



## HEADLINE MEDIA GROUP REPORTS OPERATING PROFIT FOR 2004

*The Score Television Network continues to grow with Operating Profit of \$2.8 million for the year ended August 31, 2004*

### HIGHLIGHTS

- *Net income from continuing operations before interest, income taxes, depreciation and amortization* (see "Definitions") for Headline Media Group Inc. ("HMG") for the year ended August 31, 2004 was \$0.6 million, compared with a loss of \$1.8 million last year - an improvement in operating performance of \$2.4 million.
- *Net income before interest, income taxes, depreciation and amortization* for The Score Television Network for the year ended August 31, 2004 was \$2.8 million, compared to \$39,000 in the prior year - an improvement in operating performance of \$2.8 million.
- On January 21, 2004, the CRTC renewed The Score's broadcasting licence for a full term, through August 31, 2010, and increased The Score's authorized basic wholesale rate to \$0.14 – an increase of 40%.
- Borrowings under HMG's credit facilities decreased by \$2.4 million during the year.
- HMG sold the Canadian operations of PrideVision TV, its wholly-owned subsidiary, during the year and generated a gain on disposition of \$1.6 million.
- The Company will pursue growth through the development of related sports media properties and applications, including interactive initiatives.
- The Company anticipates continued growth in revenue and profitability for 2005 and plans to focus on growing its primary asset, The Score Television Network.

### Definitions

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

Net income (loss) from continuing operations before interest, income taxes, depreciation and amortization is not a measure of performance under Canadian GAAP. Net income (loss) from continuing operations

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) from continuing operations 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) from continuing operations 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>Year ended August 31, 2004</b>	<b>Year ended August 31, 2003</b>
Loss for the period	\$ (427)	\$ (6,201)
Less:		
Income (loss) from discontinued operations	1,764	(1,390)
Add back:		
Depreciation and amortization	1,317	1,276
Interest expense, net	1,434	1,696
Net income (loss) from continuing operations before interest, income taxes, depreciation and amortization	\$ 560	\$ (1,839)

#### **Year ended August 31, 2004 compared to Year ended August 31, 2003**

##### **Consolidated**

The following selected financial data of the Company as it relates to the three years ended August 31, 2004, is derived from the audited financial statements of the Company.

	<b>Year ended August 31 (\$000's except per share amounts)</b>		
	2004	2003	2002
<b>Earnings Statement Data</b>			
Revenue	23,483	28,718	31,184
Income (loss) from continuing operations	(2,191)	(4,811)	(22,557)
Net earnings (loss)	(427)	(6,201)	(36,495)
Earnings (loss) per share	(0.01)	(0.09)	(0.56)
Dividends declared per share	-	-	-
<b>Balance Sheet Data</b>			
Total Assets	8,042	12,810	19,015
Long-term Financial Liabilities	-	-	15,113

	Gross Revenue	Net Earnings (loss)	Earnings (loss) per Share
	(\$000's)	(\$000's)	(\$)
<b>Quarterly Results</b>			
August 31, 2004	5,029	785	0.01
May 31, 2004	6,537	392	0.00
February 28, 2004	5,683	(500)	(0.01)
November 30, 2004	6,234	(1,104)	(0.01)
August 31, 2003	4,826	(1,625)	(0.02)
May 31, 2003	8,667	308	0.00
February 28, 2003	7,394	(2,279)	(0.03)
November 30, 2002	7,831	(2,605)	(0.04)

*Revenue* for the year ended August 31, 2004 decreased by \$5.2 million or 18.2% to \$23.5 million from \$28.7 million for the same period last year, due primarily to a decrease in advertising revenue at St. Clair.

St. Clair Group 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. 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. The foregoing resulted in a reduction in St. Clair's advertising revenue of \$6.0 million or 62.8% to \$3.5 million for the year ended August 31, 2004 compared to \$9.5 million for the same period last year.

Consolidated subscriber fee revenue increased \$1.1 million, or 16.3% to \$7.6 million compared to \$6.5 million for the same period last year reflecting an increase in the average number of paying subscribers for the year at The Score, and the effects of a new wholesale rate structure that was implemented with several broadcast distribution undertakings in the third and fourth quarters of fiscal 2004. At the end of August 2004, The Score had over 5.4 million paying subscribers.

Advertising revenue at The Score totaled \$12.4 million compared to \$12.7 million in the prior year representing a decrease of \$0.3 million, or 2.7%. Enhanced programming, combined with increased marketing, resulted in a year-over-year increase in paid advertising of \$0.7 million; however, this increase was offset by a decrease in non-cash barter advertising and the absence of program sub-licensing revenue.

*Operating expenses* were \$22.9 million for the year ended August 31, 2004 compared to \$31.0 million in the prior year, representing a decrease of \$8.1 million, or 26.1%. Operating expenses at The Score were \$2.0 million lower in the year, reflecting decreased rights fee payments amounting to \$3.3 million offset partly by new programming costs and higher sales and marketing expenses. Approximately \$6.1 million of the decrease was attributable to decreased operating expenses for St. Clair, due to significantly lower production expenses, cost containment initiatives and lower rights fees. Operating expenses in the Corporate group were \$2.4 million compared to \$2.3 million in the prior year, reflecting a modest increase in general administrative expenses, particularly insurance and professional fees.

*Income from continuing operations before interest, taxes, depreciation and amortization* for the year ended August 31, 2004 was \$0.6 million, compared with a loss of \$1.8 million last year, an improvement of \$2.4 million.

*Income from discontinued operations.* During the year, the Company's wholly-owned subsidiary, PrideVison Inc., sold the Canadian operations of PrideVision TV, which generated a gain on disposition

of approximately \$1.6 million. Together with \$0.2 million of income prior to November 28, 2003 (the date on which PrideVison Inc. approved the sale of PrideVison TV's Canadian operations), total income from discontinued operations was \$1.8 million for the year ended August 31, 2004 compared to a \$1.4 million loss from discontinued operations in the prior year.

*Interest expense* for the year was \$1.4 million compared to \$1.7 million in the prior year. The decrease in interest expense reflects a decrease in borrowings during the year.

*Depreciation and amortization expense* for the year was \$1.3 million, which is comparable with the prior year.

*Net loss* for the year ended August 31, 2004 was \$0.4 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 \$6.2 million or \$0.09 per share based on a weighted average 66.2 million Class A Subordinate Voting Shares and Special Voting Shares outstanding in the prior year.

## **Segmented Information**

The following is an overview of the operating results for the year ended August 31, 2004 compared to August 31, 2003 of each operating group:

### **The Score Television Network**

*Revenue* for The Score increased by \$0.7 million or 3.7% to \$19.9 million compared to \$19.2 million in the prior year.

Subscriber fees increased by \$1.1 million or 16.3% to \$7.6 million compared to \$6.5 million for the same period last year reflecting an increase in the average number of paying subscribers for the year at The Score, and the effects of a new wholesale rate structure. On January 21, 2004, The Score received CRTC approval of its licence renewal for a full term, and that approval included a new authorized basic wholesale rate of \$0.14, an increase of 40% from The Score's previously authorized basic wholesale rate of \$0.10. The Score's principal conditions of licence, relating to Canadian programming expenditures, Canadian content exhibition, and the exhibition of live event programming remain unchanged.

Subscriber revenue increased in the third and fourth quarters of fiscal 2004 as The Score's rate increase was implemented with several broadcast distribution undertakings during that time. Negotiations with other broadcast distribution undertakings were underway at year-end and subscriber revenue increases from implementing the new wholesale rate structure with those broadcast distribution undertakings initiatives are anticipated in 2005 and beyond.

Advertising revenue for the year ended August 31, 2004 totaled \$12.4 million compared to \$12.7 million in the prior year, representing a decrease of \$0.3 million. Enhanced programming, combined with increased marketing, resulted in a year-over-year increase in paid advertising of \$0.7 million; however, this increase was offset by a decrease in non-cash barter advertising and the absence of program sub-licensing revenue.

At the end of August 2004, The Score had approximately 5.4 million paying subscribers.

*Operating expenses* for the year were \$17.2 million, compared to \$19.2 million in the prior year, a decrease of \$2.0 million over the prior year. The decrease in operating expenses in the year ended August

31, 2004 reflects a \$3.3 million decrease in program rights fees partly offset by \$1.1 million increase in other program-related expenses and a \$0.2 million increased sales and marketing expenses, compared to the prior year. The decrease in program rights fees primarily reflects a reduction in fees related to World Wrestling Entertainment rights fees, with some increased rights fees associated with new programming such as Expos baseball and the National Lacrosse League. The increase in other program-related expenses was attributable to improved coverage of sports highlights and special events.

*Income before interest, depreciation and amortization* for the year was \$2.8 million, compared to \$39,000 in the prior year.

### **St. Clair**

*Revenue* for St. Clair group decreased by \$6.0 million or 62.8% to \$3.5 million compared to \$9.5 million in the prior year.

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. 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. Both of these issues resulted in the reduction in St. Clair's advertising revenue.

*Operating expenses* for the year were \$3.4 million reflecting a decrease of \$6.1 million over the prior year's expenses of \$9.5 million. The decrease in operating expenses reflects the reduction in production and printing expenses for magazines due to the lost contracts, the restructuring of the contracts with the CCA and WCF for producing the curling properties, and significant cost containment initiatives.

*Income before interest, depreciation and amortization* for the year was \$132,000 compared to a loss of \$21,000 in the prior year.

### **Corporate**

*Operating expenses* for the year were \$2.4 million or \$0.1 million higher than the prior year's expenses of \$2.3 million. The increase in operating expenses reflects increased insurance expenses and professional fees. Operating expenses included executive compensation, public relations costs and professional fees and other general and administrative expenses.

*Loss before interest, depreciation and amortization* for the year was \$2.4 million, compared to \$1.9 million in the prior year. The prior year's loss includes a \$0.5 million gain on the sale of an investment.

### **Liquidity and Capital Resources**

Cash flows provided by continuing operations for the year ended August 31, 2004 were \$32,000 compared to \$2.4 million used in the prior year reflecting significantly lower operating losses in the current year combined with operating working capital movements. Cash flows used by discontinued operations were \$0.8 million compared to \$1.8 million in the prior year.

For fiscal 2005, the Company anticipates that cash flows provided by operations will increase compared to fiscal 2004 based on anticipated increases in both advertising and subscriber revenues with more moderate increases in operating expenses. The Company has sufficient working capital lines of credit to

support its operations and anticipates that these lines of credit will be successfully refinanced on the maturity dates discussed below.

Cash flow used in financing activities for the year ended August 31, 2004 was \$2.4 million compared to cash flow from financing activities of \$4.6 million in the prior year. The Score paid down \$1.2 million of its revolving operating line of credit during the year and the Company also used \$1.2 million of the cash proceeds from the sale of PrideVision TV to pay down a loan provided by a company related by virtue of common control. At August 31, 2004, total short-term loans were \$11.9 million. As at August 31, 2003 short-term loans were \$14.3 million.

As discussed below, the Company has a bank credit facility and a secured standby credit facility; both of which mature on August 31, 2005. The Company anticipates that it will be able to refinance both of these facilities on or before their respective maturity dates.

Cash flows used in investment activities for the year ended August 31, 2004 was \$0.1 million compared to cash flow used in investment activities of \$0.4 million in the prior year. The Company realized cash proceeds of \$1.4 million in the fourth quarter of fiscal 2004 on completion of the sale of the Canadian operations of PrideVision TV, offset by \$0.9 million of expenditures for fixed assets incurred throughout the year and an increase of \$0.6 million of deferred charges, primarily fees incurred on refinancing The Score's bank credit facility in the third quarter.

For fiscal 2005, the Company anticipates that expenditures on new and replacement fixed assets will be approximately \$1.8 million, which can be financed by cash flows from operations. Of this amount, commitments for approximately \$0.4 million to be incurred during fiscal 2005 had been made as at August 31, 2004.

Other than the credit facilities described below, the Company has no other financial instruments and thus believes that there are no price, credit or liquidity risks that it could be subject to from such instruments.

The following is a summary of the significant financing activities undertaken by the Company during the years ended August 31, 2004 and 2003 to secure financing for its ongoing business operations:

#### *The Score*

In April 2004, the Company's subsidiary, The Score, amended its bank credit facility, which was initially established December 2001. The amended bank credit facility allows The Score to borrow up to \$15.0 million reducing to \$14.5 million on August 31, 2004 and \$14.0 million on February 28, 2005 by way of prime rate loans, bankers' acceptances or letters of guarantee. The bank credit facility matures August 31, 2005. Prime rate loans bear interest at the prime rate plus 3.25%. Bankers' acceptances bear interest at bankers' acceptances rates plus 4.25%.

Loans under the bank credit facility are secured by a pledge of substantially all of the assets of The Score, including the pledge of The Score shares and the subordination and pledge of shareholder loans and inter-company debt from the Company to The Score. The loans are secured and are pledged and subordinated to the credit facility.

The provisions of the amended bank credit facility impose restrictions on The Score, the most significant of which are debt incurrence and debt maintenance costs, restrictions on additional investments, sales of assets, payment of management fees or other distributions to shareholders, restrictions on entering into new or renewed programming rights agreements, and the maintenance of certain financial covenants.

Financial covenants include meeting minimum earnings before interest, taxes, depreciation and amortization (EBITDA), maximum capital expenditure amounts and minimum aggregate free cash flow. In addition, the agreement has a number of events of default, including solvency tests for the Company and The Score. The Score maintained compliance with all of its financial covenants and other restrictions during fiscal 2004. As at August 31, 2004, \$11.9 million of the bank credit facility had been drawn.

The Score is prohibited under the bank credit facility from advancing funds to the Company other than for services provided in the ordinary course of business. The Score and the Company have sufficient financial resources to finance their respective operations for fiscal 2005. With the financing arrangements currently in place and pending the refinancing of The Score's bank credit facility that matures on August 31, 2005 to be available to finance the consolidated operations, the Company believes that there are sufficient resources to fund operations.

In August 2002, The Score entered into a credit facility agreement for a \$2.0 million operating loan with Levfam Finance Inc., a company related by virtue of common control. In August 2003, the Company advanced approximately \$2.4 million of the proceeds of a \$4.9 million private placement of Class A Subordinate Voting Shares to The Score to fund the repayment of the operating loan plus accrued interest. The credit facility was repaid in full in August 2003.

#### *Headline Media Group Inc.*

In April 2002, the Company entered into a secured standby credit facility of up to \$2.3 million with Levfam Finance Inc., a company related by virtue of common control. The credit facility was subsequently amended in November 2002 and August 2003 and now matures on August 31, 2005. The credit facility bears interest at 12% per annum. The standby credit facility is secured by the assets of PrideVision TV, including a pledge of the PrideVision TV shares by the Company and a first charge over all of the Company's assets, with the exception of its shares in The Score and St. Clair. As at August 31, 2004, \$0.2 million of accrued interest on this facility was outstanding.

In January 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 August 2003, the Company issued 16,333,333 Class A Subordinate Voting Shares by way of a non-brokered private placement at a price of \$.30 per share, for gross proceeds of \$4.9 million.

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.

Cash flow used in investment activities for the year ended August 31, 2004 was \$0.1 million compared to \$0.4 million in the prior year, reflecting additions to fixed assets and increased deferred charges associated with refinancing The Score's bank credit facility, offset by the proceeds from the sale of PrideVision TV in that year. Fixed asset additions were \$0.8 million for the year ended August 31, 2004 compared to \$67,000 in the prior year. Cash proceeds from the sale of PrideVision TV totaled \$1.35 million.

### **Related Party Transactions**

The Company and Levfam Finance Inc. are related by virtue of common control. Levfam Finance Inc. has provided credit facilities to both The Score and Headline Media Group, its parent company.

During fiscal 2003, The Score's credit facility from Levfam Finance Inc. of \$2.0 million plus accrued interest was repaid by The Score's parent company. Accordingly, no interest was incurred on this credit facility during 2004, while approximately \$366,000 of interest was incurred during the prior year.

Interest on the Levfam Finance Inc. credit facility to Headline Media Group amounted to approximately \$140,000 during fiscal 2004 compared to approximately \$395,000 in the prior year.

During fiscal 2004, the Company has retained legal services from a firm, one of whose partners is a director of the Company. These services were provided in the ordinary course of business and the fees for services rendered amounted to \$47,635 in fiscal 2004. A second director provided consulting services for the Company during fiscal 2004 and received approximately \$10,000 for such services. All related party transactions have been recorded at their fair values

### **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 August 31, 2004, and August 31, 2003 and the Notes to thereto.

Contractual operating obligations are as follows:

Contractual Obligations (in thousands of dollars)	2005	2006	Thereafter	Total
Operating lease obligations	\$1,191	\$1,121	\$1,814	\$4,126
Programming rights obligations	\$1,442	\$1,303	\$ 112	\$2,857

## **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.

### **Stock-based compensation and other stock based payments**

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.

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.

## **Risks and Uncertainties**

### *Risks Related to the Nature of the Specialty Television Industry*

The specialty television industry in which the Corporation operates involves a substantial degree of risk. There can be no assurance of the economic success of any specialty television channel as revenues depend on audience acceptance, which cannot be accurately predicted. Audience acceptance is impacted by the specialty television service's content, reviews of critics, marketing and promotions, the quality and acceptance of other competing services, the availability of alternative forms of entertainment, leisure time activities, general economic conditions, public tastes generally and other intangible factors. The lack of audience acceptance for our specialty television channels could have an adverse impact on our business, results of operations, prospects or financial condition.

### *Regulatory Environment*

The specialty television services industry is regulated by the Canadian Radio-television and Telecommunications Commission ("CRTC"), which grants and renews licenses. The Company's broadcasting licenses must be renewed from time to time, typically every seven years and cannot be transferred without regulatory approval. The Company's inability to renew its licenses on favourable terms, or at all, would have an adverse impact on its results of operations, prospects and financial condition. Changes in the regulations governing the specialty television industry, including decisions by

regulators affecting the Company's broadcasting operations, such as the granting or renewal of licenses or the granting of additional broadcasting licenses to competitors or the introduction of new regulations by regulators, could adversely impact operating results, prospects and financial condition

#### *Dependence on BDU's*

The Score is dependent on Broadcast Distribution Undertakings ("BDUs") (including cable, direct to home (DTH) and Multipoint Distribution System (MDS) distributors) for distribution of its specialty television services. If any of the distribution agreements are terminated and the Company is unable to secure similar agreements, there could be a significant negative impact on revenues. There could be a further negative impact on revenues if distribution agreements with BDUs are not renewed on terms at least comparable to current terms.

#### *Programming and Production Costs*

Programming costs, including program acquisitions, rights fees, production costs, publishing costs and distribution costs continue to rise and may be subject to future increases. These increases or the inability to renew major programming rights agreements may adversely affect operating results.

#### *General Economic Conditions*

The Company's revenues and results of operations are and will continue to be influenced by prevailing general economic conditions. In the event of a general economic downturn or a recession, purchasers and potential purchasers of the Company's advertising inventory may substantially reduce their advertising budgets. In the event of such an economic downturn, there can be no assurance that the Company's operating results, prospects and financial condition would not be materially adversely affected.

A complete discussion of the risk factors affecting the Company's operating results can be found in the Company's Annual Information Form.

### **Outlook**

As we move forward into 2005, the Company will continue to focus on growing its primary asset, The Score Television Network. In addition, the Company will pursue growth through the development of related sports media properties and applications, including interactive initiatives.

Please refer to the attached Consolidated Financial Statements for the years ended August 31, 2004 and 2004, including the Notes to the Financial Statements.

### **About Headline Media Group Inc.**

Headline Media Group Inc. (TSX: HMG) 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.

#### *Forward-looking (safe harbour) statement*

*Statements made in this news release that relate to future plans, events or performances are forward-looking statements. Any statement containing words such as "believes", "plans", "expects" or "intends" and other statements which are not historical facts contained in this release are forward-looking, and these statements involve risks and uncertainties and are based on current expectations. Consequently, actual results could differ materially from the expectations expressed in these forward-looking statements.*

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**HEADLINE MEDIA GROUP INC.**

Consolidated Balance Sheets

(In thousands of dollars)

August 31, 2004 and 2003

	2004	2003
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 735	\$ 4,054
Accounts receivable	4,123	3,882
Prepaid expenses and deposits	362	1,592
Current assets of discontinued operations	—	321
	5,220	9,849
Fixed assets (note 4)	2,111	2,403
Deferred charges (note 5)	711	558
	\$ 8,042	\$ 12,810
<b>Liabilities and Shareholders' Deficiency</b>		
Current liabilities:		
Loans (note 6)	\$ 11,865	\$ 14,300
Accounts payable and accrued liabilities	4,271	4,666
Unearned revenue	—	24
Current liabilities of discontinued operations	—	1,572
	16,136	20,562
Shareholders' deficiency:		
Capital stock (note 7)	78,848	78,763
Warrants (note 7(b))	—	—
Contributed surplus (note 7(b))	622	622
Deficit	(87,564)	(87,137)
	(8,094)	(7,752)
Basis of presentation (note 1)		
Commitments (note 9)		
	\$ 8,042	\$ 12,810

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)  
Years ended August 31, 2004 and 2003

	2004	2003 (Restated - note 3)
Revenue	\$ 23,483	\$ 28,718
Production and other direct expenses	12,913	15,115
Selling, general and administration	8,197	8,644
Program rights	1,813	7,261
	<u>22,923</u>	<u>31,020</u>
Income (loss) before the undernoted	560	(2,302)
Gain on sale of investments	—	463
	<u>—</u>	<u>463</u>
Income (loss) from continuing operations before interest, depreciation and amortization	560	(1,839)
Interest income	—	(37)
Interest expense	1,434	1,733
Depreciation	1,123	1,065
Amortization	194	211
	<u>2,751</u>	<u>2,972</u>
Loss from continuing operations	(2,191)	(4,811)
Income (loss) from discontinued operations (note 3)	1,764	(1,390)
Loss for the year	(427)	(6,201)
Deficit, beginning of year	(87,137)	(80,936)
Deficit, end of year	<u>\$ (87,564)</u>	<u>\$ (87,137)</u>
Loss per share (note 8):		
Loss per share from continuing operations, basic and diluted	\$ (0.03)	\$ (0.07)
Loss per share - basic and diluted	(0.01)	(0.09)
Weighted average number of Class A Subordinated Voting and Special Voting shares outstanding	82,666,104	66,169,403

See accompanying notes to consolidated financial statements.

**HEADLINE MEDIA GROUP INC.**  
Consolidated Statements of Cash Flows  
(In thousands of dollars)  
Years ended August 31, 2004 and 2003

	2004	2003 (Restated - note 3)
Cash provided by (used in):		
Operations:		
Loss from continuing operations	\$ (2,191)	\$ (4,811)
Items not involving cash:		
Depreciation	1,123	1,065
Amortization	194	211
Interest amortization	299	273
Non-cash compensation expense	37	19
Change in non-cash operating working capital:		
Accounts receivable	(241)	459
Prepaid expenses and deposits	1,230	1,001
Accounts payable and accrued liabilities	(395)	126
Unearned revenue	(24)	(710)
Cash flows from (used in) continuing operations	32	(2,367)
Cash flows used in discontinued operations	(837)	(1,812)
	(805)	(4,179)
Financing:		
Issuance of common shares	48	5,400
Loans	(2,435)	(800)
	(2,387)	4,600
Investments:		
Additions of fixed assets	(846)	(67)
Proceeds on sale of fixed assets	15	-
Proceeds on sale of PrideVision TV	1,350	-
Deferred charges	(646)	(311)
	(127)	(378)
Increase (decrease) in cash and cash equivalents	(3,319)	43
Cash and cash equivalents, beginning of year	4,054	4,011
Cash and cash equivalents, end of year	\$ 735	\$ 4,054
Supplemental cash flow information:		
Interest paid	\$ 995	\$ 1,065

See accompanying notes to consolidated financial statements.

# Headline Media Group Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Years ended August 31, 2004 and 2003 (audited)

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Headline Media Group Inc. (the "Company") 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.

## 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.

Based on the Company's business plan and the financing arrangements currently in place and pending the refinancing of The Score's bank credit facility that matures on August 31, 2005 (note 6(a)), the Company believes that there are sufficient resources to fund operations.

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.

## 2. Significant accounting policies:

### (a) Basis of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated upon consolidation.

### (b) Cash and cash equivalents:

Cash and cash equivalents include cash on hand, deposits with banks and treasury bills with maturities at acquisition of less than three months.

## Headline Media Group Inc.

Notes to Consolidated Financial Statements

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Years ended August 31, 2004 and 2003 (audited)

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### 2. Significant accounting policies (continued):

#### (c) Fixed assets:

Fixed assets are stated at cost. Depreciation is provided using the following methods and annual rates:

Asset	Basis	Rate
Technical production equipment	Declining balance	12% - 30%
Computer equipment	Declining balance	30%
Computer software and video	Declining balance	100%
Office equipment and furniture	Declining balance	5% - 20%
Leasehold improvements	Straight line	Over term of lease

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#### (d) Long-lived assets:

Effective September 1, 2003, the Company adopted The Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3063, "Impairment of Long Lived Assets". Long-lived assets including property, plant and equipment and intangible assets with finite useful lives are amortized over their useful lives. The Company reviews long-lived assets for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the undiscounted future cash flows expected to result from the use and eventual disposition of a group of assets is less than its carrying amount, it is considered to be impaired. An impairment loss is measured as the amount by which the carrying amount of the group of assets exceeds its fair value. At August 31, 2004, no such impairment had occurred.

#### (e) Licence costs and trademarks:

The Company obtained a licence for The Score from the Canadian Radio-television and Telecommunications Commission ("CRTC") to provide broadcasting services across Canada. The licence costs represent amounts incurred to obtain the licences and are being amortized on a straight-line basis over the terms of the licence.

Trademarks are being amortized on a straight-line basis over the terms of the respective licences.

#### (f) Deferred financing costs:

Deferred financing costs represent the unamortized cost of obtaining financing, including financing and legal fees. Amortization is recorded on a straight-line basis over the term of the related debt.

## Headline Media Group Inc.

Notes to Consolidated Financial Statements

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### 2. Significant accounting policies (continued):

#### (g) Pre-operating costs:

Expenses associated with promotional activities and training costs related to the introduction of new television services are deferred until the launch of the television service. Other pre-operating costs are expensed as incurred. Pre-operating costs are amortized on a straight-line basis over the respective licence period.

#### (h) Programming:

Multi-year sports rights are charged to expense based on the ratio of the current year's gross revenue to estimated total gross revenue from such programs. Estimates of total gross revenue can change significantly due to a variety of factors, including the level of market acceptance of the products and advertising rates. Accordingly, revenue estimates are reviewed periodically and amortization is adjusted, if necessary.

Television productions and other broadcast rights are amortized over the contracted exhibition period based on the estimated useful life of the program to the Company.

#### (i) Income taxes:

The Company follows the asset and liability method of accounting for income taxes. Under the asset and liability method, future income tax assets and liabilities are determined based on differences between the accounting basis and the tax basis of assets and liabilities and are measured using the currently enacted or substantively enacted tax rates and laws expected to apply when these differences reverse. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized.

#### (j) Revenue recognition:

Revenue is generated from contracts entered into with broadcast distribution undertakings ("BDUs") and from the sale of advertising. For BDUs, revenue is recognized monthly based on the number of subscribers reported. Advertising revenue is recorded at the time the advertisement appears or is aired. Funds received in advance are recorded as unearned revenue.

The Company recognizes advertising barter transactions at fair value which is determined based on the Company's historical practice of receiving cash or other consideration that is readily convertible to a known amount of cash for similar advertising from buyers unrelated to the counterparty in the barter transaction. Barter transactions for the year were approximately \$607 (2003 - \$1,664).

## Headline Media Group Inc.

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### 2. Significant accounting policies (continued):

#### (k) Stock-based compensation:

In December 2001, 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.

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 awards issued subsequent to September 1, 2002.

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:

	2004	2003
Loss for the year, as reported	\$ (427)	\$ (6,201)
Pro forma loss	\$ (458)	\$ (6,244)
Pro forma loss per share, basic and diluted	\$ (0.01)	\$ (0.09)

## Headline Media Group Inc.

Notes to Consolidated Financial Statements

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### 2. Significant accounting policies (continued):

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:

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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

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

During the year, compensation expense of \$37 was recognized on stock options issued to non-employees under the plan.

Commencing September 1, 2004, the compensation cost on the grant of stock options to employees will be recorded.

#### (l) Measurement uncertainty:

The preparation of financial statements 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 and the reported amounts of revenue and expenses during the reporting years. Actual results could differ from those estimates.

#### (m) Loss per share:

The Company utilizes the treasury stock method to determine the dilutive effect of options, warrants and other instruments.

Diluted loss per share equals basic loss per share as the effect of stock options and other instruments is anti-dilutive.

### 3. Sale of discontinued operations:

On November 28, 2003, the Board of Directors of PrideVision Inc. approved an agreement to sell the Canadian operations of PrideVision TV. Consequently, the financial results of PrideVision

## Headline Media Group Inc.

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### 3. Sale of discontinued operations (continued):

TV have been reflected as discontinued operations since November 28, 2003. On May 28, 2004, the transaction was approved by the Canadian Radio-Television and Telecommunications Commission, and on July 29, 2004, the sale was executed for total cash proceeds of \$1,350 and the assumption of \$935 in operating liabilities. This resulted in a gain on disposition of \$1,619. As part of the transaction, the Company retains the rights to develop PrideVision TV outside of Canada, and holds a 9.9% interest in PrideVision TV's Canadian operations.

The results of PrideVision TV have been excluded from continuing operations in the statements of operations and deficit for all periods presented.

The following is a summary of the results of discontinued operations:

	2004	2003
Revenue	\$ 309	\$ 1,618
Operating expenses	164	3,001
Income (loss) before interest, income taxes, depreciation and amortization	145	(1,383)
Interest expense	–	(7)
Income (loss) from operations	145	(1,390)
Gain on disposition of discontinued operations	1,619	–
Income (loss) from discontinued operations	\$ 1,764	\$ (1,390)
Income (loss) per share from discontinued operations:		
Basic	\$ 0.02	\$ (0.02)
Diluted	0.02	(0.02)

### 4. Fixed assets:

2004	Cost	Accumulated depreciation	Net book value
Technical production equipment	\$ 6,980	\$ 5,224	\$ 1,756
Computer equipment	610	456	154
Computer software and video	562	510	52
Office equipment and furniture	399	250	149
Leasehold improvements	1,725	1,725	–
	\$ 10,276	\$ 8,165	\$ 2,111

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### 4. Fixed assets (continued):

2003	Cost	Accumulated depreciation	Net book value
Technical production equipment	\$ 7,087	\$ 5,549	\$ 1,538
Computer equipment	909	667	242
Computer software and video	602	553	49
Office equipment and furniture	921	601	320
Leasehold improvements	1,888	1,634	254
	\$ 11,407	\$ 9,004	\$ 2,403

Depreciation expense for the year ended August 31, 2004 amounted to \$1,123 (2003 - \$1,065).

### 5. Deferred charges:

	2004	2003
Pre-operating costs, less accumulated amortization of \$837 (2003 - \$717)	\$ —	\$ 119
Licence costs, less accumulated amortization of \$631 (2003 - \$591)	239	279
Trademark, less accumulated amortization of \$126 (2003 - \$122)	3	7
Financing costs, less accumulated amortization of \$2,316 (2003 - \$1,987)	469	153
	\$ 711	\$ 558

Amortization of deferred charges for the year ended August 31, 2004 amounted to \$194 (2003 - \$211).

Amortization of financing costs in the amount of \$299 was recorded as interest expense in the current year.

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### 6. Loans:

#### (a) The Score:

In April 2004, the Company amended the bank credit facility for its subsidiary, The Score, which was initially established December 2001. The amended revolving credit facility allows The Score to borrow up to \$15,000, reducing to \$14,500 on August 31, 2004 and \$14,000 on February 28, 2005 by way of prime rate loans, bankers' acceptances ("BAs") or letters of guarantee. The credit facility matures on August 31, 2005. Prime rate loans bear interest at the prime rate plus 3.25%. BAs bear interest at BA rates plus 4.25%.

Loans under the bank credit facility are secured by a pledge of substantially all of the assets of The Score, including a pledge of The Score shares and the subordination and pledge of shareholder loans and intercompany loans from the Company to The Score. The loans are secured and are pledged and subordinated to the credit facility.

The provisions of the amended credit facility impose restrictions on The Score and include financial covenants. As at August 31, 2004, \$11,865 of the facility had been drawn.

#### (b) Headline Media Group Inc.:

In April 2002, the Company entered into a non-revolving secured standby credit facility of up to \$2,300 with a company related by virtue of common control. The credit facility was subsequently amended in November 2002 and August 2003. The credit facility is available to fund operations and working capital requirements commencing November 11, 2002 and matures on August 31, 2005. No amount had been drawn on the facility as at August 31, 2004. The credit facility bears interest at 12% per annum. The standby credit facility was secured by the assets of PrideVision TV, including a pledge of the PrideVision TV shares, and a first charge over all of the Company's assets, with the exception of its shares in The Score and St. Clair. As at August 31, 2004, \$192 of accrued interest on the facility was outstanding.

For the year ended August 31, 2004, interest expense includes interest on the bank loans of \$1,294 (2003 - \$1,338) and interest on amounts due to related parties of \$140 (2003 - \$395).

## Headline Media Group Inc.

Notes to Consolidated Financial Statements

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### 7. Capital stock:

	2004	2003
Authorized:		
Unlimited Senior Preference shares		
Unlimited Junior Preference shares		
10,000 Special Voting shares, convertible into Class A Subordinated Voting shares on a one-for-one basis at the option of the shareholder		
Unlimited Class A Subordinated Voting shares		
Unlimited Class B Subordinated Voting shares, convertible into Class A Subordinated Voting shares on a one-for-one basis at the option of the shareholder		
Issued:		
10,000 Special Voting shares	\$ 30	\$ 30
82,760,784 Class A Subordinated Voting shares (2003 - 82,626,200)	78,818	78,733
	<hr/>	<hr/>
	\$ 78,848	\$ 78,763

In January 2003, the Company completed a 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.

In August 2003, the Company completed a private placement of 16,333,333 Class A Subordinate Voting shares at a price of \$0.30 per share. The gross proceeds of the private placement were \$4,900.

## Headline Media Group Inc.

Notes to Consolidated Financial Statements

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### 7. Capital stock (continued):

Details of share capital transactions during the year are as follows:

	Number of shares issued		Amount credited to capital	
	Class A Subordinated Voting	Special Voting	Class A Subordinated Voting	Special Voting
Balance, August 31, 2002	64,864,296	10,000	\$ 73,314	\$ 30
Shares issued in private placements	17,761,904	—	5,400	—
Non-cash compensation expense	—	—	19	—
Balance, August 31, 2003	82,626,200	10,000	78,733	30
Options exercised	134,584	—	48	—
Non-cash compensation expense (note 2(k))	—	—	37	—
Balance, August 31, 2004	82,760,784	10,000	\$ 78,818	\$ 30

#### (a) Stock option plan:

The Company has a stock option plan (the "Plan") under which the Board of Directors, or a committee appointed for such purpose may, from time to time, grant to directors, officers, full-time employees of, or consultants to, the Company, options to acquire Class A Subordinated Voting shares. Of the Class A Subordinated Voting shares issued and outstanding, 5,093,416, from time to time, are reserved for issue under the Plan. Under the Plan, the exercise price must not be less than the market price of the Class A Subordinated Voting shares at the date of the grant. An option's maximum term is 10 years and options vest over three years.

## Headline Media Group Inc.

Notes to Consolidated Financial Statements

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### 7. Capital stock (continued):

The following table summarizes the status of the Plan:

	Number	Exercise price	Weighted average exercise price
Outstanding options, August 31, 2002	1,963,333	\$ 1.00 - 3.13	\$ 2.54
Granted	882,500	0.28 - 1.00	0.35
Cancelled	(148,334)	1.00 - 3.13	2.31
Outstanding options, August 31, 2003	2,697,499	0.28 - 3.11	1.84
Granted	—	—	—
Cancelled	(257,915)	1.00 - 3.11	0.96
Exercised	(134,584)	0.28 - 0.36	0.36
Outstanding options, August 31, 2004	2,305,000	0.28 - 3.11	2.02
Options exercisable, end of year			1,862,500

As at August 31, 2004, the weighted average remaining contractual life of the options exercisable and outstanding was 1.2 years and 1.5 years, respectively.

#### (b) Warrants:

On November 14, 2000, the Company entered into an agreement with World Wrestling Entertainment, Inc. ("WWE"), whereby the Company obtained the right to broadcast certain WWE programs for a period of three years. As part of the agreement, on February 15, 2001, WWE purchased 222,223 Class A Subordinated Voting shares of the Company at a price of \$4.50 per share, with a warrant to subscribe for up to 5,587,193 Class A Subordinated Voting shares at a price of \$4.50 per share which expired on February 28, 2003. As none of these warrants had been exercised by February 28, 2003, the balance was transferred to contributed surplus.

### 8. Loss per share:

Basic and diluted loss per share has been calculated on a weighted average basis of Class A Subordinated Voting shares and Special Voting shares outstanding during the year.

## Headline Media Group Inc.

Notes to Consolidated Financial Statements

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### 9. Commitments:

- (a) The Company has entered into various program acquisition and rights agreements, the most significant of which oblige the Company to make aggregate annual payments for fiscal years as follows:

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2005	\$ 1,442
2006	1,303
2007	112
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	\$ 2,857

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- (b) The Company is committed to minimum annual payments under operating leases, including satellite transponders, equipment and premises, as follows:

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2005	\$ 1,191
2006	1,121
2007	341
2008	227
2009	1,246
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	\$ 4,126

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- (c) The Company is committed under the terms of its licencing agreement for The Score to spend 45% of its preceding year's gross television revenue on Canadian television programming, as defined by the CRTC, for each broadcast year.

The Company's gross television revenue from The Score for the year ended August 31, 2004 was \$19,821 (2003 - \$18,719).

- (d) The Company has guaranteed a total of \$170,000 in monthly rental payments due to the Company's former landlord by the sub-tenant, for the period up to and including May 31, 2006.

### 10. Financial instruments:

The fair values of the Company's cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their carrying amounts due to the short period to maturity of the instruments.

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### 10. Financial instruments (continued):

The fair values of the Company's loans under the bank credit facility approximate their carrying amounts as the interest being charged is floating in respect to the prime rate.

The fair value of the Company's loan under the credit facility agreement with a company related by virtue of common control is not determinable due to its terms and related party nature.

### 11. Income taxes:

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities are presented below:

	2004	2003
Future tax assets:		
Capital loss carryforward	\$ 111	\$ 113
Non-capital loss carried forward	25,814	25,495
Fixed assets and deferred charges	3,707	4,200
	29,632	29,808
Less valuation allowance	29,612	29,741
	20	67
Future tax liabilities	(20)	(67)
Net future tax assets	\$ —	\$ —

As at August 31, 2004, the Company had non-capital losses of approximately \$71,505 available to apply to future years' taxable income. The benefit of these losses has not been recorded in the consolidated financial statements. The losses expire as follows:

2005	\$ 1,347
2006	1,303
2007	7,239
2008	18,342
2009	32,716
2010	7,010
2011	3,548
	\$ 71,505

## Headline Media Group Inc.

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### 11. Income taxes (continued):

The provision for income taxes included in the consolidated statements of operations and deficit differs from the statutory income tax rate as follows:

	2004	2003
Income tax recovery based on the statutory income tax rate of 36.1% (2003 - 36.6%)	\$ (154)	\$ (2,270)
Tax effect of losses and temporary differences not recorded	154	2,063
Tax effect of non-deductible and non-taxable items	–	207
<b>Income tax provision</b>	<b>\$ –</b>	<b>\$ –</b>

### 12. Related party transactions:

During the year, the Company retained legal services from a firm, one of whose partners is a director of the Company. In addition, a second director provided consulting services to the Company. The services were provided in the ordinary course of business and amounted to \$47,635 and \$10,000 (2003 - nil), respectively. All related party transactions have been reported at their fair values.

### 13. Segmented information:

The Company has three business units comprised of The Score Television Network Ltd., St. Clair Group Investments Inc. ("St. Clair") 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.

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### 13. Segmented information (continued):

Information by operating group is as follows:

2004	The Score	St. Clair	Corporate	Consolidated total
Revenue:				
Advertising	\$ 12,389	\$ 3,520	\$ —	\$ 15,909
Subscriber fees	7,574	—	—	7,574
	\$ 19,963	\$ 3,520	\$ —	\$ 23,483
Income (loss) from continuing operations before undernoted	\$ 2,802	\$ 132	\$ (2,374)	\$ 560
Gain on sale of investments	—	—	—	—
Income (loss) from continuing operations before interest income taxes, depreciation and amortization	2,802	132	(2,374)	560
Interest expense, net				1,434
Depreciation and amortization				1,317
Loss from continuing operations				(2,191)
Income from discontinued operations				1,764
Loss for the year				\$ (427)

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### 13. Segmented information (continued):

2003	The Score	St. Clair	Corporate	Consolidated total
Revenue:				
Advertising	\$ 12,732	\$ 9,473	\$ —	\$ 22,205
Subscriber fees	6,513	—	—	6,513
	\$ 19,245	\$ 9,473	\$ —	\$ 28,718
Income (loss) from continuing operations before undernoted	\$ 39	\$ (21)	\$ (2,320)	\$ (2,302)
Gain on sale of investments	—	—	463	463
Income (loss) from continuing operations before interest income taxes, depreciation and amortization	39	(21)	(1,857)	(1,839)
Interest expense, net				1,696
Depreciation and amortization				1,276
Loss from continuing operations				(4,811)
Loss from discontinued operations				(1,390)
Loss for the year				\$ (6,201)

### 14. Subsequent event:

The Company entered into an agreement with another company to establish a joint venture to conduct certain of St. Clair's activities. The results and balances of these operations have been proportionately consolidated and included in the current period operations. The Company sold its 50% share in the joint venture on October 6, 2004. The Company's 50% share will not be included in future years as the operations of the joint venture were discontinued in October 2004.

### 15. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.