest, taxes, depreciation and amortization provided by each operating group. The accounting policies of the segments are the same as those described in the significant accounting policies.

Information by operating group is as follows:

Three months ended November 30, 2001	Broadcasting	Sports and Entertainment Marketing	Corporate	Consolidated Total
Revenue				
Advertising	\$ 3,896	\$ 2,779	\$ --	\$ 6,675
Subscriber fees	1,333	--	--	1,333
	5,229	2,779	--	8,008
Loss before interest, taxes, depreciation and amortization	(4,622)	(356)	(723)	(5,701)
Interest income				(400)
Interest expense				473
Depreciation and amortization				717
Loss before taxes				(6,491)
Taxes				68
Loss for the period				\$ (6,559)
Capital expenditures	\$ 316	\$ 49	\$ 60	\$ 425
Total assets	\$ 16,634	\$ 6,683	\$ 31,924	\$ 55,241

Headline Media Group Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three months ended November 30, 2001 (unaudited)

3. Segmented information (continued):

Three months ended November 30, 2000	Broadcasting	Sports and Entertainment Marketing	Corporate	Consolidated Total
Revenue				
Advertising	\$ 4,267	\$ --	\$ --	\$ 4,267
Subscriber fees	1,184	--	--	1,184
Broadcast rights	129	--	--	129
	5,580	--	--	5,580
Loss before interest, depreciation and amortization	\$ (1,871)	\$ --	\$ (90)	\$ (1,961)
Interest income				(19)
Interest expense				539
Depreciation and amortization				411
Loss before taxes				(2,892)
Taxes				--
Loss for the period				\$ (2,892)
Capital expenditures	\$ 573	\$ --	\$ --	\$ 573
Total assets	\$ 11,135	\$ --	\$ 26,015	\$ 37,150