



H E A D L I N E
MEDIA GROUP

Q3 – 2004
Consolidated Financial Statements
For the Three and Nine Months Ended
May 31, 2004



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
For the Three and Nine months Ended May 31, 2004**

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 three and nine months ended May 31, 2004, and May 31, 2003. All amounts are in Canadian dollars unless otherwise stated. As a result of rounding differences, certain figures in this MD&A may not total.

Headline Media Group Inc. is a media company focused on the specialty television sector through its main asset, The Score Television Network ("The Score"). The Score is a national specialty television service providing sports, news, information, highlights and live event programming, available across Canada in over 5.4 million homes. The Company also owns PrideVision TV, the world's first 24/7 gay, lesbian, bisexual and transgender ("GLBT") television network, and the St. Clair Group, a Canadian sports marketing and specialty publishing company.

On November 28, 2003, the Board of Directors of PrideVision Inc. approved an agreement to sell the Canadian operations of PrideVision TV. The financial results of PrideVision TV have been reflected as discontinued operations since November 28, 2003. As part of the transaction, the Company will retain the rights to develop PrideVision TV outside of Canada, and a 9.9% interest in PrideVision TV's Canadian operations. The transaction was subject to approval by the Canadian Radio-Television and Telecommunications Commission which was received on May 28, 2004.

The Company anticipates that the closing of this transaction should occur in the fourth quarter of fiscal 2004 and that on closing anticipates realizing a gain on sale of PrideVision TV of approximately \$1.6 million.

As a result of not renewing certain sports marketing contracts over the past 24 months, St. Clair is restructuring its operations. The Company anticipates the wind down of this business unit by the end of August 2004.

HIGHLIGHTS

- *Net income from continuing operations before interest, income taxes, depreciation and amortization* (see "Definitions") for the Company for the three months ended May 31,

2004 was \$1.0 million, an increase of \$0.3 million from \$0.7 million in the same period last year.

- *Net income from continuing operations before interest, income taxes, depreciation and amortization* for the Company for the nine months ended May 31, 2004 was \$0.7 million, an improvement of \$1.6 million from a loss of \$0.9 million in the same period last year.
- *Net income before interest, income taxes, depreciation and amortization* for The Score Television Network for the three months ended May 31, 2004 was \$1.3 million compared to \$0.6 million in the prior year, resulting in an improvement in operating performance of \$0.7 million.
- *Net income before interest, income taxes, depreciation and amortization* for The Score Television Network for the nine months ended May 31, 2004 was \$2.1 million compared to \$0.2 million in the prior year, resulting in an improvement in operating performance of \$1.9 million.
- *Net income* for the Company for the three months ended May 31, 2004 was \$0.4 million, compared to \$0.3 million in the prior year, an improvement of \$0.1 million.
- *Net loss* for the Company for the nine months ended May 31, 2004 was \$1.2 million, an improvement of \$3.4 million from a loss of \$4.6 million in the same period last year.
- The Company anticipates closing the sale of the Canadian operations of PrideVision TV in the fourth quarter of fiscal 2004 and on closing anticipates realizing a gain on sale of approximately \$1.6 million.

DEFINITIONS

The Company focuses its analysis on "Net income (loss) before interest, income taxes, depreciation and amortization" and Net income (loss). Net income (loss) before interest, income taxes, depreciation and amortization and Net income (loss) are reconciled in the table below. Net income (loss) before interest, income taxes, depreciation and amortization is calculated as earnings (loss) from continuing operations before interest, income taxes, depreciation and amortization.

Net income (loss) 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:

	Three months ended May 31, 2004	Three months ended May 31, 2003
Net income (loss) for the period	\$ 392	\$ 308
Less:		
Income (loss) from discontinued operations	-	333
Add back:		
Depreciation and amortization	318	330
Interest expense, net	334	443
Net income (loss) before interest, income taxes, depreciation and amortization	\$ 1,044	\$ 748
	Nine months ended May 31, 2004	Nine months ended May 31, 2003
Loss for the period	\$ (1,214)	\$ (4,576)
Less:		
Income (loss) from discontinued operations	145	(1,444)
Add back:		
Depreciation and amortization	1,012	955
Interest expense, net	1,062	1,250
Net income (Loss) before interest, income taxes, depreciation and amortization	\$ 715	\$ (927)

Consolidated Results

The following selected financial data of the Corporation as it relates to the two years ended May 31, 2004, is derived from the audited financial statements of the Corporation.

	Revenue	Net Income (loss)	Income (loss) per Share
	(\$000's)	(\$000's)	(\$)
Quarterly Results			
May 31, 2004	6,537	392	0.00
February 29, 2004	5,683	(653)	(0.01)
November 30, 2003	6,234	(1,104)	(0.01)
August 31, 2003	5,252	(1,625)	(0.02)
May 31, 2003	8,667	308	0.00
February 28, 2003	7,394	(2,279)	(0.03)
November 30, 2002	8,193	(2,605)	(0.04)
August 31, 2002	5,382	(19,951)	(0.31)

Three Months Ended May 31, 2004

Revenue for the third quarter decreased by \$2.2 million to \$6.5 million compared to \$8.7 million in the prior year. This decrease was due to \$2.3 million lower revenue in St. Clair attributable to lower advertising contracts offset by an increase of \$0.1 million at The Score.

Operating expenses excluding rights fees decreased by \$1.0 million during the quarter to \$5.2 million compared to \$6.2 million in the prior year. Operating expenses at The Score were approximately \$0.5 million higher in the quarter, reflecting additional program related expenses. Operating expenses at St. Clair were \$1.5 million less than the prior year, due primarily to the reduction in publishing expenses associated with print properties that were not renewed.

Program rights expenses were \$0.2 million during the quarter, compared to \$1.8 million in the prior year. Program rights for the quarter were \$0.2 million at The Score and \$(0.04) million at St. Clair (due to the restructuring of a rights contract during the quarter) versus \$1.2 million and \$0.6 million respectively in the prior year. The reduction in program rights at The Score reflects lower program rights fees on World Wrestling Entertainment properties as well as lower program rights costs for other programs. The reduction in program rights at St. Clair reflects lower program rights fees due to the discontinuance of certain print properties.

Net income from continuing operations before interest, income taxes, depreciation and amortization was \$1.0 million during the quarter, an improvement of \$0.3 million from net income of \$0.7 million in the same period last year.

Interest expense for the third quarter was approximately \$0.3 million compared to approximately \$0.4 million in the prior year. The decrease of approximately \$0.1 million reflects the repayment of a \$2.0 million credit facility in August 2003 at The Score and no increase in debt at the parent Company.

Depreciation and amortization expense of \$0.3 million in the third quarter was comparable to the prior year. For the three months ended May 31, 2004 and 2003, fixed asset additions were negligible.

Net income for the three months ended May 31, 2004 was \$0.4 million or \$0.00 per share based on a weighted average 82.6 million Class A Subordinate Voting Shares and Special Voting Shares outstanding compared to \$0.3 million in the prior year or \$0.00 per share based on a weighted average 66.3 million Class A Subordinate Voting Shares and Special Voting Shares outstanding.

The Score Television Network

Revenues for The Score increased \$0.1 million from \$5.5 million for the three months ended May 31, 2003 to \$5.6 million for the three months ended May 31, 2004. As at May 31, 2004, The Score had approximately 5.5 million paying subscribers.

Operating expenses were \$4.4 million in the quarter, compared to \$4.9 million in the prior year, representing a decrease in operating expenses of \$0.5 million. The Score's program rights expenses decreased by \$1.0 million to \$0.2 million in the quarter compared to \$1.2 million in the prior year reflecting lower program rights fees for World Wrestling Entertainment properties. Other operating expenses increased by approximately \$0.5 million during the quarter compared to the prior year.

Income before interest, income taxes, depreciation and amortization for the third quarter was \$1.3 million compared to \$0.6 million in the prior year, resulting in an improvement in operating performance of \$0.7 million.

St. Clair

Revenue for St. Clair was \$0.9 million in the third quarter compared to \$3.1 million in the prior year. The decrease in revenue of \$2.2 million reflects the fact that St. Clair did not renew the publishing rights for Maple Leaf Sports and Entertainment's programs for the Toronto Maple Leafs and Toronto Raptors 2003/04 season, and as a result, sales contracts that included packaged advertising did not renew. In addition, St. Clair restructured its sponsorship contracts for the Canadian Curling Association (CCA) and World Curling Federation (WCF), and as a result, revenues were expected to decline, but the profitability from these contracts is expected to remain unaffected.

Operating expenses were \$0.6 million in the quarter, compared to \$2.5 million in the prior year, representing a decrease in operating expenses of \$1.9 million. The decrease in expenses primarily reflects lower printing and production costs as a result of the discontinuance of a publication property, and lower promotional and selling expenses on the CCA/WCF contracts as compared to the prior year.

Income before interest, income taxes, depreciation and amortization for the third quarter was \$0.4 million compared to income of \$0.6 million in the prior year.

During the third quarter, St. Clair continued to restructure its operations and entered into a joint venture with another organization for the production of Performance magazine as part of the wind down of the St. Clair business unit.

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, which was consistent with prior year.

Nine months Ended May 31, 2004

Revenues for the nine months ended May 31, 2004 decreased to \$18.4 million from \$23.9 million for the same period last year. Advertising revenues decreased by \$5.8 million due to the restructuring of St. Clair's operations. Subscriber fee revenue increased by \$0.4 million reflecting an increase in the number of subscribers for The Score.

Operating expenses excluding rights fees were \$16.0 million for the nine months ended May 31, 2004 compared to \$19.0 million in the prior year, representing a decrease of \$3.0 million. Operating expenses at The Score were \$0.8 million higher in the nine month period, reflecting the productions costs of new programming and greater sales and marketing expenses. Operating expenses at St. Clair were \$3.8 million less than the prior year, mitigating some of the decline in revenues. Operating expenses for the Corporate group were consistent with prior year.

Program rights expenses were \$1.6 million during the nine month period ended May 31, 2004, compared to \$6.2 million in the prior year. Program rights expenses for the nine month period were \$1.7 million at The Score and \$(0.1) million at St. Clair (due to the restructuring of a rights contract during the quarter) versus \$4.2 million and \$2.0 million respectively in the prior year. The reduction in program rights at The Score reflects lower program rights fees on World Wrestling Entertainment properties as well as lower program rights costs for other programs. The reduction in program rights at St. Clair reflects lower program rights fees due to the loss of certain print properties.

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 (\$0.3 million U.S.). The carrying value of the investment was nil, resulting in a gain on sale of \$0.4 million.

Net income from continuing operations before interest, income taxes, depreciation and amortization for the nine months ended May 31, 2004 was \$0.7 million, compared with a loss of \$0.9 million for the same period last year, an improvement of \$1.6 million.

Interest expense for the nine month period ended May 31, 2004 was \$1.1 million compared to the \$1.3 million interest expense in the prior year. The decrease of approximately \$0.2 million reflects the repayment of a \$2.0 million credit facility in August 2003 at The Score and no increase in debt at the parent Company.

Net loss for the nine months ended May 31, 2004 was \$1.2 million or (\$0.01) per share based on a weighted average 82.6 million Class A Subordinate Voting Shares and Special Voting Shares outstanding, compared to a net loss of \$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 in the prior year.

The Score Television Network

Revenue for The Score increased \$0.2 million, or 1.5 %, from \$15.0 million for the nine months ended May 31, 2003 to \$15.2 million for the nine months ended May 31, 2004. Advertising and other revenue decreased by \$0.1 million compared to the same period in the prior year. Subscriber revenue increased by \$0.3 million for the nine months ended May 31, 2004 over the same period last year.

Operating expenses were \$13.1 million for the nine months ended May 31, 2004, compared to \$14.8 million in the prior year, representing a decrease in operating expenses of \$1.7 million, reflecting lower program rights fees for World Wrestling Entertainment and other sports properties.

Income before interest, income taxes, depreciation and amortization for the nine months ended May 31, 2004 was \$2.1 million compared to \$0.2 million in the prior year, an increase of \$1.9 million.

St. Clair

Revenue for St. Clair was \$3.3 million for the nine months ended May 31, 2004 compared to \$8.9 million in the prior year. The decrease in revenue of \$5.6 million reflects the fact that St. Clair did not renew its publishing contract for the Toronto Maple Leaf and Toronto Raptors game day programs for the 2003/04 season and restructured its contracts with the Canadian Curling Association and the World Curling Federation which accounted for most of the decline in sales.

Operating expenses for the nine months ended May 31, 2004 were \$2.9 million, compared to \$8.7 million in the prior year, representing a decrease in operating expenses of \$5.8 million. The decrease in expenses primarily reflects lower printing and production costs, consistent with the lower television advertising sales, lower rights fees, and reduced promotional and selling expenses as compared to the prior year.

Income before interest, income taxes, depreciation and amortization for the nine months ended May 31, 2004 was \$0.3 million compared to \$0.2 million in the prior year.

During the nine months ended May 31, 2004, St. Clair amended its contracts with the Canadian Curling Association and the World Curling Federation for the 2003/04 season so as to act as a sales agency compared to its prior role as a marketing agent. In addition, St. Clair restructured its operations for the production of Performance magazine, and entered into a joint venture with another organization as part of the wind-down of the St. Clair business unit. Both initiatives were undertaken to improve St. Clair's working capital position, and improve profitability over the balance of the current year.

Corporate

Operating expenses for the Corporate group were \$1.6 million for the nine months ended May 31, 2004, which is consistent with prior year.

Liquidity and Capital Resources

Cash flow used in continuing operations for the three months ended May 31, 2004 was \$0.4 million compared to \$0.7 million in the prior year, reflecting lower operating losses in the current year. Cash flow used in continuing operations for the nine months ended May 31, 2004 was \$0.9 million compared to \$2.3 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 \$0.02 million for the three and nine months ended May 31, 2004 compared to \$0.1 million and \$1.3 million respectively 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 addition, the Company drew down \$0.8 million from a credit facility provided by Levfam Finance Inc.

In April 2004, the Company renewed and extended The Score's bank credit facility until August 31, 2005 and in June 2004, the Company renewed and extended its credit facility with Levfam Finance Inc. until August 31, 2005.

Cash flow used in investment activities for the three months ended May 31, 2004 was \$0.8 compared to cash flow from investment activities of nil in the prior year. The decrease in cash flow from investment activities reflects some increased fixed asset additions and the inclusion of PrideVision TV's operating loss from November 29, 2003 to May 31, 2004.

With the existing credit facilities and financing in place, assuming the successful execution of its business plan, and assuming the closing of the sale of the Canadian operations of PrideVision TV in the fourth quarter of fiscal 2004, management believes there are sufficient resources to fund operations until the end of Fiscal 2005. Beyond Fiscal 2005, the Company will require additional funding in order to continue operations and service the commitments under existing agreements.

The Company's successful execution of its business plans 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.

The Company will be pursuing 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.

Contractual Obligations

The Company has no debt guarantees, capital leases or long-term obligations other than loans which are disclosed on the Consolidated Balance Sheets as at May 31, 2004, August 31, 2003 and May 31, 2003. Contractual operating obligations are as follows:

Contractual Obligations (in millions of dollars)	Q4 2004	Fiscal 2005- 2008	Thereafter	Total
Operating lease obligations	\$298,800	\$2,467,400	\$1,121,400	\$3,887,600
Programming rights obligations	\$347,700	\$1,396,000	-	\$1,743,700

Critical Accounting Policies and Estimates

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

Other

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)

	31-May 2004	August 31, 2003	31-May 2003
Assets			
Current assets:			
Cash and cash equivalents	\$ 1,287	\$ 4,054	\$ 1,455
Accounts receivable	5,696	3,882	5,220
Prepaid expenses and deposits	264	1,592	1,826
Current assets of discontinued operations (note 1 (b))	228	321	320
	<u>7,475</u>	<u>9,849</u>	<u>8,821</u>
Fixed assets	2,185	2,403	2,663
Deferred charges (note 1 (c))	1,080	558	574
	<u>\$ 10,740</u>	<u>\$ 12,810</u>	<u>\$ 12,058</u>
Liabilities and Shareholders' Deficiency			
Current liabilities:			
Loans	\$ 1,200	\$ 14,300	\$ 13,100
Accounts payable and accrued liabilities	4,202	4,666	5,162
Unearned revenue	7	24	137
Current liabilities of discontinued operations (note 1 (b))	1,144	1,572	1,895
	<u>6,553</u>	<u>20,562</u>	<u>20,294</u>
Loans	13,100	-	2,810
Shareholders' deficiency			
Capital stock	78,816	78,763	73,844
Warrants	0	0	302
Contributed surplus	622	622	320
Deficit	(88,351)	(87,137)	(85,512)
	<u>(8,913)</u>	<u>(7,752)</u>	<u>(11,046)</u>
	<u>\$ 10,740</u>	<u>\$ 12,810</u>	<u>\$ 12,058</u>

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	
	31-May 2004	31-May 2003	31-May 2004	31-May 2003
Revenue	\$ 6,537	\$ 8,667	\$ 18,454	\$ 23,892
Production and other direct expenses	3,258	4,087	10,024	12,396
Selling, general and administrative expenses	1,982	2,098	6,022	6,654
Program rights	164	1,758	1,604	6,236
	<u>5,404</u>	<u>7,943</u>	<u>17,650</u>	<u>25,286</u>
Income (loss) before undernoted	1,133	724	804	(1,394)
Loss (gain) on sale of fixed assets	89	(4)	89	(4)
Gain on sale of investment	-	(20)	-	(463)
Income (loss) before interest, depreciation and amortization	1,044	748	715	(927)
Interest income	(1)	(0)	(8)	(27)
Interest expense	335	443	1,070	1,277
Depreciation	275	285	874	799
Amortization	43	45	138	156
Income (loss) from continuing operations	392	(25)	(1,359)	(3,132)
Income (loss) from discontinued operations (note 1b))	-	333	145	(1,444)
Net income (loss) for the period	392	308	(1,214)	(4,576)
Deficit, beginning of period	(88,743)	(85,820)	(87,137)	(80,936)
Deficit, end of period	<u>\$ (88,351)</u>	<u>\$ (85,512)</u>	<u>\$ (88,351)</u>	<u>\$ (85,512)</u>
Loss per share from continuing operations - basic and diluted	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ (0.02)</u>	<u>\$ (0.05)</u>
Loss per share - basic and diluted	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ (0.01)</u>	<u>\$ (0.07)</u>
Weighted average number of Class A Subordinate Voting and Special Voting Shares outstanding	<u>82,640,711</u>	<u>66,302,867</u>	<u>82,638,451</u>	<u>65,585,965</u>

Headline Media Group Inc.

Consolidated Statements of Cash Flows

(in thousands of dollars)

(unaudited)

	Three months ended		Nine months ended	
	May 31, 2004	May 31, 2003	May 31, 2004	May 31, 2003
Cash provided by (used in):				
Operations				
Net income (loss) from continuing operations	\$ 392	\$ (25)	\$ (1,359)	\$ (3,132)
Items not involving cash:				
Depreciation	275	285	874	799
Amortization	43	45	138	156
Interest amortization	56	-	192	-
Loss/gain on sale of fixed assets	89	4	89	4
Non-cash compensation expense	7	-	31	-
Change in non-cash operating working capital balances:				
Accounts receivable	(1,040)	580	(1,814)	(878)
Prepaid expenses and deposits	20	(616)	1,328	766
Accounts payable and accrued liabilities	35	(19)	(464)	622
Unearned revenue	(386)	(913)	(16)	(597)
Cash flows provided by continuing operations	(509)	(659)	(1,001)	(2,260)
Cash Flows (provided by) used in discontinued operations	56	480	(191)	(1,543)
Cash Flows used by operating activities	(453)	(179)	(1,192)	(3,803)
Financing:				
Issuance of common shares	22	-	22	500
Loans	-	130	-	810
	22	130	22	1,310
Investments:				
Fixed assets additions	(56)	(34)	(760)	(65)
Proceeds on disposal of fixed assets	15	-	15	-
Deferred charges	(699)	33	(852)	2
	(740)	(1)	(1,597)	(63)
Decrease in cash and cash equivalents	(1,171)	(50)	(2,767)	(2,556)
Cash and cash equivalents, beginning of period	2,458	1,505	4,054	4,011
Cash and cash equivalents, end of period	\$ 1,287	\$ 1,455	\$ 1,287	\$ 1,455
Supplemental cash flow information:				
Interest paid	\$ 239	\$ 270	\$ 765	\$ 787

Headline Media Group Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three and nine months ended May 31, 2004 and May 31, 2003 (unaudited)

Nature of operations

Headline Media Group Inc. is a media company focused on the specialty television sector through its main asset, The Score Television Network ("The Score"). The Score is a national specialty television service providing sports, news, information, highlights and live event programming, available across Canada in approximately 5.5 million homes. The Company also owns PrideVision TV, the world's first 24/7 gay, lesbian, bisexual and transgender ("GLBT") television network, and the St. Clair Group, a 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, 2003.

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, 2004 and the results of operations and cash flows for the three and nine months ended May 31, 2004 and May 31, 2003.

1. Basis of Presentation

(a) *Going Concern:*

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.

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 to the carrying value of assets and liabilities, the reported revenue and expenses, and the balance sheet classifications used.

Headline Media Group Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three and nine months ended May 31, 2004 and May 31, 2003 (unaudited)

1. Basis of Presentation (cont.)

(b) Discontinued Operations

On November 28, 2003, the Board of Directors of PrideVision Inc. approved an agreement to sell the Canadian operations of PrideVision TV. The financial results of PrideVision TV have been reflected as discontinued operations since November 28, 2003. As part of the transaction, the Company will retain the rights to develop PrideVision TV outside of Canada, and a 9.9% interest in PrideVision TV's Canadian operations. The transaction was approved by the Canadian Radio-Television and Telecommunications Commission on May 28th, 2004. The Company anticipates that the closing of this transaction should occur in the fourth quarter of fiscal 2004 and on closing anticipates realizing a gain on sale of PrideVision TV of approximately \$1.6 million.

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

Balance Sheet	May 31, 2004	May 31, 2003
Current assets	\$ 228	\$ 320
Current liabilities	1,144	1,895
Net assets (liabilities) of discontinued operations	\$ (916)	\$ (1,575)

Current assets of discontinued operations comprise mainly cash, accounts receivable and prepaid expenses for both 2004 and 2003. Current liabilities comprise mainly trade payables, deferred program rights and accrued liabilities.

Statement of Operations	Nine months ended May 31, 2004	Nine months ended May 31, 2003
Revenue	\$ 309	\$ 1,192
Operating Expenses	164	2,636
Income (loss) before interest, income taxes, depreciation and amortization	\$ 145	\$ (1,444)
Interest expense	-	-
Income (loss) from discontinued operations	\$ 145	\$ (1,444)
Earnings (loss) per share from discontinued operations:		
Basic	\$ -	\$ (0.02)
Diluted	\$ -	\$ (0.02)

Headline Media Group Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three and nine months ended May 31, 2004 and May 31, 2003 (unaudited)

1. Basis of Presentation (cont.)

(c) *Deferred Charges:*

Included in deferred charges is \$251,800 of operating losses from PrideVision TV, incurred between November 29, 2003 to May 31, 2004. These losses will be recognized as part of the gain on sale at the time of closing, which is anticipated to occur in the fourth quarter of fiscal 2004.

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, 2003 consolidated financial statements, except as follows:

(a) *Stock-based compensation:*

CICA Handbook Section 3870 does not require the recording of compensation cost at fair value for options issued to employees; it does require disclosure of pro forma net loss and loss per share information as if the Company had measured options issued to employees under the fair value method and recognizes the fair value over the vesting period. This information is as follows:

	Three months ended May 31, 2004	Three months ended May 31, 2003
Net income for the period, as reported	\$ 392	\$ 308
Pro forma net income for the period	386	293
Pro forma net income (loss) per share, basic and diluted	\$ -	\$ -

	Nine months ended May 31, 2004	Nine months ended May 31, 2003
Loss for the period, as reported	\$ (1,214)	\$ (4,576)
Pro forma loss for the period	(1,251)	(4,601)
Pro forma loss per share, basic and diluted	\$ (0.01)	\$ (0.07)

Headline Media Group Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three and nine months ended May 31, 2004 and May 31, 2003 (unaudited)

3. Capital stock:

Capital stock consists of the following:

	May 31, 2004	August 31, 2003
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		
82,627,450 Class A Subordinate Voting shares (August 31, 2003 – 82,626,200);	\$78,786	\$ 78,733
10,000 Special Voting shares (August 31, 2003 – 10,000)	30	30
	<u>\$78,816</u>	<u>\$ 78,763</u>

Stock Option Plan:

The following table summarizes the outstanding options of the Plan:

Nine months ended May 31, 2004	Number	Exercise price	Weighted average exercise price	Options exercisable
Outstanding options, September 1, 2003	2,697,499	\$1.00 - \$3.13	\$1.84	
Granted	--	--	--	
Cancelled	(110,415)	\$1.00 - \$3.13	\$0.80	
Exercised	(61,250)	\$0.28 - \$0.36	\$0.36	
Outstanding options, May 31, 2004	2,525,834	\$0.28 – 3.11	\$1.92	1,962,500

As at May 31, 2004 the weighted average remaining contractual life of the options exercisable and outstanding was 1.7 years and 2.1 years, respectively.

Headline Media Group Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three and nine months ended May 31, 2004 and May 31, 2003 (unaudited)

4. Interest in Joint Venture:

On December 19, 2003, the Company entered into an agreement with another company to establish a joint venture to conduct certain of the St. Clair Group's activities. Each party holds a 50% interest in the joint venture.

The following amounts included in the consolidated financial statements represent the Company's proportionate interest in the joint venture at May 31, 2004:

Balance Sheet	May 31, 2004	May 31, 2003
Cash	\$ 79	\$ -
Accounts receivable	188	-
Prepaid expenses	-	-
Capital & other assets	103	-
Total Assets	\$ 370	\$ -
Accounts payable and accrued liabilities	\$ 155	\$ -
Note payable	100	-
Total liabilities	\$ 255	\$ -

Statement of Operations	Three and nine months ended May 31, 2004	May 31, 2003
Revenue	\$ 300	\$ -
Operating expenses	185	-
Income before interest, income taxes, depreciation and amortization	\$ 115	\$ -

Headline Media Group Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three and nine months ended May 31, 2004 and May 31, 2003 (unaudited)

5. Segmented information:

The Company has three business units comprised of The Score Television Network Ltd., St. Clair Group Investments Inc. and Corporate. These operating segments are substantially in Canada. The Score is a specialty television network. St. Clair provides 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, 2003 consolidated financial statements.

Information by operating group is as follows:

Three months ended May 31, 2004	The Score	St. Clair	Corporate	Consolidated total
Revenue				
Advertising	\$ 3,838	\$ 914	\$ --	\$ 4,752
Subscriber fees	1,785	--	--	1,785
	<u>5,623</u>	<u>914</u>	<u>--</u>	<u>6,537</u>
Income (loss) from continuing operations before under-noted	1,256	362	(485)	1,133
Loss on sale of fixed assets	--	(89)		(89)
Income (loss) from continuing operations before interest, income taxes, depreciation and amortization	\$ 1,256	\$ 273	\$ (485)	\$ 1,044
Interest expense, net				334
Depreciation and amortization				<u>318</u>
Income from continuing operations				392
Income from discontinued operations				-
Net Income for the period				<u>\$ 392</u>

Headline Media Group Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three and nine months ended May 31, 2004 and May 31, 2003 (unaudited)

5. Segmented information (continued):

Three months ended May 31, 2003	The Score	St. Clair	Corporate	Consolidated total
Revenue				
Advertising	\$ 3,767	\$ 3,148	\$ --	\$ 6,915
Subscriber fees	1,752	--	--	1,752
	5,519	3,148		8,667
Income (loss) from continuing operations before under-noted	632	\$ 619	(527)	724
Gain on sale of fixed assets	4			4
Gain on sale of investment	--	--	20	20
Income (loss) from continuing operations before interest, income taxes, depreciation and amortization	\$ 636	\$ 619	\$ (507)	\$ 748
Interest expense, net				443
Depreciation and amortization				330
Loss from continuing operations				(25)
Income from discontinued operations				333
Net income for the period				\$ 308

Headline Media Group Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three and nine months ended May 31, 2004 and May 31, 2003 (unaudited)

5. Segmented information (continued):

Nine months ended May 31, 2004	The Score	St. Clair	Corporate	Consolidated total
Revenue				
Advertising	\$ 9,956	\$ 3,257	\$ --	\$ 13,213
Subscriber fees	5,241	--	--	5,241
	15,197	3,257	--	18,454
Income (loss) from continuing operations before under-noted	2,055	399	(1,650)	804
Loss on sale of fixed assets	--	(89)	--	(89)
Income (loss) from continuing operations before interest, income taxes, depreciation and amortization	\$ 2,055	\$ 310	\$ (1,650)	\$ 715
Interest expense, net				1,062
Depreciation and amortization				1,012
Loss from continuing operations				(1,359)
Income from discontinued operations				145
Loss for the period				\$ (1,214)

Headline Media Group Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three and nine months ended May 31, 2004 and May 31, 2003 (unaudited)

5. Segmented information (continued):

Nine months ended May 31, 2003	The Score	St. Clair	Corporate	Consolidated total
Revenue				
Advertising	\$ 10,089	\$ 8,924	\$ --	\$ 19,013
Subscriber fees	4,879	--	--	4,879
	14,968	8,924	--	23,892
Income (loss) from continuing operations before under-noted	164	218	(1,776)	(1,394)
Gain on sale of fixed assets	4			4
Gain on sale of investment	--	--	463	463
Income (loss) from continuing operations before interest, income taxes, depreciation and amortization	\$ 168	\$ 218	\$ (1,313)	\$ (927)
Interest expense, net				1,250
Depreciation and amortization				955
Loss from continuing operations				(3,132)
Loss from discontinued operations				(1,444)
Loss for the period				\$ (4,576)