



H E A D L I N E
MEDIA GROUP

Q2 – 2003
Consolidated Financial Statements
For the Three and Six Months Ended
February 28, 2003



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
For the Three and Six Months Ended February 28, 2003**

The following is Management's Discussion and Analysis ("MD&A") of the financial condition of Headline Media Group Inc. ("HMG" or the "Company") and our financial performance for the second quarter and six months ended February 28, 2003, and 2002. All amounts are in Canadian dollars unless otherwise stated. As a result of rounding differences, certain figures in this MD&A may not total.

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 Television Network Ltd. ("The Score") and PrideVision TV. The Sports and Entertainment Marketing group consists of St. Clair Group Investments Inc. ("St. Clair").

HIGHLIGHTS

- Operating results and net loss for the three months ended February 28, 2003 showed significant improvement over the prior year. Loss before interest, income taxes, depreciation and amortization (see "Definitions") was \$1.5 million, an improvement of \$1.7 million from a loss of \$3.2 million in the same period last year. For the six months ended February 28, 2003, loss before interest, income taxes, depreciation and amortization was \$3.5 million, an improvement of \$5.4 million from a loss of \$8.9 million in the same period last year.
- Net loss for the three months ended February 28, 2003 was \$2.3 million, an improvement of \$1.7 million from a loss of \$3.2 million in the same period last year. For the six months ended February 28, 2003, net loss was \$4.9 million, an improvement of \$5.6 million from a loss of \$10.5 million in the same period last year.
- Consolidated revenue for the second quarter decreased by \$1.8 million to \$7.8 million compared to \$9.6 million in the prior year. This decrease was due to significantly lower revenue in the Sports and Entertainment Marketing group. Revenue in the Sports and Entertainment Marketing group declined from \$5.8 million for the second quarter ended February 28, 2002 to \$3.5 million for the second quarter ended February 28, 2003 due to lower advertising revenues. Increased revenue in the Broadcasting group offset some of this decline, as revenue increased by \$0.6 million, or 14.5%, from \$3.7 million for the

second quarter ended February 28, 2002 to \$4.3 million for the second quarter ended February 28, 2003.

- The Company secured \$500,000 in additional funding during the quarter to assist with working capital requirements. On January 15, 2003, the Company completed 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 were \$500,000. Proceeds from the private placement are being used primarily to fund the operations of PrideVision Inc. ("PrideVision TV") and for general corporate purposes.
- On December 20, 2002, the Company announced 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 a third party regarding a strategic investment in PrideVision TV.

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 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) before interest, income taxes, depreciation and amortization for the quarters ended February 28, 2003, and 2002 was (\$1.5 million) and (\$3.2 million) respectively. Net income (loss) before interest, income taxes, depreciation and amortization for the six months ended February 28, 2003, and 2002 was (\$3.9 million) and (\$8.9 million) respectively.

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 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 the Company views do not adequately reflect its core operating results.

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

	Three months ended February 28, 2003	Three months ended February 28, 2002
Loss for the period	\$ (2,279)	\$ (3,971)
Add back:		
Income taxes	--	--
Depreciation and amortization	294	679
Interest expense, net	512	118
Gain on sale of investment	--	--
Loss before interest, income taxes, depreciation and amortization	\$ (1,473)	\$ (3,174)

	Six months ended February 28, 2003	Six months ended February 28, 2002
Loss for the period	\$ (4,884)	\$ (10,530)
Add back:		
Income taxes	--	68
Depreciation and amortization	625	1,396
Interest expense, net	807	191
Gain on sale of investment	(443)	--
Loss before interest, income taxes, depreciation and amortization	\$ (3,895)	\$ (8,875)

Three Months Ended February 28, 2003

Revenue for the second quarter decreased by \$1.8 million to \$7.8 million compared to \$9.6 million in the prior year. The decrease in revenue reflects a decline of \$2.4 million in revenue for the Sports and Entertainment Marketing group due to lower advertising revenues. This advertising revenue decline was due to the loss of the Canadian Hockey League property. That decrease was partially offset by an increase in the revenue for Broadcasting group of \$0.6 million due to a higher average subscriber rate at The Score and higher advertising revenues.

Operating expenses excluding rights fees were \$7.2 million during the quarter, compared to \$9.3 million in the prior year, representing a decrease of \$2.1 million. Operating expenses in the Broadcasting group were \$0.9 million lower in the quarter, reflecting cost reduction initiatives implemented in PrideVision TV. Operating expenses for the Sports and Entertainment Marketing group were \$1.3 million less than the prior year, mitigating some of the decline in revenues. Operating expenses for the Corporate group were comparable to the prior year.

Program rights were \$2.1 million during the quarter, compared to \$3.5 million in the prior year. Program rights for the quarter were \$1.1 million in the Broadcasting group and \$1.0 million in the Sports Entertainment and Marketing Group versus \$2.1 million and \$1.4 million respectively in the prior year. The reduction in program rights for the Broadcasting group reflects lower

program rights fees for Major League Baseball, as a result of the previously announced termination agreement, as well as lower program rights costs for PrideVision TV as a result of the implementation of cost containment initiatives.

Loss before interest, income taxes, depreciation and amortization was \$1.5 million for the second quarter of 2003 compared with \$3.2 million in the same quarter last year, representing an improvement of \$1.7 million over the prior year.

Interest income for the second quarter was negligible compared to \$0.2 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 second quarter was \$0.5 million compared to \$0.3 million in the prior year. The increase of \$0.2 million reflects a higher average loan balance outstanding for the period at the Score due to the termination agreement of the Major League Baseball contract.

Depreciation expense was \$0.2 million in the second quarter compared to \$0.4 million in the prior year. The decrease in depreciation expense is due to lower fixed asset additions in the current year. Fixed assets additions were negligible compared to \$44,000 in the prior year.

Amortization expense was \$46,000 in the quarter, compared to \$0.3 million in the prior year. The decrease in amortization reflects a reduction in the amortization of goodwill compared to the prior year as a result of a change in accounting policy. The Company has adopted the provisions of The Canadian Institute of Chartered Accountants' Handbook Section 3062 "Goodwill and Other Intangible Assets", effective September 1, 2002. Section 3062 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually by comparing the carrying value to the respective fair value.

During the second quarter, the Company completed its transitional goodwill impairment test relating to goodwill allocated to the Sports and Entertainment Marketing reporting unit, and determined that unamortized goodwill of \$3.5 million as at September 1, 2002 was impaired under the new fair value based methodology. This amount was charged to opening deficit with a corresponding reduction in goodwill.

Net loss for the second quarter was \$2.3 million or \$0.03 per share based on a weighted average 65.6 million Class A Subordinate Voting Shares and Special Voting Shares outstanding, compared to a net loss of \$4.0 million or \$0.06 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 \$0.6 million, or 14.5% for the quarter, from \$3.7 million for the three months ended February 28, 2002 to \$4.3 million for the three months ended February 28, 2003. Advertising revenue increased \$0.2 million or 9.9% during the quarter compared to the prior year primarily reflecting an increase in advertising revenue for The Score

as a result of continued audience growth and improved ratings. Subscriber revenue increased by \$0.3 million or 21.5% over the same quarter last year. The \$0.3 million increase primarily reflects increased subscriber rates for The Score on renewed distribution contracts. In addition, the number of subscribers to The Score continues to grow. As at February 28, 2003, The Score had 5.3 million paying subscribers. PrideVision TV generated \$0.2 million in subscriber revenue during the quarter, compared to \$0.1 million in the previous year. As at February 28, 2003 PrideVision TV had approximately 21,000 paying subscribers.

Operating expenses were \$5.1 million in the quarter, compared to \$6.9 million in the prior year, representing a decrease in operating expenses of \$1.8 million. The Score's operating expenses decreased by \$0.1 million to \$4.5 million in the quarter compared to \$4.6 million in the prior year reflecting lower program rights fees for Major League Baseball, as a result of the previously announced termination agreement. Operating expenses for PrideVision TV were \$0.6 million in the quarter, compared to \$2.3 million in the prior year due to lower program rights and other operating costs due to the implementation of cost reduction initiatives.

Loss before interest, income taxes, depreciation and amortization for the second quarter was \$0.8 million versus \$3.2 million in the prior year, resulting in an improvement in operating performance of \$2.4 million.

Sports and Entertainment Marketing Group

Revenue for St. Clair was \$3.5 million in the second quarter compared to \$5.8 million in the prior year. The decrease in revenue of \$2.3 million reflects a decline in print advertising sales, specifically within sports programming publications. St. Clair did not renew its broadcasting and sponsorship rights for the 2003 Canadian Hockey League season and as a result certain sales contracts that included packaged advertising did not renew.

Operating expenses were \$3.6 million in the quarter, compared to \$5.2 million in the prior year, representing a decrease in operating expenses of \$1.6 million. The decrease in expenses primarily reflects lower printing and production costs, consistent with the lower television advertising sales, as well as reduced promotional and selling expenses as compared to the prior year.

St. Clair's operating loss before interest, income taxes, depreciation and amortization for the second quarter was \$53,000 compared to a profit of \$0.6 million in the prior year.

Corporate

Operating expenses and the loss before interest, income taxes, depreciation and amortization for the Corporate group were \$0.6 million in both the second quarter of 2003 and 2002.

Six Months Ended February 28, 2003

Revenues for the six months ended February 28, 2003 decreased by 9.2% to \$16.0 million from \$17.6 million for the same period last year. Advertising revenues decreased by \$2.4 million or 16.5%. This decrease was primarily due to the reduction in advertising revenue at St. Clair specifically within sports programming. Subscriber fee revenue increased by \$0.8 million or 28.6%, reflecting an increase in the number of subscribers for The Score, as well as increased subscriber rates on renewed distribution contracts.

In addition, subscriber fee revenue for PrideVision TV was \$0.5 million for the six months ended February 28, 2003 compared to \$0.1 million in the prior year. At the end of February 2003, PrideVision TV had approximately 21,000 paying subscribers compared to 16,000 paying subscribers in the prior year.

Operating expenses excluding rights fees were \$14.5 million for the six months ended February 28, 2003 compared to \$17.4 million in the prior year, representing a decrease of \$2.9 million during the six month period. Operating expenses in the Broadcasting group were \$1.1 million lower in the six month period, reflecting cost reduction initiatives implemented in PrideVision TV. Operating expenses for the Sports and Entertainment Marketing group were \$1.7 million less than the prior year, mitigating some of the decline in revenues. Operating expenses for the Corporate group were approximately \$75,000 less than the prior year.

Program rights were \$5.3 million during the six month period ended February 28, 2003, compared to \$9.1 million in the prior year. Program rights for the six month period were \$3.9 million in the Broadcasting group and \$1.4 million in the Sports Entertainment and Marketing Group versus \$7.2 million and \$1.9 million respectively in the prior year. The reduction in program rights for the Broadcasting group reflects lower program rights fees for Major League Baseball as well as lower program rights costs for PrideVision TV as a result of the implementation of cost containment initiatives.

Gain on sale of investment – during the six month period ended February 28, 2003, the Company sold an investment in a private company for cash proceeds of \$0.4 million (\$0.3 million U.S.). The carrying value of the investment at August 31, 2002 was nil, resulting in a gain on sale of \$0.4 million.

Loss before interest, income taxes, depreciation and amortization for the six months ended February 28, 2003 was \$3.5 million, compared with \$8.9 million for the same period last year.

Interest income for the period decreased by \$0.6 million to \$27,000 in the current year from \$0.6 million in the prior year, reflecting a decrease in the average cash, cash equivalents and short-term investments outstanding during the period.

Interest expense for the period was \$0.8 million, comparable to the \$0.8 million interest expense in the prior year. The stability in interest expense reflects an increase in the average outstanding bank indebtedness during the period offset by lower interest rates.

Net loss for the six months ended February 28, 2003 was \$4.9 million or \$0.07 per share based on a weighted average 65.2 million Class A Subordinate Voting Shares and Special Voting Shares outstanding, compared to a net loss of \$10.5 million or \$0.16 per share based on a weighted average 64.9 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 February 28, 2003 was \$0.8 million compared to \$5.7 million in the prior year, reflecting significantly lower operating losses in the current year combined with positive non-cash operating working capital movements. Cash flow used in operations for the six months ended February 28, 2003 was \$3.4 million compared to \$13.0 million in the prior year, again reflecting significantly lower operating losses and positive non-cash operating working capital movements.

Cash flow from financing activities was \$1.2 million for the three months ended February 28, 2003 compared to cash flow used in financing activities of \$12.9 million in the prior year. During the three months ended February 28, 2003, the Company secured \$0.5 million from 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. In addition, the Company drew down \$0.7 million from a credit facility provided by Levfam Finance Inc. In December 2001, the Company completed a credit facility for its subsidiary, The Score with its current lender and as part of the terms of the new credit facility, the Company loaned The Score \$17 million and the balance of \$12.9 million on the existing credit facility was repaid.

Cash flow from financing activities for the six months ended February 28, 2003 was \$1.2 million, as discussed above, compared to cash flow used in financing activities of \$11.5 million in the prior year.

Cash flow from investment activities for the three months ended February 28, 2003 was approximately \$28,000 compared to \$9.5 million in the prior year. The decrease in cash flow from investment activities reflects lower fixed asset additions, lower proceeds from the sale of short-term investments, and reduced deferred charges compared to the prior year. Fixed asset additions and deferred charges in the prior year include costs associated with the launch of PrideVision TV.

With the credit facilities and financing currently in place and, assuming the successful execution of its revised business plan, management believes there are sufficient resources to fund operations until October 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 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.

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. 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.

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

John Levy
Chairman and C.E.O

Headline Media Group Inc.

Consolidated Balance Sheets

(in thousands of dollars)

(unaudited)

	February 28, 2003	August 31, 2002	February 28, 2002
		(audited)	
Assets			
Current assets:			
Cash and cash equivalents	\$ 1,841	\$ 3,842	\$ 4,073
Short-term investments	-	297	7,244
Accounts receivable	6,005	4,528	7,491
Prepaid expenses and deposits	1,271	2,699	1,708
Program acquisition and productions	-	-	1,364
	<u>9,117</u>	<u>11,366</u>	<u>21,880</u>
Fixed assets	2,918	3,401	5,118
Program acquisition and productions	-	-	327
Deferred charges	651	731	3,693
Goodwill	-	3,517	3,728
	<u>\$ 12,686</u>	<u>\$ 19,015</u>	<u>\$ 34,746</u>
Liabilities and Shareholders' Equity (Deficiency)			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 6,688	\$ 5,313	\$ 8,885
Program acquisition rights payable	522	1,309	1,391
Loans	13,100	-	-
Unearned revenue	1,050	733	1,843
	<u>21,360</u>	<u>7,355</u>	<u>12,119</u>
Program acquisition rights payable	-	13	113
Loans	2,680	15,100	-
Shareholders' equity (deficiency)			
Capital stock	73,844	73,344	73,346
Warrants	302	302	302
Contributed surplus	320	320	320
Deficit	(85,820)	(77,419)	(51,454)
	<u>(11,354)</u>	<u>(3,453)</u>	<u>22,514</u>
	<u>\$ 12,686</u>	<u>\$ 19,015</u>	<u>\$ 34,746</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 February 28,		Six months ended February 28,	
	2003	2002	2003	2002
Revenue	\$ 7,777	\$ 9,587	\$ 15,970	\$ 17,595
Production and other direct expenses	4,674	5,659	9,098	10,443
Selling, general and administrative expenses	2,484	3,606	5,450	6,927
Program rights	2,092	3,496	5,317	9,100
	<u>9,250</u>	<u>12,761</u>	<u>19,865</u>	<u>26,470</u>
Loss before undernoted	(1,473)	(3,174)	(3,895)	(8,875)
Gain on sale of investment	-	-	443	-
Loss before interest, income taxes, depreciation and amortization	(1,473)	(3,174)	(3,452)	(8,875)
Interest income	(1)	(176)	(27)	(576)
Interest expense	513	294	834	767
Depreciation	248	351	514	747
Amortization	46	328	111	649
	<u>(2,279)</u>	<u>(3,971)</u>	<u>(4,884)</u>	<u>(10,462)</u>
Income taxes	-	-	-	68
Loss for the period	(2,279)	(3,971)	(4,884)	(10,530)
Deficit, beginning of period	(83,541)	(47,483)	(77,419)	(40,924)
Cumulative effect of adoption of new accounting standards	-	-	(3,517)	-
Deficit, end of period	<u>\$ (85,820)</u>	<u>\$ (51,454)</u>	<u>\$ (85,820)</u>	<u>\$ (51,454)</u>
Loss per share - basic and diluted	<u>\$ (0.03)</u>	<u>\$ (0.06)</u>	<u>\$ (0.07)</u>	<u>\$ (0.16)</u>
Weighted average number of Class A Subordinate Voting and Special Voting Shares outstanding	<u>65,572,708</u>	<u>64,876,796</u>	<u>65,221,573</u>	<u>64,877,418</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		Six months ended	
	February 28,		February 28,	
	2003	2002	2003	2002
Cash provided by (used in):				
Operations				
Loss for the period	\$ (2,279)	\$ (3,971)	\$ (4,884)	\$ (10,530)
Items not involving cash:				
Depreciation	248	351	514	747
Amortization	46	328	111	649
Change in non-cash operating working capital balances:				
Accounts receivable	201	(481)	(1,477)	(3,083)
Prepaid expenses and deposits	343	1,045	1,428	-
Program acquisitions and productions	(477)	193	(800)	(186)
Accounts payable and accrued liabilities	675	(2,062)	1,375	(429)
Unearned revenue	462	(1,139)	317	(168)
	<u>(781)</u>	<u>(5,735)</u>	<u>(3,416)</u>	<u>(13,000)</u>
Financing:				
Issuance (repurchase) of common shares	500	(1)	500	(3)
Loans	680	(12,895)	680	(11,501)
	<u>1,180</u>	<u>(12,896)</u>	<u>1,180</u>	<u>(11,504)</u>
Investments:				
Fixed assets	(4)	(44)	(31)	(469)
Net sales (purchases) of short term investments	-	9,838	297	17,323
Deferred charges	31	(247)	(31)	(1,159)
	<u>28</u>	<u>9,547</u>	<u>235</u>	<u>15,694</u>
Increase (decrease) in cash and cash equivalents	427	(9,085)	(2,001)	(8,810)
Cash and cash equivalents, beginning of period	1,414	13,158	3,842	12,883
Cash and cash equivalents, end of period	<u>\$ 1,841</u>	<u>\$ 4,073</u>	<u>\$ 1,841</u>	<u>\$ 4,073</u>
Supplemental cash flow information:				
Interest paid	\$ 265	\$ 2,198	\$ 517	\$ 2,424
Income taxes paid	\$ -	\$ 122	\$ -	\$ 122

See accompanying notes to consolidated financial statements.

Headline Media Group Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three and six months ended February 28, 2003 (unaudited)

Nature of operations

Headline Media Group Inc. 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.

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, 2002.

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 February 28, 2003 and the results of operations and cash flows for the three and six months ended February 28, 2003.

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 October 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.

See accompanying notes to consolidated financial statements.

Headline Media Group Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three and six months ended February 28, 2003 (unaudited)

1. Basis of Presentation (con'd)

The Company's successful execution of its business plan is dependant 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.

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. Significant accounting policies:

The unaudited interim consolidated financial statements are based upon accounting principles consistent with those used and described in the August 31, 2002 consolidated financial statements, except as follows:

(a) Goodwill:

In September 2001, The Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 3062, "Goodwill and Other Intangible Assets" ("Section 3062"). Section 3062 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually by comparing the carrying value of a reporting unit with its fair value. If any potential impairment is indicated, then it is quantified by comparing the carrying value of goodwill to its fair value, based on the fair value of the assets and liabilities of the reporting unit. Intangible assets with estimated useful lives are amortized over their respective estimated useful lives. These intangible assets are subject to an annual impairment test comparing carrying values to net recoverable amounts.

The Company has adopted the provisions of Section 3062, effective September 1, 2002. In connection with Section 3062's transitional goodwill impairment evaluation, the Company is required to assess whether goodwill is impaired within six months of adoption. The loss resulting from the transitional impairment tests is required to be recognized as a charge to opening deficit. Impairment arising subsequent to the transitional impairment tests, as at September 1, 2002, will be recognized in income.

During the second quarter, the Company completed its transitional goodwill impairment test relating to goodwill allocated to the Sports and Entertainment Marketing reporting unit, and determined that unamortized goodwill of \$3.5 million as at September 1, 2002 was impaired under the new fair value based methodology. This amount was charged to opening deficit with a corresponding reduction in goodwill. Upon adoption of Section 3062 on September 1, 2002, the

See accompanying notes to consolidated financial statements.

Headline Media Group Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three and six months ended February 28, 2003 (unaudited)

2. Significant accounting policies (con'd):

Company determined that there are no intangible assets relating to previous acquisitions that need to be reclassified and accounted for apart from goodwill.

The amounts presented for prior periods have not been restated for this change in accounting policy. The impact of this change is as follows:

	Three months ended February 28, 2003	Three months ended February 28, 2002
Loss for the period	\$ (2,279)	\$ (3,971)
Add back goodwill amortization	--	106
Loss for the period before goodwill amortization	\$ (2,279)	\$ (3,865)
Basic and diluted loss per share:		
Loss for the period	\$ (0.03)	\$ (0.06)
Loss for the period before goodwill amortization	\$ (0.03)	\$ (0.06)

	Six months ended February 28, 2003	Six months ended February 28, 2002
Loss for the period	\$ (4,884)	\$ (10,530)
Add back goodwill amortization	--	211
Loss for the period before goodwill amortization	\$ (4,884)	\$ (10,319)
Basic and diluted loss per share:		
Loss for the period	\$ (0.07)	\$ (0.16)
Loss for the period before goodwill amortization	\$ (0.07)	\$ (0.16)

(b) Stock-based compensation:

In December 2001, the CICA issued Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments", which establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services provided by employees and non-employees.

See accompanying notes to consolidated financial statements.

Headline Media Group Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three and six months ended February 28, 2003 (unaudited)

2. Significant accounting policies (con'd):

The standard requires that a fair value based method of accounting be applied to all stock-based payments to non-employees and to employee awards that are direct awards of stock, that call for

settlement in cash or other assets or are stock appreciation rights that call for settlement by the issuance of equity instruments. However, the new standard permits the Company to continue its existing policy of recording no compensation cost on the grant of stock options to employees.

Consideration paid by employees on the exercise of stock options is recorded as share capital. The standard is effective for the Company's fiscal year beginning September 1, 2002 for awards granted on or after that date. The adoption of this standard has no effect on the consolidated financial statements other than additional pro-forma disclosure as if the fair value-based accounting method had been used to account for these awards.

Had the Company determined compensation expense based on the fair values at grant dates of the stock options granted subsequent to September 1, 2002 consistent with the fair value method, the Company's loss per share would have been reported as the pro forma amounts indicated below:

	Three months ended February 28 2003	Six months ended February 28, 2003
Loss for the period, as reported	\$ (2,279)	\$ (4,884)
Pro forma loss for the period	(2,287)	(4,893)
Pro forma loss per share, basic and diluted	\$ (0.03)	\$ (0.08)

The weighted average estimated fair value at the date of the grant for options granted during the six months ended February 28, 2003 was \$0.22 per share.

See accompanying notes to consolidated financial statements.

Headline Media Group Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three and six months ended February 28, 2003 (unaudited)

2. Significant accounting policies (con'd):

The fair value of each option granted was estimated on the date of the grant using the Black-Scholes fair value option pricing model with the following assumptions:

	Six months ended February 28, 2003
Risk-free interest rate	8%
Dividend yield	—
Volatility factor of the future expected market price of common shares	110%
Weighted average expected life of the options	5 years

For the purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period on a straight-line basis.

3. Capital stock:

Capital stock consists of the following:

	February 28, 2003	August 31, 2002
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		
66,292,867 Class A Subordinate Voting shares (August 31, 2002 – 64,864,296);	\$73,814	\$ 73,314
10,000 Special Voting shares (August 31, 2002 – 10,000)	30	30
	<u>\$73,844</u>	<u>\$ 73,344</u>

On January 15, 2003, the Company announced that it had completed a non-brokered private placement of 1,428,571 Class A Subordinate Voting shares with Levfam Holdings Inc., the

See accompanying notes to consolidated financial statements.

Headline Media Group Inc.

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(in thousands of dollars, except per share amounts)

Three and six months ended February 28, 2003 (unaudited)

3. Capital stock (con'd):

Company's controlling shareholder, at a price of \$0.35 per share. The gross proceeds of the private placement were \$500. Proceeds from the private placement are being used primarily to fund the operations of PrideVision TV and for general corporate purposes.

Stock Option Plan:

The following table summarizes the outstanding options of the Plan:

Six months ended February 28, 2002	Number	Exercise price	Weighted average exercise price	Options exercisable
Outstanding options, September 1, 2002	1,963,333	\$1.00 – 3.13	\$2.54	
Granted	440,000	0.36 – 1.00	0.42	
Cancelled	(90,835)	1.00 – 3.13	1.55	
Outstanding options, February 28, 2003	2,312,498	\$0.36 – 3.11	\$2.15	1,152,502

As at February 28, 2003 the weighted average remaining contractual life of the options exercisable and outstanding was 2.7 years and 3.3 years, respectively.

4. Segmented information:

The Company has three business units comprised of Broadcasting, Sports and Entertainment Marketing and Corporate. These operating segments are substantially 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, income 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 in the August 31, 2002 consolidated financial statements.

See accompanying notes to consolidated financial statements.

Headline Media Group Inc.

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(in thousands of dollars, except per share amounts)

Three and six months ended February 28, 2003 (unaudited)

4. Segmented information (con'd):

Information by operating group is as follows:

Three months ended February 28, 2003	Broadcasting	Sports and Entertainment Marketing	Corporate	Consolidated Total
Revenue				
Advertising	\$ 2,475	\$ 3,497	\$ --	\$ 5,972
Subscriber fees	1,805	--	--	1,805
	<u>4,280</u>	<u>3,497</u>	<u>--</u>	<u>7,777</u>
Loss before interest, income taxes, depreciation and amortization	\$ (817)	\$ (53)	\$ (603)	\$ (1,473)
Interest income				(1)
Interest expense				513
Depreciation and amortization				294
Loss before income taxes				(2,279)
Income taxes				--
Loss for the period				\$ (2,279)
Capital expenditures	\$ 4	\$ --	\$ --	\$ 4
Total assets	\$ 8,918	\$ 3,541	\$ 227	\$ 12,686

See accompanying notes to consolidated financial statements.

Headline Media Group Inc.

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Three and six months ended February 28, 2003 (unaudited)

4. Segmented information (continued):

Six months ended February 28, 2003	Broadcasting	Sports and Entertainment Marketing	Corporate	Consolidated Total
Revenue				
Advertising	\$ 6,570	\$ 5,776	\$ --	\$ 12,346
Subscriber fees	3,624	--	--	3,624
	10,194	5,776	--	15,970
Loss before undernoted	(2,246)	(400)	(1,249)	(3,895)
Gain on sale of investment	--	--	443	443
Loss before interest, income taxes				
depreciation and amortization	\$ (2,246)	\$ (400)	\$ (806)	\$ (3,452)
Interest income				(27)
Interest expense				834
Depreciation and amortization				625
Loss before income taxes				(4,884)
Income taxes				--
Loss for the period				\$ (4,884)
Capital expenditures	\$ 31	\$ --	\$ --	\$ 31
Total assets	\$ 8,918	\$ 3,541	\$ 227	\$ 12,686

See accompanying notes to consolidated financial statements.

Headline Media Group Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three and six months ended February 28, 2003 (unaudited)

4. Segmented information (continued):

Three months ended February 28, 2002	Broadcasting	Sports and Entertainment Marketing	Corporate	Consolidated Total
Revenue				
Advertising	\$ 2,252	\$ 5,849	\$ --	\$ 8,101
Subscriber fees	1,486	--	--	1,486
	3,738	5,849	--	9,587
Earnings (loss) before interest, income taxes, depreciation and amortization	\$ (3,201)	\$ 628	\$ (601)	\$ (3,174)
Interest income				(176)
Interest expense				294
Depreciation and amortization				679
Loss before income taxes				(3,971)
Income taxes				--
Loss for the period				\$ (3,971)
Capital expenditures	\$ 44	\$ --	\$ --	\$ 44
Total assets	\$ 17,224	\$ 6,726	\$ 10,796	\$ 34,746

See accompanying notes to consolidated financial statements.

Headline Media Group Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three and six months ended February 28, 2003 (unaudited)

4. Segmented information (continued):

Six months ended February 28, 2002	Broadcasting	Sports and Entertainment Marketing	Corporate	Consolidated Total
Revenue				
Advertising	\$ 6,148	\$ 8,628	\$ --	\$ 14,776
Subscriber fees	2,819	--	--	2,819
	8,967	8,628	--	17,595
Earnings (loss) before interest, income taxes, depreciation and amortization	\$ (7,823)	\$ 272	\$ (1,324)	\$ (8,875)
Interest income				(576)
Interest expense				767
Depreciation and amortization				1,396
Loss before income taxes				(10,462)
Income taxes				68
Loss for the period				\$ (10,530)
Capital expenditures	\$ 365	\$ 46	\$ 58	\$ 469
Total assets	\$ 17,224	\$ 6,726	\$ 10,796	\$ 34,746

See accompanying notes to consolidated financial statements.