



**HEADLINE MEDIA GROUP INC.
ANNOUNCES FOURTH QUARTER AND YEAR-END FINANCIAL RESULTS**

TORONTO (January 9, 2003) - Headline Media Group Inc. (TSX:HMG) announced its results today for the fourth quarter and year ended August 31, 2002.

HIGHLIGHTS

- On August 26, 2002 the Company's subsidiary, The Score Television Network Ltd. ("The Score"), terminated its telecast rights agreement with Major League Baseball ("MLB"), effective at the end of the 2002 season. Under the agreement, The Score made a \$12 million final payment to MLB on August 23, 2002. This one time payment eliminated existing and all future financial liabilities to MLB, and represents a savings to The Score in excess of \$8 million relating to future rights fees payments.
- Revenue in the broadcast group for the fourth quarter increased by \$1.4 million or 39.4%, reflecting a 38.7% increase in advertising revenue and a 43.8% increase in subscription revenue. Revenue in the Sports and Entertainment Marketing group declined by \$1.4 million due to lower advertising revenues, which was offset by a decline in operating expenses over the prior year. Overall, consolidated revenues were \$5.4 million in the fourth quarter for both fiscal years.
- On December 23, 2002, the Company announced that it has agreed to a non-brokered private placement of 1,428,571 Class A Subordinate Voting shares with Levfam Holdings Inc., the Company's controlling shareholder, at a price of \$0.35 per share. The gross proceeds of the private placement will be \$0.5 million. The deal is anticipated to close, subject to regulatory approval, early in January 2003. Proceeds from the private placement will be used primarily to fund the operations of PrideVision Inc. ("PrideVision TV") and for general corporate purposes.

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 Group Investments Inc. ("St. Clair").

Three Months Ended August 31, 2002

Revenues for the fourth quarter of \$5.4 million were consistent with revenues of the prior year. Compared to the prior year, the increase in revenue in the Broadcasting group of \$1.4 million was offset by the decline of \$1.4 million in revenue in the Sports and Entertainment Marketing group.

Operating expenses excluding rights fees were \$6.7 million during the quarter, compared to \$8.0 million in the prior year, representing a decrease of \$1.3 million. Operating expenses in the Broadcast group were \$1.0 million higher in the quarter, reflecting operating costs associated with PrideVision TV. Operating expenses for the Sports and Entertainment Marketing group were \$1.5 million less than the prior year, which more than offset the decline in revenues. Operating expenses for the Corporate group were \$0.8 million less than the prior year reflecting lower bonuses payable to senior management compared to the prior year.

Program rights, excluding the expense associated with the termination of the MLB agreement, were \$6.5 million during the quarter, compared to \$6.7 million in the prior year. Program rights for the quarter were \$0.2 million in the Sports Entertainment and Marketing Group and \$6.3 million in the Broadcasting group versus \$0.4 million and \$6.3 million respectively in the prior year. During the quarter, the Company terminated its telecast rights agreement with MLB, which included in a one-time payment of \$12.0 million, to satisfy all existing and future financial liabilities of the Company. This one-time payment resulted in a program rights termination expense of \$6.7 million.

During the quarter the Company also wrote-down certain assets of its subsidiary PrideVision TV, including fixed assets, programming and deferred charges, resulting in a one-time charge of \$4.3 million.

Loss before interest, taxes, depreciation and amortization, was \$18.8 million for the fourth quarter, compared with \$10.9 million in the same quarter last year. Excluding the operating losses for PrideVision TV, which is in its first year of operations, the MLB program rights termination expense, and the write-down of certain PrideVision TV assets, the loss before interest, taxes, depreciation and amortization was \$5.2 million versus \$8.6 million in the prior year, an improvement of \$3.4 million or 39.5% over the prior year. The loss of \$8.6 million in the prior year excludes a \$1.6 million write-down of investments and \$0.7 million in operating losses for PrideVision TV.

Interest income for the fourth quarter was negligible compared to \$0.5 million in the prior year. The decrease in interest income resulted from a reduction in the cash, cash equivalents and short-term investments held by the Company during the period.

Interest expense for the fourth quarter was \$0.4 million compared to \$0.5 million in the prior year. The decrease of \$0.1 million reflects a lower average loan balance outstanding for the period, partially offset by commitment fees payable on the available credit facilities.

Depreciation expense of \$0.4 million in the fourth quarter, similar to that in the prior year, reflects \$0.1 million in depreciation of fixed assets for PrideVision TV and the Corporate group, versus nil in the prior year. Fixed assets additions for PrideVision TV and the Corporate group occurred in the latter part of the prior fiscal year.

Amortization expense was \$0.3 million in the quarter, which was consistent with the prior year. The amortization expense was attributable to the amortization of start-up and license costs associated with the launch of PrideVision TV, as well as, the amortization of goodwill on the acquisition of St. Clair.

Net loss for the fourth quarter was \$20.0 million or \$0.31 per share based on a weighted average 64.9 million Class A Subordinate Voting Shares and Special Voting Shares outstanding, compared to a net loss of \$11.7 million or \$0.18 per share based on a weighted average 64.9 million Class A Subordinate Voting Shares and Special Voting Shares outstanding in the prior year.

Broadcasting Group

Revenues for the Broadcasting group increased \$1.3 million to \$4.7 million for the quarter compared to \$3.4 million in the prior year. Advertising revenue increased \$0.8 million during the quarter compared to the prior year, reflecting a 38.1% increase in advertising revenue for The Score and new advertising revenue for PrideVision TV. The increase in advertising revenue for The Score reflects strong audience growth and improved ratings over the prior year. Subscriber revenue increased by \$0.5 million or 43.8% over the same quarter last year. \$0.3 million primarily reflects an increase in the average number of subscribers to The Score for the quarter and increased subscriber rates for The Score on renewed distribution contracts. As at August 31, 2002, The Score had 5.2 million paying subscribers. PrideVision TV generated \$0.2 million in subscriber revenue during the quarter and as at August 31, 2002 had approximately 20,000 paying subscribers.

Operating expenses were \$11.5 million in the quarter, compared to \$10.5 million in the prior year, representing an increase in operating expenses of \$1.0 million. Operating expenses for PrideVision TV were \$3.2 million in the quarter, compared to \$0.7 million in the prior year. Expenses in the prior year for PrideVision TV related to certain programming, technical and general and administrative costs related to the start-up and launch. The Score's operating expenses decreased by \$1.5 million to \$8.3 million in the quarter compared to \$9.8 million in the prior year. The Score's prior year operating expenses included an adjustment to program rights of \$2.4 million, due to a revised estimate of the total expected future revenue from the broadcast of Major League Baseball games.

During the quarter, The Score terminated its telecast rights agreement with Major League Baseball, which included a one-time payment of \$12.0 million, to satisfy all existing and future financial liabilities of The Score. This one-time payment resulted in a program rights termination expense of \$6.7 million.

During the quarter certain assets of PrideVision TV were written-down, including fixed assets, programming and deferred charges, resulting in a one-time charge of \$4.3 million.

Loss before interest, taxes, depreciation and amortization for the fourth quarter increased by \$10.6 million to \$17.7 million from \$7.1 million in the same quarter last year. The increased loss was attributable to the increase in the operating loss for PrideVision TV, the MLB program rights termination expense by The Score and the write-down of certain PrideVision TV assets.

Sports and Entertainment Marketing Group

Revenue for St. Clair was \$0.7 million in the fourth quarter, compared to \$2.0 million in the prior year. The decrease in revenue of \$1.3 million reflects a decline in advertising revenues, as well as timing differences in the realization of revenue from certain sporting events, which occurred in previous quarters when compared to the prior year. Advertising revenue declined in both print and television mediums, as well as sponsorship revenue from sporting events, primarily due to a soft advertising market.

Operating expenses were \$1.1 million in the quarter, compared to \$2.8 million in the prior year, representing a decrease in operating expenses of \$1.7 million. The decrease primarily reflects expenses associated with the timing of certain sporting events, which have been reflected in previous quarters when compared to the prior year.

St. Clair's operating loss before interest, taxes, depreciation and amortization for the fourth quarter was \$0.5 million or \$0.3 million less than the loss of \$0.8 million in the prior year.

Corporate

Loss before interest, taxes, depreciation and amortization for the fourth quarter was \$0.6 million, which is lower than the previous year loss of \$1.4 million, which included a bonus payable to senior management for fiscal 2001. Operating expenses included executive compensation, public relations costs, professional fees, capital taxes and other expenses.

Year Ended August 31, 2002

Revenue for the year ended August 31, 2002 increased by \$5.1 million or 18.7% to \$32.4 million from \$27.3 million for the same period last year. Advertising revenues increased by \$3.9 million or 17.6% due to an increase in advertising revenue in the Broadcast group of \$1.6 million, as well as an additional \$2.3 million in St. Clair revenue over the prior year, which primarily reflects a full year of operations in the current year versus eight months in the prior year. Subscriber fee revenue increased by \$1.4 million or 28.3%, primarily reflecting an increase in the average number of subscribers to The Score for the year, as well as an increased subscriber rates for The Score on renewed distribution contracts. In addition, subscriber fee revenue for PrideVision TV was \$0.5 million. At the end of August 2002, The Score had approximately 5.2 million paying subscribers and PrideVision TV had approximately 20,000 paying subscribers.

Operating expenses were \$54.0 million for the year ended August 31, 2002 compared to \$45.3 million in the prior year, representing an increase of \$8.7 million. Operating expenses in the Broadcast group were \$7.3 million higher in the year, reflecting \$9.8 million in operating costs associated with the first full year of operations for PrideVision TV, and a \$2.5 million decrease in operating expenses for The Score, primarily as a result of cost containment initiatives. Approximately \$2.0 million of the increase was attributable to increased operating expenses for St. Clair, reflecting a full year of operations versus eight months in the prior year. Operating expenses in the Corporate group were \$2.6 million versus \$3.1 million in the prior year, reflecting lower bonuses payable to senior management, partially offset by a full year of operating as a public company versus nine months in the prior year.

During the year, the Company's subsidiary, The Score, terminated its telecast rights agreement with MLB, which included a one-time payment of \$12.0 million, to satisfy all existing and future financial liabilities of The Score under this agreement. This one-time payment resulted in a program rights termination expense of \$6.7 million.

The Company also wrote-down certain assets of its subsidiary PrideVision TV, including fixed assets, programming and deferred charges, resulting in a one-time charge of \$4.3 million.

Loss before interest, taxes, depreciation and amortization for the year ended August 31, 2002 was \$32.6 million, compared with \$19.7 million last year. Excluding the results for PrideVision TV, the program rights termination expense with respect to MLB, and the write-down of certain PrideVision TV assets, operating results improved by \$5.0 million or 28.9% over the prior year, reflecting a loss of \$12.1 million versus a loss of \$17.1 million in the prior year. The loss of \$17.1 million in the prior year excludes a \$1.6 million write-down of investments and \$0.9 million of operating losses for PrideVision TV.

Interest income for the year was \$0.7 million compared to \$1.1 million in the prior year. Lower interest income reflects a reduction in the cash, cash equivalents and short-term investments held by the Company during the year as compared to the prior year, as well as a decline in interest rates.

Interest expense for the year was \$1.5 million compared to \$1.8 million in the prior year. The decrease in interest expense reflects a decrease in the average outstanding bank indebtedness during the year and lower interest rates.

Net loss for the year ended August 31, 2002 was \$36.5 million or \$0.56 per share based on a weighted average 64.9 million Class A Subordinate Voting Shares and Special Voting Shares outstanding, compared to a net loss of \$22.6 million or \$0.42 per share based on a weighted average 53.9 million Class A Subordinate Voting Shares and Special Voting Shares outstanding in the prior year.

Liquidity and Capital Resources

Cash flow used in operations for the three months ended August 31, 2002 increased to \$15.8 million from cash flow used in operations of \$5.8 million in the prior year. Cash flow used in operations for the year ended August 31, 2002 increased to \$35.9 million from \$16.0 million in the prior year. Cash flow used in operations for the three months and year ended August 31, 2002 reflect higher operating losses due to the first full year of the operation for PrideVision TV and the \$12 million termination payment made to MLB.

Cash flow from financing activities was \$12.5 million for the three months ended August 31, 2002 compared to cash flow from financing activities of \$1.1 million in the prior year. During the quarter, \$12.5 million was drawn on the Company's credit facilities for The Score as a result of the termination payment made to MLB.

Cash flow from financing activities for the year ended August 31, 2002 was \$3.6 million compared to cash flow from financing activities of \$58.6 million in the prior year. The cash flow from financing activities in the prior year reflects the completion of a private placement in November 2000, as well as the public offering in April 2001.

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

The Score

In April 2002, the Company amended the bank credit facility for its subsidiary, The Score, which was initially established in December 2001. The bank credit facility was subsequently amended in August 2002 as part of an agreement between MLB and The Score to terminate its program rights agreement for the 2003 baseball season. The amended revolving credit facility allows The Score to borrow up to \$15.0 million in prime rate loans, BAs or letters of guarantee. The bank credit facility 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 bank credit 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. Under the terms of the bank credit facility and subsequent amendments, the Company loaned The Score \$17.0 million in December 2001 and \$1.5 million in August 2002. The loans are secured and are pledged and subordinated to the bank credit facility. The Score has also settled the repayment fee of \$1.75 million related to the previous credit facility and paid fees of \$0.5 million upon closing of the transactions.

The provisions of the amended bank 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. In addition, the agreement has a number of events of default, including solvency tests for the Company and The Score. As at August 31, 2002, \$13.1 million of the facility had been drawn.

In August 2002, The Score also entered into a credit facility agreement for a \$2 million operating loan with a company related by virtue of common control. The credit facility was used to fund the termination payment to MLB and matures on August 31, 2004. The credit facility bears interest at 17% per annum and is secured by a second ranking general security agreement and a limited recourse guarantee by the Company, supported by the pledge of The Score's shares, subject to a prior security interest. The credit facility was negotiated with and considered by a Special Committee of the Board of Directors, and ultimately approved by the Board of Directors. As at August 31, 2002, the entire credit facility amount of \$2 million had been drawn.

St. Clair

In October 2002, the Company's subsidiary St. Clair completed a bank credit facility agreement for an operating line of credit for up to \$1 million. The operating line of credit is payable on demand and bears interest at the rate of prime plus 1%. The line of credit is secured by a general assignment of book debts of St. Clair and a general security agreement. As at August 31, 2002, no amounts were outstanding under the facility.

Headline Media Group Inc.

In April 2002, the Company entered into a non-revolving secured standby credit facility of up to \$2.3 million with a company related by virtue of common control. The credit facility was subsequently amended in November 2002. The credit facility is available to fund operations and working capital requirements commencing November 11, 2002 and matures on August 31, 2004. The credit facility bears interest at 12% per annum, commencing 90 days following the initial advance. The standby credit facility is secured by the assets of PrideVision TV, including a pledge of the PrideVision TV shares by the Company and a first charge over all of the Company's assets, with the exception of its shares in The Score and St. Clair. The credit facility was negotiated with and considered by a Special Committee of the Board of Directors, and ultimately approved by the Board of Directors. As at August 31, 2002, no amounts were outstanding under the facility.

At August 31, 2002, total long-term loans were \$15.1 million compared to \$11.5 million at August 31, 2001.

On December 23, 2002, the Company announced that it has agreed to a non-brokered private placement of 1,428,571 Class A Subordinate Voting shares with Levfam Holdings Inc., the Company's controlling shareholder, at a price of \$0.35 per share. The gross proceeds of the private placement will be \$500,000. The deal is anticipated to close, subject to regulatory approval, early in January 2003. Proceeds from the private placement will be used primarily to fund the operations of PrideVision TV and for general corporate purposes.

With the above credit facilities and financing in place and, assuming the successful execution of its revised business plan, management believes there are sufficient resources to fund operations until the end of fiscal 2003. During 2002 and continuing into fiscal 2003, the Company has introduced significant cost cutting measures to preserve cash and to strategically realign the Company's resources. Beyond fiscal 2003, the Company will require additional funding in order to continue operations and service the commitments under significant agreements.

The Company's successful execution of its revised 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. In addition, the distribution of the Company's specialty television channel, PrideVision TV, is limited to digital subscribers. While Management expects the digital television market will continue to grow and that the number of subscribers to the service will increase, the rate and extent to which this subscriber base will grow is uncertain. Initial consumer acceptance is encouraging, however, it remains uncertain that the penetration rates required to ensure profitability will be achieved.

The Company is actively pursuing alternative financing with potential lenders and investors, which if successful, will, in management's view, enable the Company to achieve its business plans in the long-term. No agreements with potential lenders or investors have been reached yet and there can be no assurance that such agreements will be reached. In addition, the Company continues to review other alternatives, which could involve renegotiating existing cash commitments, further reducing its work force, a further restructuring of the business units, which may include the divestiture of certain assets of the Company, or attracting a strategic investor that would assist in developing the business of the Company.

Cash flow from investment activities for the three months ended August 31, 2002 was \$5.5 million compared to cash flow used in investment activities of \$25.3 million in the prior year. The increase in cash flow from investment activities reflects the sale of short-term investments to fund operations. Cash flow from investment activities for the year ended August 31, 2002 was \$23.3 million compared to cash flow used in investment activities of \$29.8 million in the prior year, reflecting the sale of short-term investments in the current year. Investment activities in the prior year included the acquisition of St. Clair. Fixed asset additions were \$0.6 million for the year ended August 31, 2002 compared to \$2.1 million in the prior year. Fixed asset additions in the prior year included capital required for the launch of PrideVision TV.

"It has been a challenging year for companies everywhere. Despite these conditions, Headline Media Group was able to increase overall revenues, dramatically raise viewership levels on The Score and launch PrideVision TV, the world's first gay and lesbian television network" said John Levy, chairman and chief executive officer of Headline Media Group Inc. "There are many exciting opportunities ahead, which we believe will position us for future success. Our plans include the continued growth of The Score as we move forward through our licence renewal, the pursuit of strategic partners to take PrideVision TV to the next level, and the implementation of innovative marketing packages to new and existing clients of St. Clair. We look forward to reporting to you on our progress in 2003."

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

About Headline Media Group Inc.

Headline Media Group Inc. (TSX: HMG) is a media company that owns and operates three unique Canadian businesses: The Score Television Network Ltd. ("The Score"), PrideVision Inc. ("PrideVision TV") and St. Clair Group Investments Inc. ("St. Clair"). The Score is the Corporation's first specialty television network, which provides sports news, information and highlights, as well as live event sports programming. The Score is distributed in Canada by cable and DTH companies to approximately 5.2 million paying subscribers. PrideVision TV is the Corporation's Category 1 digital specialty television service focused on the Canadian gay, lesbian, bisexual, transgendered ("GLBT") community and is the world's first network of its kind to broadcast 24/7. PrideVision TV launched on September 7, 2001 with informational programming, entertainment and news on issues of interest to the GLBT community. St. Clair is a sports marketing and specialty publishing company. St. Clair acquires broadcasting, promotional, sponsorship, signage and print program rights in respect of live sporting events. St. Clair also publishes a number of special interest guides and magazines.

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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Headline Media Group Inc.

Consolidated Balance Sheets

(in thousands of dollars)

(unaudited)

	August 31, 2002	August 31, 2001
	(unaudited)	(audited)
Assets		
Current Assets:		
Cash and cash equivalents	\$ 3,842	\$ 12,883
Short-term investments	297	24,567
Accounts receivable	4,528	4,408
Prepaid expenses and deposits	2,699	1,708
Program acquisitions and productions (note 5)	-	2,808
	<u>11,366</u>	<u>46,374</u>
Program acquisitions and productions (note 5)	-	312
Fixed assets (note 5)	3,401	5,396
Deferred charges (note 5)	731	2,972
Goodwill	3,517	3,939
	<u>\$ 19,015</u>	<u>\$ 58,993</u>
Liabilities and Shareholders' Equity (Deficiency)		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 5,313	\$ 9,314
Program acquisition rights payable	1,309	2,597
Unearned revenue	733	2,011
	<u>7,355</u>	<u>13,922</u>
Program acquisition rights payable	13	523
Loans (note 3)	15,100	11,501
Shareholders' equity (deficiency)		
Capital stock (note 2)	73,344	73,349
Warrants	302	302
Contributed surplus	320	320
Deficit	(77,419)	(40,924)
	<u>(3,453)</u>	<u>33,047</u>
Basis of presentation (note 1)		
Commitments (note 4)		
Subsequent events (note 7)		
	<u>\$ 19,015</u>	<u>\$ 58,993</u>

See accompanying notes to consolidated financial statements.

Headline Media Group Inc.

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

	Three months ended August 31,		Year ended August 31,	
	2002	2001	2002	2001
Revenue	\$ 5,382	\$ 5,426	\$ 32,388	\$ 27,288
Production and other direct expenses	3,473	3,487	18,875	15,156
Selling, general and administrative expenses	3,215	4,518	13,901	13,512
Program rights	6,539	6,727	21,271	16,628
	<u>13,227</u>	<u>14,732</u>	<u>54,047</u>	<u>45,296</u>
Loss before undernoted	(7,845)	(9,306)	(21,659)	(18,008)
Program rights termination expense (note 4)	6,700	-	6,700	-
Write-down of PrideVision TV assets (note 5)	4,252	-	4,252	-
Write-down of investments	-	1,608	-	1,608
Loss on sale of investments	-	14	-	47
	<u>10,952</u>	<u>1,622</u>	<u>10,952</u>	<u>1,655</u>
Loss before interest, depreciation and amortization	(18,797)	(10,928)	(32,611)	(19,663)
Interest (income)	(6)	(478)	(650)	(1,088)
Interest expense	414	490	1,518	1,823
Depreciation	412	430	1,608	1,351
Amortization	308	294	1,314	804
	<u>1,128</u>	<u>736</u>	<u>3,790</u>	<u>2,890</u>
Loss before income taxes	(19,925)	(11,664)	(36,401)	(22,553)
Income taxes	26	-	94	-
Loss for the period	(19,951)	(11,664)	(36,495)	(22,553)
Deficit, beginning of period	(57,468)	(29,260)	(40,924)	(18,371)
Deficit, end of period	<u>\$ (77,419)</u>	<u>\$ (40,924)</u>	<u>\$ (77,419)</u>	<u>\$ (40,924)</u>
Basic and diluted loss per share	\$ (0.31)	\$ (0.18)	\$ (0.56)	\$ (0.42)
Weighted average number of Class A Subordinate Voting and Special Voting Shares outstanding	<u>64,874,296</u>	<u>64,878,196</u>	<u>64,875,893</u>	<u>53,939,149</u>

See accompanying notes to consolidated financial statements.

Headline Media Group Inc.
Consolidated Statements of Cash Flows
(in thousands of dollars)
(unaudited)

	Three months ended		Year ended	
	August 31,		August 31,	
	2002	2001	2002	2001
Cash provided by (used in):				
Operations				
Loss for the period	\$ (19,951)	\$ (11,664)	\$ (36,495)	\$ (22,553)
Items not involving cash:				
Write-down of PrideVision TV assets	4,252	-	4,252	-
Write-down of investments	-	1,608	-	1,608
Depreciation	412	430	1,608	1,351
Amortization	308	294	1,314	804
Loss on disposal of investments	-	14	-	47
Change in non-cash working capital balances:				
Accounts receivable	4,154	4,447	(120)	2,232
Prepaid expenses and deposits	(1,534)	(738)	(991)	(44)
Program acquisition and productions	301	-	(222)	-
Accounts payable and accrued liabilities	(3,622)	85	(4,001)	(176)
Unearned revenue	(151)	(235)	(1,278)	753
	<u>(15,831)</u>	<u>(5,759)</u>	<u>(35,933)</u>	<u>(15,978)</u>
Financing:				
(Repurchase) issuance of common shares	1	-	(5)	56,065
Issuance of warrants	-	-	-	302
Due to/from related companies	-	87	-	8
Bank credit facility	-	(100)	-	(510)
Loans	12,500	1,078	3,599	2,740
	<u>12,501</u>	<u>1,065</u>	<u>3,594</u>	<u>58,605</u>
Investments:				
Fixed assets, net	(107)	(697)	(581)	(2,121)
Net sales (purchases) of short-term investments	4,738	(24,567)	24,270	(24,567)
Net investment in private companies	-	47	-	(103)
Net proceeds from sale of investments	-	374	-	619
Acquisition of St. Clair, plus bank credit facility acquired	-	283	-	(2,320)
Deferred charges	909	(783)	(391)	(1,277)
	<u>5,540</u>	<u>(25,343)</u>	<u>23,298</u>	<u>(29,769)</u>
Increase (decrease) in cash and cash equivalents	2,210	(30,037)	(9,041)	12,858
Cash and cash equivalents, beginning of period	1,632	42,920	12,883	25
Cash and cash equivalents, end of period	<u>\$ 3,842</u>	<u>\$ 12,883</u>	<u>\$ 3,842</u>	<u>\$ 12,883</u>
Supplemental cash flow information:				
Interest paid	\$ 114	\$ 175	\$ 2,601	\$ 845
Income taxes paid	\$ -	\$ -	\$ 122	\$ -
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 Old Canada Investment Corporation Limited, less cash and cash equivalents of \$2,115	-	-	-	1,784
Extinguishment of St. Clair debt	-	-	-	1,086
Issuance of Class A Subordinate Voting Shares on acquisition of St. Clair	-	-	-	564
Issuance of Class A Subordinate Voting Shares on acquisition of PrideVision	-	-	-	527
Issuance of Class A Subordinate Voting Shares on acquisition of 662105 B.C. Ltd.	-	-	-	630

See accompanying notes to consolidated financial statements.

Headline Media Group Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Year ended August 31, 2002

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 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 TV"), which is targeted to the interests of the gay community. St. Clair Group Investments Inc. ("St. Clair") is the Company's Canadian sports marketing and specialty publishing company.

1. Basis of Presentation

These consolidated financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

With the financing arrangements currently in place, together with the successful execution of its revised business plan, the Company believes that there are sufficient resources to fund operations until the end of fiscal 2003. During fiscal 2002 and continuing into fiscal 2003, the Company introduced significant cost cutting measures to preserve cash and to strategically realign the Company's resources. Beyond fiscal 2003, the Company will require additional funding in order to continue operations and service the commitments under significant agreements. The Company is actively pursuing alternative financing with potential lenders and investors, which if successful, will, in management's view, enable the Company to achieve its business plans in the long-term. To date, no agreements with potential lenders or investors have been reached and there can be no assurance that such agreements will be reached. The Company's successful execution of its revised business plan is dependent upon meeting certain assumptions and expectations primarily regarding subscription and advertising revenues. The Company's available financing may not be sufficient to fund its expected operating losses and contractual commitments if certain assumptions are not realized.

Headline Media Group Inc.

Notes to Consolidated Financial Statements
(in thousands of dollars, except per share amounts)
Year ended August 31, 2002

1. Basis of Presentation (continued)

These consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used.

2. Capital stock:

Capital stock consists of the following:

	August 31, 2002	August 31, 2001
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		
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		
Issued		
64,864,296 Class A Subordinate Voting shares (August 31, 2001 – 64,868,196);	\$73,314	\$ 73,319
10,000 Special Voting shares (August 31, 2001 – 10,000)	30	30
	<u>\$73,344</u>	<u>\$ 73,349</u>

For the year ended August 31, 2002, the Company purchased 3,900 Class A Subordinate Voting shares for cancellation at a cost of \$5.

Headline Media Group Inc.

Notes to Consolidated Financial Statements
(in thousands of dollars, except per share amounts)
Year ended August 31, 2002

2. Capital stock (continued):

Stock Option Plan:

The following table summarizes the outstanding options of the Plan:

Year ended August 31, 2002	Number	Exercise price	Weighted average exercise price	Options exercisable
Outstanding options, August 31, 2001	2,132,333	\$3.00 – 3.13	\$ 3.01	
Granted	455,000	1.00	1.00	
Cancelled	(624,000)	3.00 - 3.13	3.02	
Outstanding options, August 31, 2002	1,963,333	\$1.00 – 3.13	\$2.54	861,667

As at August 31, 2002 the weighted average remaining contractual life of the options exercisable and outstanding was 2.9 years and 3.4 years, respectively.

3. Loans:

(i) The Score

In April 2002, the Company amended the bank credit facility for its subsidiary, The Score, which was initially established in December 2001. The credit facility was subsequently amended in August, 2002 as part of an agreement between Major League Baseball and The Score to terminate its program rights agreement for the 2003 baseball season (note 4). The amended revolving credit facility allows The Score to borrow up to \$15,000 in prime rate loans, bankers' acceptances ("BAs") or letters of guarantee. The credit facility 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 bank credit 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. Under the terms of the bank credit facility and subsequent amendments, the Company loaned The Score \$17,000 in December 2001 and \$1,500 in August 2002. The loans are secured and are pledged and subordinated to the bank credit facility. The Score has also settled the repayment fee of \$1,750 related to the previous credit facility and paid fees of \$525 upon closing of the transactions.

Headline Media Group Inc.

Notes to Consolidated Financial Statements
(in thousands of dollars, except per share amounts)
Year ended August 31, 2002

3. Loans (continued)

(i) The Score

The provisions of the amended 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. In addition, this agreement has a number of events of default, including solvency tests for the Company and The Score. As at August 31, 2002 \$13,100 of the facility had been drawn.

In August 2002, The Score also entered into a credit facility agreement for a \$2,000 operating loan with a company related by virtue of common control. The credit facility was used to fund the termination payment to Major League Baseball (note 4) and matures on August 31, 2004. The credit facility bears interest at 17% per annum and is secured by a second ranking general security agreement and a limited recourse guarantee by the Company, supported by the pledge of The Score's shares, subject to a prior security interest. The credit facility was negotiated with and considered by a Special Committee of the Board of Directors, and ultimately approved by the Board of Directors. As at August 31, 2002, the entire facility of \$2,000 had been drawn.

(ii) St. Clair

In October 2002, the Company's subsidiary St. Clair completed a bank credit facility agreement for an operating line of credit for up to \$1,000. The operating line of credit is payable on demand and bears interest at the rate of prime plus 1%. The line of credit is secured by a general assignment of book debts of St. Clair and a general security agreement. As at August 31, 2002, no amounts were outstanding under the facility.

(iii) Headline Media Group Inc.

In April 2002, the Company entered into a non-revolving secured standby credit facility of up to \$2,300 with a company related by virtue of common control. The credit facility was subsequently amended in November 2002. The credit facility is available to fund operations and working capital requirements commencing November 11, 2002 and matures on August 31, 2004. The credit facility bears interest at 12% per annum, commencing 90 days following the initial advance. The standby credit facility is secured by the assets of PrideVision TV, including a pledge of the PrideVision TV shares, and a first charge over all of the Company's assets, with the exception of its shares in The Score and St. Clair. The credit facility was negotiated with and considered by a Special Committee of the Board of Directors, and ultimately approved by the Board of Directors. As at August 31, 2002, no amounts were outstanding under the facility.

Headline Media Group Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Year ended August 31, 2002

4. Commitments and Contingencies

In August 2002, the Company's subsidiary The Score successfully terminated its telecast rights agreement with Major League Baseball ("MLB"), effective at the end of the 2002 season. Under the agreement, The Score made a \$12,000 final payment to MLB. As a result of this agreement, the Company's current and future obligations under various program and acquisition rights agreements have been reduced by \$20,333.

5. Write-down of PrideVision TV assets

During the year, the Company wrote-down certain assets of its PrideVision TV subsidiary, including fixed assets, programming and deferred charges, totaling approximately \$4,252.

6. Segmented information:

The Company has three business units comprised of Broadcasting, Sports and Entertainment Marketing and Corporate. These operating segments are virtually all in Canada. The Broadcasting group consists of the Company's specialty television networks, The Score and PrideVision TV. 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 of the August 31, 2001 consolidated financial statements.

Headline Media Group Inc.

Notes to Consolidated Financial Statements
(in thousands of dollars, except per share amounts)
Year ended August 31, 2002

6. Segmented information (continued):

Information by operating group is as follows:

Three months ended August 31, 2002	Broadcasting	Sports and Entertainment Marketing	Corporate	Consolidated Total
Revenue				
Advertising	\$ 3,019	\$ 658	\$ --	\$ 3,677
Subscriber fees	1,705	--	--	1,705
	<u>4,724</u>	<u>658</u>	<u>--</u>	<u>5,382</u>
Loss before undernoted	(6,776)	(470)	(599)	(7,845)
Program rights termination expense	6,700	--	--	6,700
Write-down of PrideVision TV assets	4,252	--	--	4,252
Loss before interest, depreciation and amortization	\$ (17,728)	\$ (470)	\$ (599)	\$ (18,797)
Interest income				(6)
Interest expense				414
Depreciation and amortization				720
Loss before taxes				(19,925)
Income taxes				26
Loss for the period				\$ (19,951)
Capital expenditures	\$ 82	\$ 25	\$ --	\$ 107
Total assets	\$ 10,807	\$ 2,272	\$ 5,936	\$ 19,015

Headline Media Group Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Year ended August 31, 2002

6. Segmented information (continued):

Year ended August 31, 2002	Broadcasting	Sports and Entertainment Marketing	Corporate	Consolidated Total
Revenue				
Advertising	\$ 12,410	\$ 13,795	\$ --	\$ 26,205
Subscriber fees	6,183	--	--	6,183
	18,593	13,795	--	32,388
Earnings (loss) before undernoted	(19,576)	507	(2,590)	(21,659)
Program rights termination expense	6,700	--	--	6,700
Write-down of PrideVision TV assets	4,252	--	--	4,252
Earnings (loss) before interest, depreciation and amortization	\$ (30,528)	\$ 507	\$ (2,590)	\$ (32,611)
Interest (income)				(650)
Interest expense				1,518
Depreciation and amortization				2,922
Loss before taxes				(36,401)
Income taxes				94
Loss for the period				\$ (36,495)
Capital expenditures	\$ 477	\$ 43	\$ 61	\$ 581

Headline Media Group Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Year ended August 31, 2002

6. Segmented information (continued):

Three months ended August 31, 2001	Broadcasting	Sports and Entertainment Marketing	Corporate	Consolidated Total
Revenue				
Advertising	\$ 2,176	\$ 2,036	\$ --	\$ 4,212
Subscriber fees	1,186	--	--	1,186
Broadcast rights	--	--	--	--
Other	28	--	--	28
	3,390	2,036	--	5,426
Loss before undernoted	\$ (7,071)	\$ (808)	\$ (1,427)	\$ (9,306)
Write-down of investments	--	--	1,608	1,608
Loss on disposal of investments	--	--	14	14
Loss before interest, taxes depreciation and amortization	(7,071)	(808)	(3,049)	(10,928)
Interest income				(478)
Interest expense				490
Depreciation and amortization				724
Loss before taxes				(11,664)
Income taxes				--
Loss for the period				\$ (11,664)
Capital expenditures	\$ 491	\$ 60	\$ 146	\$ 697
Total assets	\$ 17,024	\$ 3,463	\$ 38,506	\$ 58,993

Headline Media Group Inc.

Notes to Consolidated Financial Statements
(in thousands of dollars, except per share amounts)
Year ended August 31, 2002

6. Segmented information (continued):

Year ended August 31, 2001	Broadcasting	Sports and Entertainment Marketing	Corporate	Consolidated Total
Revenue				
Advertising	\$ 10,798	\$ 11,482	\$ --	\$ 22,280
Subscriber fees	4,819	--	--	4,819
Broadcast rights	138	--	--	138
Other	51	--	--	51
	\$ 15,806	\$ 11,482	\$ --	\$ 27,288
Earnings (loss) before the undernoted	\$ (15,072)	\$ 179	\$ (3,115)	\$ (18,008)
Write-down of investments	--	--	1,608	1,608
Loss on disposal of investments	--	--	47	47
Loss before interest, depreciation and amortization	(15,072)	179	(4,770)	(19,663)
Interest income				(1,088)
Interest expense				1,823
Depreciation and amortization				2,155
Loss before taxes				(22,553)
Income taxes				--
Loss for the period				\$ (22,553)
Capital expenditures	\$ 1,891	\$ 67	\$ 163	\$ 2,121

7. Subsequent events:

(a) Sale of investment in private company:

On October 10, 2002, the Company sold an investment in a private company for cash proceeds of U.S.\$280. The carrying value of the investment at August 31, 2002 was nil.

(b) PrideVision TV restructuring:

On December 20, 2002, the Company announced that it had completed a restructuring of its subsidiary, PrideVision TV, including a reduction in its work force and ongoing operational expenses. In addition, the Company continues to have discussions with third parties regarding potential strategic investments in or the sale of PrideVision TV.

Headline Media Group Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Year ended August 31, 2002

7. Subsequent events (continued):

(c) Private placement:

On December 23, 2002, the Company announced that it has agreed to a non-brokered private placement of 1,428,571 Class A Subordinate Voting shares with Levfam Holdings Inc., the Company's controlling shareholder, at a price of \$0.35 per share. The gross proceeds of the private placement will be \$500. The deal is anticipated to close, subject to regulatory approval, early in January 2003. Proceeds from the private placement will be used primarily to fund the operations of PrideVision TV and for general corporate purposes.