



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

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**Q3 – 2003**  
**Consolidated Financial Statements**  
**For the Three and Nine Months Ended**  
**May 31, 2003**

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
For the Three and Nine Months Ended May 31, 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 third quarter and nine months ended May 31, 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 income for the three months ended May 31, 2003 showed significant improvement over the prior year. Net income before interest, income taxes, depreciation and amortization (see "Definitions") was \$1.1 million, an improvement of \$6.0 million from a loss of \$4.9 million in the same period last year. For the nine months ended May 31, 2003, net loss before interest, income taxes, depreciation and amortization was \$2.4 million, an improvement of \$11.4 million from a loss of \$13.8 million in the same period last year.
- Net income for the three months ended May 31, 2003 was \$0.3 million, an improvement of \$6.3 million from a loss of \$6.0 million in the same period last year. For the nine months ended May 31, 2003, net loss was \$4.6 million, an improvement of \$11.9 million from a loss of \$16.5 million in the same period last year.
- Consolidated revenue for the third quarter decreased by \$0.3 million to \$9.1 million compared to \$9.4 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 \$4.5 million for the third quarter ended May 31, 2002 to \$3.1 million for the third quarter ended May 31, 2003 due to lower advertising revenues. Increased revenue in the Broadcasting group offset some of this decline, as revenue increased by \$1.1 million, or 21.7 %, from \$4.9 million for the third quarter ended May 31, 2002 to \$6.0 million for the third quarter ended May 31, 2003.

- For the nine months ended May 31, 2003, consolidated revenue decreased by \$1.9 million to \$25.1 million compared to \$27.0 million in the prior year. Revenue in the Sports and Entertainment Marketing group declined \$4.2 million or 32.1% from \$13.1 million for the nine months ended May 31, 2002 to \$8.9 for the nine months ended May 31, 2003 due to lower advertising revenues. Broadcasting group revenue increased \$2.3 million or 16.5% from \$13.9 million for the nine months ended May 31, 2002 to \$16.2 million for the nine months ended May 31, 2003 due to increased subscriber revenue and increased advertising revenue.
- The financial results for the Broadcasting and the Sports and Entertainment groups have historically reflected seasonal fluctuations. The third quarter has historically been the best quarter of the fiscal year for the Sports and Entertainment group. In addition, during the third quarter PrideVision generated a gain on settlement of liabilities of approximately \$0.4 million and other non-recurring gains which positively affected the results of the Broadcasting group. Management does not anticipate that the Broadcasting and the Sports and Entertainment groups will be able to sustain the growth rates achieved in the third quarter and expects that both groups will incur a net loss before interest, income taxes, depreciation and amortization for the fourth quarter.

## DEFINITIONS

The Company focuses its analysis on "Net income (loss) before interest, income taxes, depreciation and amortization" and Net income (loss). Net income (loss) before interest, income taxes, depreciation and amortization and Net income (loss) are reconciled in the table below. Net income (loss) before interest, income taxes, depreciation and amortization is calculated as earnings (loss) from continuing operations before interest, income taxes, depreciation and amortization. Net income before interest, income taxes, depreciation and amortization for the quarter ended May 31, 2003 was \$1.1 million compared to a net loss before interest, income taxes, depreciation and amortization of \$4.9 million for the quarter ended May 31, 2002. Net loss before interest, income taxes, depreciation and amortization for the nine months ended May 31, 2003 and 2002 was \$2.4 million and \$13.8 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 income (loss) prepared in accordance with Canadian GAAP or as a measure of operating performance or profitability. Net income (loss) before interest, income taxes, depreciation and amortization does not have a standardized meaning prescribed by GAAP and is not necessarily comparable to similar measures presented by other companies.

The Company uses Net income (loss) before interest, income taxes, depreciation and amortization to remove acquisition and investment related charges (such as depreciation and

amortization), discontinued operations, and income taxes which in the Company's view do not adequately reflect its core operating results.

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

	<b>Three months ended May 31, 2003</b>	<b>Three months ended May 31, 2002</b>
Net Income (loss) for the period	\$ 308	\$ (6,014)
Add back:		
Depreciation and amortization	330	806
Interest expense, net	443	269
Income (loss) before interest, income taxes, depreciation and amortization	\$ 1,081	\$ (4,939)

	<b>Nine months ended May 31, 2003</b>	<b>Nine months ended May 31, 2002</b>
Loss for the period	\$ (4,576)	\$ (16,544)
Add back:		
Income taxes	--	68
Depreciation and amortization	955	2,202
Interest expense, net	1,250	460
Loss before interest, income taxes, depreciation and amortization	\$ (2,371)	\$ (13,814)

### ***Three Months Ended May 31, 2003***

Revenue for the third quarter decreased by \$0.3 million to \$9.1 million compared to \$9.4 million in the prior year. The decrease in revenue reflects a decline of \$1.4 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 coupled with the loss of some related package sales contracts that were not renewed in the fiscal year. That decrease was partially offset by an increase in the revenue for Broadcasting group of \$1.1 million due to higher advertising revenues at The Score.

*Operating expenses excluding rights fees* were \$6.6 million during the quarter, compared to \$8.7 million in the prior year, representing a decrease of \$2.1 million. Operating expenses in the Broadcasting group were comparable to the prior year, reflecting cost reduction initiatives implemented at PrideVision TV which offset operating expense increases at The Score. Operating expenses for the Sports and Entertainment Marketing group were \$0.9 million less

than the prior year, mitigating some of the decline in revenues. Operating expenses for the Corporate group were \$0.1 million less than in the prior year.

*Program rights* were \$1.4 million during the quarter, compared to \$5.6 million in the prior year. Program rights for the quarter were \$0.8 million in the Broadcasting group. 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 and gains on settlement of program liabilities of approximately \$0.4 million. Program rights for the quarter were \$0.6 million in the Sports Entertainment and Marketing Group versus \$4.7 million and \$0.9 million respectively in the prior year.

*Income (loss) before interest, income taxes, depreciation and amortization* was \$1.1 million for the third quarter of 2003 compared with a loss of \$4.9 million in the same quarter last year, representing an improvement of \$6.0 million over the prior year.

*Interest income* for the third quarter was nil compared to approximately \$0.1 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 third quarter was approximately \$0.4 million compared to approximately \$0.3 million in the prior year. The increase of approximately \$0.1 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 and additional debt at the parent company.

*Depreciation expense* was approximately \$0.3 million in the third quarter compared to approximately \$0.5 million in the prior year. The decrease in depreciation expense is due to lower fixed asset additions in the current year. For the third quarter of 2003, fixed asset additions were \$34,000 compared to approximately \$5,000 in the prior year.

*Amortization* expense was \$45,000 in the quarter, compared to \$0.4 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.

*Net income (loss)* for the third quarter was \$0.3 million or \$0.00 per share based on a weighted average 66.3 million Class A Subordinate Voting Shares and Special Voting Shares outstanding, compared to a net loss of \$6.0 million or \$0.09 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 \$1.1 million, or 21.7%, from \$4.9 million for the third quarter ended May 31, 2002 to \$6.0 million for the third quarter ended May 31, 2003. Advertising revenue increased by approximately \$677,000 or 20.9% 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 \$0.4 million, or 23.3% over the same quarter last year. The \$0.4 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 May 31, 2003, The Score had 5.3 million paying subscribers. PrideVision TV generated \$0.3 million in subscriber revenue during the quarter, compared to \$0.2 million in the previous year. As at May 31, 2003 PrideVision TV had approximately 22,500 paying subscribers.

Operating expenses were \$4.9 million in the quarter, compared to \$9.9 million in the prior year, representing a decrease in operating expenses of \$5.0 million. The Score's operating expenses decreased by \$2.3 million to \$4.9 million in the quarter compared to \$7.2 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 approximately \$115,000 in the quarter, compared to \$2.7 million in the prior year due to lower program rights, gains on settlement of liabilities of approximately \$0.4 million and other reduced operating costs due to the implementation of cost reduction initiatives.

Income before interest, income taxes, depreciation and amortization for the third quarter was \$1.0 million versus a loss of \$4.9 million in the prior year, resulting in an improvement in operating performance of \$5.9 million.

## **Sports and Entertainment Marketing Group**

Revenue for St. Clair was \$3.1 million in the third quarter compared to \$4.5 million in the prior year. The decrease in revenue of \$1.4 million reflects a decline in print and TV advertising sales. 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 \$2.6 million in the quarter, compared to \$3.8 million in the prior year, representing a decrease in operating expenses of \$1.2 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 income before interest, income taxes, depreciation and amortization for the third quarter was \$0.6 million compared to \$0.7 million in the prior year.

Following the end of the third quarter, St. Clair was unsuccessful in renewing a contract to produce the game-night programs for the Toronto Maple Leafs and Toronto Raptors. The loss of

this contract is expected to reduce the revenue and operating income of St. Clair in the next fiscal year. Management is working on several initiatives to offset the potential loss from this contract.

## **Corporate**

Operating expenses and the loss before interest, income taxes, depreciation and amortization for the Corporate group were \$0.5 million in the third quarter of 2003 compared to \$0.7 million in 2002.

### ***Nine Months Ended May 31, 2003***

*Revenue* for the nine months ended May 31, 2003 decreased by 7.1% to \$25.1 million from \$27.0 million for the same period last year. Advertising revenues decreased by \$3.1 million or 13.8%. This decrease was primarily due to the reduction in advertising revenue at St. Clair specifically within sports programming. Subscriber fee revenue increased by \$1.2 million or 26.6%, 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 \$0.8 million for the nine months ended May 31, 2003 compared to \$0.3 million in the prior year. At the end of May 31, 2003, PrideVision TV had approximately 22,500 paying subscribers compared to 19,000 paying subscribers in the prior year.

*Operating expenses excluding rights fees* were \$21.2 million for the nine months ended May 31, 2003 compared to \$26.1 million in the prior year, representing a decrease of \$4.9 million during the nine month period. Operating expenses in the Broadcasting group were \$2.2 million lower in the nine month period, reflecting cost reduction initiatives implemented in PrideVision TV. Operating expenses for the Sports and Entertainment Marketing group were \$2.6 million less than the prior year, mitigating some of the decline in revenue of that group. Operating expenses for the Corporate group were \$0.2 million less than the prior year.

*Program rights* were \$6.8 million during the nine month period ended May 31, 2003, compared to \$14.7 million in the prior year. Program rights for the nine month period were \$4.8 million in the Broadcasting group and \$2.0 million in the Sports Entertainment and Marketing Group versus \$12.0 million and \$2.7 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 nine month period ended May 31, 2003, the Company sold an investment in a private company for cash proceeds of \$0.4 million (US\$0.3 million). The carrying value of the investment at August 31, 2002 was nil. Together with other sales of smaller investments, the total gain on sale amounted to \$0.5 million.

*Loss before interest, income taxes, depreciation and amortization* for the nine months ended May 31, 2003 was \$2.4 million, compared with \$13.8 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 \$1.3 million, compared to \$1.1 million in the prior year. The rise in interest expense reflects an increase in the average outstanding bank indebtedness during the period partially offset by lower interest rates.

*Net loss* for the nine months ended May 31, 2003 was \$4.6 million or \$0.07 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 \$16.5 million or \$0.26 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 May 31, 2003 was \$0.4 million compared to \$7.1 million in the prior year, reflecting net income of \$0.3 million in the current year as compared to a loss of \$6.0 million in 2002, combined with lower non-cash operating working capital movements. Cash flow used in operations for the nine months ended May 31, 2003 was \$3.8 million compared to \$20.1 million in the prior year, again reflecting significantly lower operating losses and lower non-cash operating working capital movements.

Cash flow from financing activities was \$0.1 million for the three months ended May 31, 2003 compared to cash flow from financing activities of \$2.6 million in the prior year. The Company drew down \$0.1 million from a credit facility provided by Levfam Finance Inc. during the three months ended May 31, 2003. In the prior year, the Company completed a credit facility for its subsidiary, The Score and drew down \$2.6 million on that credit facility.

Cash flow from financing activities for the nine months ended May 31, 2003 was \$1.3 million, as a result of loans from the credit facility provided by Levfam Finance Inc. discussed above and an equity issue, compared to cash flow used in financing activities of \$8.9 million in the prior year. During the nine months ended May 31, 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 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 the existing credit facility was repaid.

Cash flow used in investment activities for the three months ended May 31, 2003 was approximately \$1,000 compared to cash flow from investment activities of \$2.1 million in the prior year. The decrease in cash flow from investment activities reflects lower proceeds from the sale of short-term investments, and increased deferred charges compared to the prior year. Cash

flow from investment activities for the nine months ended May 31, 2003 was \$0.2 million compared to cash flow from investment activities of \$17.6 million in the prior year. The decrease in cash flow from investment activities reflects lower proceeds from the sale of short-term investments. 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 current business plan, management believes there are sufficient resources to fund operations until the end of the first quarter in fiscal 2004. 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 the end of the first quarter in fiscal 2004, 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.

## **Other**

Subsequent to the end of the third quarter, Stephen Halperin resigned from the Board of Directors of the Company. The Company would like to thank Mr. Halperin for his diligence and valued service.

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)

	May 31, 2003	August 31, 2002	May 31, 2002
		(audited)	
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 1,545	\$ 3,842	\$ 1,632
Short-term investments	-	297	5,036
Accounts receivable	5,383	4,528	8,682
Prepaid expenses and deposits	1,893	2,699	1,165
Program acquisition and productions	-	-	1,537
	<u>8,821</u>	<u>11,366</u>	<u>18,052</u>
Fixed assets	2,663	3,401	4,674
Program acquisition and productions	-	-	47
Deferred charges	573	731	3,583
Goodwill	-	3,517	3,622
	<u>\$ 12,057</u>	<u>\$ 19,015</u>	<u>\$ 29,978</u>
<b>Liabilities and Shareholders' Equity (Deficiency)</b>			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 6,886	\$ 5,313	\$ 8,935
Program acquisition rights payable	170	1,309	952
Loans	13,100	-	-
Unearned revenue	137	733	884
	<u>20,293</u>	<u>7,355</u>	<u>10,771</u>
Program acquisition rights payable	-	13	109
Loans	2,810	15,100	2,600
Shareholders' equity (deficiency)			
Capital stock	73,844	73,344	73,344
Warrants	302	302	302
Contributed surplus	320	320	320
Deficit	(85,512)	(77,419)	(57,468)
	<u>(11,046)</u>	<u>(3,453)</u>	<u>16,498</u>
	<u>\$ 12,057</u>	<u>\$ 19,015</u>	<u>\$ 29,978</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		Nine months ended	
	May 31,		May 31,	
	2003	2002	2003	2002
Revenue	\$ 9,114	\$ 9,411	\$ 25,084	\$ 27,006
Production and other direct expenses	4,352	4,959	13,450	15,402
Selling, general and administrative expenses	2,256	3,759	7,706	10,686
Program rights	1,449	5,632	6,766	14,732
	<u>8,057</u>	<u>14,350</u>	<u>27,922</u>	<u>40,820</u>
Income (loss) before undernoted	1,057	(4,939)	(2,838)	(13,814)
Gain on sale of fixed assets	4	-	4	-
Gain on sale of investment	20	-	463	-
	<u>1,081</u>	<u>(4,939)</u>	<u>(2,371)</u>	<u>(13,814)</u>
Income (loss) before interest, income taxes, depreciation and amortization	1,081	(4,939)	(2,371)	(13,814)
Interest income	-	(68)	(27)	(644)
Interest expense	443	337	1,277	1,104
Depreciation	285	449	799	1,196
Amortization	45	357	156	1,006
	<u>308</u>	<u>(6,014)</u>	<u>(4,576)</u>	<u>(16,476)</u>
Income (loss) before income taxes	308	(6,014)	(4,576)	(16,476)
Income taxes	-	-	-	68
	<u>308</u>	<u>(6,014)</u>	<u>(4,576)</u>	<u>(16,544)</u>
Income (loss) for the period	308	(6,014)	(4,576)	(16,544)
Deficit, beginning of period	(85,820)	(51,454)	(77,419)	(40,924)
Cumulative effect of adoption of new accounting standards	-	-	(3,517)	-
	<u>\$ (85,512)</u>	<u>\$ (57,468)</u>	<u>\$ (85,512)</u>	<u>\$ (57,468)</u>
Deficit, end of period	\$ (85,512)	\$ (57,468)	\$ (85,512)	\$ (57,468)
Loss per share - basic and diluted	\$ -	\$ (0.09)	\$ (0.07)	\$ (0.26)
Weighted average number of Class A Subordinate Voting and Special Voting Shares outstanding	<u>66,302,867</u>	<u>64,874,535</u>	<u>65,585,965</u>	<u>64,876,432</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		Nine months ended	
	May 31,		May 31,	
	2003	2002	2003	2002
Cash provided by (used in):				
Operations				
Income (loss) for the period	\$ 308	\$ (6,014)	\$ (4,576)	\$ (16,544)
Items not involving cash:				
Depreciation	285	449	799	1,196
Amortization	45	357	156	1,006
Gain on sale of fixed assets	4		4	
Change in non-cash operating working capital balances:				
Accounts receivable	622	(1,191)	(855)	(4,274)
Prepaid expenses and deposits	(622)	543	806	543
Program acquisitions and productions	(352)	(336)	(1,152)	(523)
Accounts payable and accrued liabilities	198	50	1,573	(379)
Unearned revenue	(913)	(959)	(596)	(1,127)
	<u>(425)</u>	<u>(7,101)</u>	<u>(3,841)</u>	<u>(20,102)</u>
Financing:				
Issuance (repurchase) of common shares	-	(3)	500	(6)
Loans	130	2,600	810	(8,901)
	<u>130</u>	<u>2,597</u>	<u>1,310</u>	<u>(8,907)</u>
Investments:				
Fixed assets	(34)	(5)	(65)	(474)
Net sales of short term investments	-	2,209	297	19,532
Deferred charges	33	(141)	2	(1,300)
	<u>(1)</u>	<u>2,063</u>	<u>234</u>	<u>17,758</u>
Increase (decrease) in cash and cash equivalents	(296)	(2,441)	(2,297)	(11,251)
Cash and cash equivalents, beginning of period	1,841	4,073	3,842	12,883
Cash and cash equivalents, end of period	<u>\$ 1,545</u>	<u>\$ 1,632</u>	<u>\$ 1,545</u>	<u>\$ 1,632</u>
Supplemental cash flow information:				
Interest paid	\$ 270	\$ 63	\$ 787	\$ 2,487
Income taxes paid	\$ -	\$ -	\$ -	\$ 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 nine months ended May 31, 2003 (unaudited)

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### **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 May 31, 2003 and the results of operations and cash flows for the three and nine months ended May 31, 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 the first quarter in fiscal 2004. 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 the end of the first quarter in fiscal 2004, 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.

## **Headline Media Group Inc.**

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three and nine months ended May 31, 2003 (unaudited)

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### **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.

The Company has adopted the provisions of Section 3062, effective September 1, 2002. During the second quarter, as required by Section 3062 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 \$3,517 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.

## Headline Media Group Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three and nine months ended May 31, 2003 (unaudited)

### 2. Significant accounting policies (con'd):

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 May 31, 2003	Three months ended May 31, 2002
Income (loss) for the period	\$ 308	\$ (6,014)
Add back goodwill amortization	--	106
Income (loss) for the period before goodwill amortization	\$ 308	\$ (5,908)
Basic and diluted loss per share:		
Income (loss) for the period	\$ --	\$ (0.09)
Loss for the period before goodwill amortization	\$ --	\$ (0.09)
	Nine months ended May 31, 2003	Nine months ended May 31, 2002
Loss for the period	\$ (4,576)	\$ (16,544)
Add back goodwill amortization	--	\$ 317
Loss for the period before goodwill amortization	\$ (4,576)	\$ (16,227)
Basic and diluted loss per share:		
Loss for the period	\$ (0.07)	\$ (0.26)
Loss for the period before goodwill amortization	\$ (0.07)	\$ (0.25)

#### (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.

## Headline Media Group Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three and nine months ended May 31, 2003 (unaudited)

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### 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:

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	<b>Three months ended May 31, 2003</b>	<b>Nine months ended May 31, 2003</b>
Income (loss) for the period, as reported	\$ 308	\$ (4,576)
Pro forma income (loss) for the period	293	(4,601)
Pro forma income (loss) per share, basic and diluted	\$ ---	\$ (0.07)

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The weighted average estimated fair value at the date of the grant for options granted during the nine months ended May 31, 2003 was \$0.23 per share.

## Headline Media Group Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three and nine months ended May 31, 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:

	Nine months ended May 31, 2003
Risk-free interest rate	4%
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:

	May 31, 2003	August 31, 2002
<b>Authorized</b>		
Unlimited Senior Preference Shares		
Unlimited Junior Preference Shares		
10,000 Special Voting shares, convertible into Class A Subordinate Voting shares on a one-for-one basis at the option of the shareholder		
Unlimited Class A Subordinate Voting shares		
Unlimited Class B Subordinate Voting shares, convertible into Class A Subordinate Voting shares on a one-for-one basis at the option of the shareholder		
<b>Issued</b>		
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
	\$73,844	\$ 73,344

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

## Headline Media Group Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three and nine months ended May 31, 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:

<b>Nine months ended May 31, 2002</b>	<b>Number</b>	<b>Exercise price</b>	<b>Weighted average exercise price</b>	<b>Options exercisable</b>
Outstanding options, September 1, 2002	1,963,333	\$1.00 – 3.13	\$2.54	
Granted	882,500	0.28 – 1.00	0.35	
Cancelled	(144,583)	1.00 – 3.13	2.31	
Outstanding options, May 31, 2003	2,701,250	\$0.28 – 3.11	\$1.84	1,252,506

As at May 31, 2003 the weighted average remaining contractual life of the options exercisable and outstanding was 2.5 years and 3.4 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.

## Headline Media Group Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three and nine months ended May 31, 2003 (unaudited)

### 4. Segmented information (con'd):

Information by operating group is as follows:

<b>Three months ended May 31, 2003</b>	<b>Broadcasting</b>	<b>Sports and Entertainment Marketing</b>	<b>Corporate</b>	<b>Consolidated Total</b>
Revenue				
Advertising	\$ 3,920	\$ 3,148	\$ --	\$ 7,068
Subscriber fees	2,046	--	--	2,046
	5,966	3,148	--	9,114
Income (loss) before undernoted	1,013	571	(527)	1,057
Gain on sale of fixed assets	4	--	--	4
Gain on sale of investment	--	--	20	20
Income (loss) before interest, income taxes, depreciation and amortization	\$ 1,017	\$ 571	\$ (507)	\$ 1,081
Interest expense				443
Depreciation and amortization				330
Income before income taxes				308
Income taxes				--
Income for the period				\$ 308
Capital expenditures	\$ 34	\$ --	\$ --	\$ 34
Total assets	\$ 8,369	\$ 3,607	\$ 81	\$ 12,057

## Headline Media Group Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three and nine months ended May 31, 2003 (unaudited)

### 4. Segmented information (continued):

<b>Nine months ended May 31, 2003</b>	<b>Broadcasting</b>	<b>Sports and Entertainment Marketing</b>	<b>Corporate</b>	<b>Consolidated Total</b>
Revenue				
Advertising	\$ 10,490	\$ 8,924	\$ --	\$ 19,414
Subscriber fees	5,670	--	--	5,670
	16,160	8,924	--	25,084
Income (loss) before undernoted	(1,161)	98	(1,775)	(2,838)
Gain on sale of fixed assets	4	--	--	4
Gain on sale of investment	--	--	463	463
Income (loss) before interest, income taxes, depreciation and amortization	\$ (1,157)	\$ 98	\$ (1,312)	\$ (2,371)
Interest income				(27)
Interest expense				1,277
<u>Depreciation and amortization</u>				955
Loss before income taxes				(4,576)
Income taxes				--
<u>Loss for the period</u>				\$ (4,576)
Capital expenditures	\$ 65	\$ --	\$ --	\$ 65
Total assets	\$ 8,369	\$ 3,607	\$ 81	\$ 12,057

## Headline Media Group Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three and nine months ended May 31, 2003 (unaudited)

### 4. Segmented information (continued):

Three months ended May 31, 2002	Broadcasting	Sports and Entertainment Marketing	Corporate	Consolidated Total
Revenue				
Advertising	\$ 3,243	\$ 4,509	\$ --	\$ 7,752
Subscriber fees	1,659	--	--	1,659
	4,902	4,509	--	9,411
Income (loss) before interest, depreciation and amortization	\$ (4,977)	\$ 705	\$ (667)	\$ (4,939)
Interest income				(68)
Interest expense				337
Depreciation and amortization				806
Loss before taxes				(6,014)
Taxes				--
Loss for the period				\$ (6,014)
Capital expenditures	\$ 31	\$ (28)	\$ 2	\$ 5
Total assets	\$ 16,805	\$ 6,519	\$ 6,654	\$ 29,978

## Headline Media Group Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three and nine months ended May 31, 2003 (unaudited)

### 4. Segmented information (continued):

<b>Nine months ended May 31, 2002</b>	<b>Broadcasting</b>	<b>Sports and Entertainment Marketing</b>	<b>Corporate</b>	<b>Consolidated Total</b>
Revenue				
Advertising	\$ 9,391	\$ 13,137	\$ --	\$ 22,528
Subscriber fees	4,478	--	--	4,478
	13,869	13,137	--	27,006
Income (loss) before interest, depreciation and amortization	\$ (12,800)	\$ 977	\$ (1,991)	\$ (13,814)
Interest income				(644)
Interest expense				1,104
Depreciation and amortization				2,202
Loss before taxes				(16,476)
Income taxes				68
Loss for the period				\$ (16,544)
Capital expenditures	\$ 395	\$ 18	\$ 61	\$ 474
Total assets	\$ 16,805	\$ 6,519	\$ 6,654	\$ 29,978