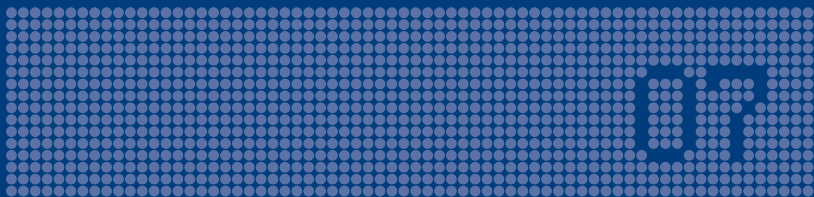




COVERING WHAT COUNTS  
SCORE MEDIA INC. 2007 ANNUAL REPORT



# SCORE 2007 ANNUAL REPORT

IN HERE, ALL THAT COUNTS ARE THE NUMBERS. BUT OUT THERE IT'S THE HARDCORE SPORTS GUYS. THE GUYS WHO NAME THEIR FIRST BORN WAYNE, EVEN WHEN IT'S A GIRL. THE GUYS WHO CAN'T REMEMBER THE LAST TIME THEY LEFT THE HOUSE ON A SUNDAY. THE GUYS WHO KNOW MORE ABOUT SPORTS THAN THE INTERNET. THESE ARE THE GUYS THAT COUNT. THEY'RE THE ONES WE NEVER LOSE SIGHT OF. AND IN 2007, THEY NEVER LOST SIGHT OF US.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED AUGUST 31, 2007

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements of Score Media Inc. ("Score Media" or the "Company") and Notes thereto included elsewhere in this Annual Report. Except for the historical information contained herein, the discussion in this Annual Report contains certain forward-looking statements that involve risks and uncertainties, such as statements of the Company's plans, objectives, strategies, expectations and intentions. The words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to the Company, or its management, are intended to identify such forward-looking statements. Many factors could cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, but not limited to, risks and uncertainties such as those related to the nature of the specialty television industry, dependence on broadcasters, programming and production costs, dependence on Broadcast Distribution Undertakings, regulatory environment, dependence on advertisers, reliance on key personnel, management of growth, general economic conditions, competition, possible strategic alliances and acquisitions, Canadian ownership, control and significant interest of concentrated shareholder base, possible volatility of stock price, regulatory approval of certain transactions involving the Corporation, risks related to online poker, and financial risks, which risks and uncertainties are discussed in the Annual Information Form dated November 13, 2007 filed with the Ontario Securities Commission. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward looking statements prove incorrect, actual results may vary materially from those described herein as intended, planned, anticipated, believed, estimated or expected. The Company does not intend, and does not assume any obligation, to update these forward-looking statements. All amounts are stated in Canadian dollars unless otherwise noted. The information presented in this MD&A is as of November 13, 2007.

**SCORE MEDIA** is a media company committed to creating consumer value through creative solutions, technology, and innovation in response to sports fans' growing desire for increased participation in their consumption of sports content. The Company's main asset is The Score Television Network ("The Score"), a national specialty television service providing sports, news, information, highlights and live event programming, available across Canada in more than 6.2 million homes. Score Media also operates Hardcore Sports Radio, a satellite radio network available across North America on Sirius Satellite Radio, and other interactive assets including theScore.com, Score Mobile, and Score Poker.

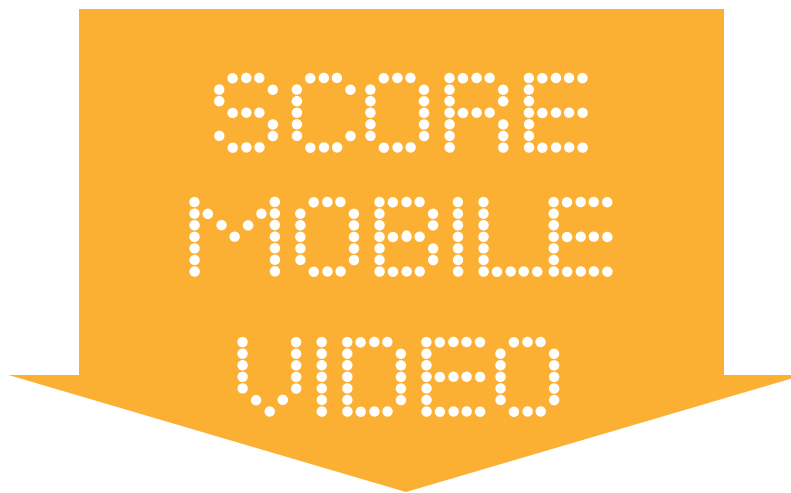


During 2007, the Company continued to grow its Hardcore Sports Radio business (launched in mid-2006) with the addition of unique and innovative content, including **Drive This!**, the first truly authentic sports talk "drive" show airing daily from 4:00 – 6:00 pm, **Game On**, a half hour show every weeknight dedicated to setting up the night from a Vegas perspective, and **Sports Rage with Gabriel Morency**, a late night show for HSR's most hardcore, passionate listeners. In addition, during 2007, HSR launched its website, **hardcoresportsradio.com**, featuring daily podcasts, blogs, lines, expert picks and a live stream of HSR. Hardcore Sports Radio is available across North America to listeners on SIRIUS Satellite Radio.

**6 MILLION**  
LISTENERS ON SIRIUS SATELLITE RADIO.



In March 2007, Score Media Ventures launched Score Mobile Video – a mobile video clips service which is available across Canada to customers of every major wireless carrier. Score Mobile Video gives viewers access to signature Score programming packaged specifically for mobile viewing in 2-3 minute clips.



Score Mobile Video features exclusive mobile coverage of highlights and features from the NCAA March Madness tournament and Barclays Premier League football, including previews, in-game highlights, features and fantasy analysis. In addition, fans of The Score can access other premier Score programming on-the-go, including Cabbie on the Street, Branded, The Spin, Hardcore Championship Fighting, and exclusive fantasy analysis from **THE SCORE'S EXPERTS.**

In March 2007 the Company launched its cross-platform coverage of NCAA March Madness, featuring extensive coverage of the tournament on television, online, on mobile devices and on video-on-demand. The Company will be the exclusive Canadian broadcast partner of NCAA March Madness through 2010. Additionally, during fiscal 2007, the Company's wholly-owned subsidiaries, The Score Television Network and Score Media Ventures, acquired broadcast, Internet and mobile rights to Barclays Premier League football. The Company's coverage of BPL football kicked-off in August 2007, and included a television broadcast of the premier game of the week, exclusive Internet and mobile highlights and features, and a new integrated cross-platform news program, The Footy Show. Cross-platform coverage of major live sporting events, as well as all sports news and information, is a core strategy for the Company, and this multi-media approach to satisfying consumer demand for sports and entertainment will be advanced in fiscal 2008.

.....  
**NCAA MARCH MADNESS**  
**BARCLAYS PREMIER LEAGUE**

**During fiscal 2007,**  
The Score's website underwent a major site redesign and transformed from a complementary source of data for The Score Television Network to a sports portal with its own unique peer-driven culture and user generated content.

**THE FIRST**

component of the new website, a March Madness portal featuring exclusive video content and tournament analysis, was launched in March 2007, concurrent with Score Media's cross platform coverage of NCAA March Madness. New site features, including full data feeds, live game logs and web-exclusive video content were introduced during the NHL and NBA playoffs. By the end of October 2007, the site re-launch was complete and the site was re-named **theScore.com**. Key features of the new site include:

**Robust Data Feeds** – theScore.com has benefited from a major data feed upgrade, with expanded NHL, NFL, NBA, MLB, CFL, NCAA and international sports portals with full web 2.0 functionality, including sharing/article tools, enhanced feed capabilities and customizable content through users' individual **'My Score'** profiles.

**New Ticker** – The Score's signature ticker has been reinvented as a fully-customizable and distributable online application. The new ticker will be offered via syndication to third party sites on the Internet.

**Consumer-Generated Media tools** – A major component of theScore.com is **The Bullhorn**, a user generated media platform that will allow hardcore sports fans to submit links, author their own stories, and submit video content. Users can rate and rank content and, through their **My Score** profiles, track their favourite publishers and bloggers. Popular content will be featured across The Score's media platforms, including on The Score Television Network.

**Custom Video Portal** – theScore.com's new broadband video portal features prime Score content, including exclusive NCAA March Madness and Barclay's Premier

League highlights, signature Score programming such as Cabbie on the Street, and popular web-exclusive content, including PWNED and Road Rage. The video portal also showcases user generated content from **The Bullhorn**.

**Fantasy** –theScore.com features a full suite of new proprietary fantasy sports games, including hockey, football, basketball and soccer. The games are surrounded with exclusive fantasy analysis and video content and feature consensus picks and other unique meta-data generated from the games themselves, which creates a unique and user-centric fantasy experience.

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**SUPPORTING FACT:** The heaviest NFL player of all time weighed 410 lbs. It's said his diet consisted of leg-of-cow, deep and delicious cakes and cheerleaders.

## DEFINITIONS

The Company focuses its analysis on EBITDA and net income. EBITDA and net income are reconciled in the table that follows.

EBITDA is not a measure of performance under Canadian GAAP and should not be considered in isolation or as a substitute for net income prepared in accordance with Canadian GAAP or as a measure of operating performance or profitability. EBITDA does not have a standardized meaning prescribed by GAAP and is not necessarily comparable to similar measures presented by other companies.

The Company uses EBITDA 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 and is a standard measure that is commonly reported and widely used in the industry to assist in understanding and comparing operating results. The Company utilizes EBITDA to measure operating performance and assess compliance with certain debt covenants.

### THE FOLLOWING TABLES RECONCILE NET INCOME TO EBITDA:

	Year ended August 31, 2007	Year ended August 31, 2006
Net income for the period	\$ 2,787	\$ 13,036
Less:		
Income from discontinued operations	-	91
Income tax recovery / (expense)	(861)	9,142
Add back:		
Depreciation and amortization	2,112	1,159
Interest expense, net	149	360
<b>EBITDA</b>	<b>\$ 5,909</b>	<b>\$ 5,322</b>

### Year ended August 31, 2007 compared to Year ended August 31, 2006

#### CONSOLIDATED

The following selected financial data of the Company as it relates to the three years ended August 31, 2007, is derived from the audited financial statements of the Company.

#### Year ended August 31, 2007 (\$000's except per share amounts)

	2007	2006	2005
<b>EARNINGS STATEMENT DATA</b>			
Revenue	\$ 33,534	\$ 29,075	\$ 25,063
EBITDA	5,909	5,322	4,788
Net income	2,787	13,036	2,753
Earnings per share – basic and diluted	0.03	0.14	0.03
Dividends declared per share	-	-	-
<b>BALANCE SHEETS DATA</b>			
Total Assets	35,705	32,086	9,274
Long-term financial liabilities	9,302	9,090	10,000

Quarterly Results	Revenue	Income from continuing operations	Income from discontinued operations	Net income	Income per share from continuing operations	Income per share
	(\$000s)	(\$000s)	(\$000s)	(\$000s)	(\$)	(\$)
August 31, 2007	7,218	931	-	931	0.01	0.01
May 31, 2007	9,364	723	-	723	0.01	0.01
February 28, 2007	7,731	262	-	262	0.00	0.00
November 30, 2006	9,221	871	-	871	0.01	0.01
August 31, 2006	6,935	9,805	-	9,805	0.11	0.11
May 31, 2006	8,010	1,618	91	1,709	0.02	0.02
February 28, 2006	6,750	413	-	413	0.00	0.00
November 30, 2006	7,380	1,109	-	1,109	0.01	0.01

**SUPPORTING FACT:** In 1927 Babe Ruth hit more home runs than every team in the American League. He also drank more draft, ate more hotdogs and adopted more puppies.

The Company's revenues have historically reflected a seasonality trend, with the third quarter (ending May 31st) being the strongest, followed by the first quarter (ending November 30th), the fourth quarter (ending August 31st), and finally the second quarter (ending February 28th). This seasonality reflects general trends for sports media advertising, which in turn reflects the schedules (particularly the playoffs) of the major sports leagues.

Revenues for the year ended August 31, 2007 increased by \$4.4 million to \$33.5 million compared to \$29.1 million in the year ended August 31, 2006. This increase was due to a combination of greater television subscriber revenue, increased television advertising revenue, and revenues from Hardcore Sports Radio and Score Media's interactive properties that were launched during the past 2 years.

Television advertising revenue increased by approximately \$3.3 million during the year, reflecting successes in broadcasting several new live event sports programs, as well as continued advertising growth associated with the Company's news programs. The Score also benefited from brand-extension marketing, as television sales were buoyed by cross-promoting the television network with other platforms such as Score Mobile, Score Poker and theScore.com. This advertising growth was supplemented with revenue of approximately \$0.6 million from the new business units. The Company anticipates continued growth in fiscal 2008 and beyond from each of these properties.

Television subscriber fee revenue increased by approximately \$0.5 million for the year ended August 31, 2007 compared to the prior period. This increase in subscriber revenue reflected continued growth in the subscriber base with several broadcast distribution undertakings compared to fiscal 2006. During the year ended August 31, 2007, two customers represented 11% and 10% (2006 – 12% and 12%) of the Company's consolidated revenue. Both of the customers are Broadcast Distribution Undertakings ("BDUs") that have represented consistent and stable revenue over the last several years.

Production and other direct expenses were \$14.2 million for the year ended August 31, 2007 compared to \$12.9 million in the prior year, an increase of \$1.3 million. This increase resulted from higher programming expenses associated with the Company's new business initiatives and more live event programming expenses amounting to \$0.8 million, and increased sports data acquisition expenses amounting to \$0.5 million.

Selling, general and administrative expenses were \$9.9 million for the year ended August 31, 2007 compared to \$8.9 million in the prior year, an increase of \$1.0 million. This increase resulted from greater occupancy costs at the Company's facilities in the amount of \$0.5 million, and increased compensation costs – primarily due to non-cash stock-based compensation in the amount of \$0.7 million. These increases were offset by reductions in marketing expenses in the amount of \$0.2 million.

Program rights were \$3.6 million for the year ended August 31, 2007 compared to \$2.0 million in the prior year, an increase of \$1.6 million. The increase in program rights at The Score reflects higher program rights fees for Toronto Raptors and other professional basketball, NCAA March Madness basketball, Barclays Premier League football, and Canadian college football. In addition, The Score increased its rights fees for poker programming in fiscal 2007 compared to the prior year.

Interest expense for the year ended August 31, 2007 was \$0.1 million compared to the \$0.4 million in the prior year. For the year ended August 31, 2007, interest expense includes interest on bank loans of \$0.6 million (net of interest income of \$0.5 million), compared to interest on bank loans of \$0.6 million (net of interest income of \$0.2 million) for the year ended August 31, 2006. The decrease of approximately \$0.4 million reflects lower borrowings of bank debt due to improved cash flow from operations and cash proceeds from an equity issue completed in February 2006.

On February 8, 2006 the Company completed the sale of 11,800,000 Class A Subordinate Voting shares ("Class A Shares") to the public at a price of \$0.85 per share. On February 15, 2006, the underwriter exercised an option to acquire 1,770,000 Class A Subordinate Voting shares at \$0.85 per share, being the price of the offering to cover over-allotments, representing an amount of 15% of the total number of Class A Subordinate voting shares offered. The net proceeds of the offering amounted to \$10.4 million.

Depreciation and amortization expense for the year ended August 31, 2007 was \$2.1 million compared to \$1.2 million in the prior year. Depreciation expense increased to \$1.7 million for the year ended August 31, 2007 compared to \$1.0 million in the prior year, reflecting increased capital expenditures in the latest fiscal year at The Score for new television broadcasting equipment and television facilities, as well as new equipment and expenditures to develop intellectual properties and interactive programming for Score Mobile, Score Poker, theScore.com and Hardcore Sports Radio. Amortization expense increased to \$0.4 million compared to \$0.1 million in the prior year as a result of fully amortizing a bank financing fee associated with the Company's previous credit facility; the Company refinanced the credit facility with a new financial institution in August 2007.

For the year ended August 31, 2007, fixed asset additions were approximately \$5.5 million compared to \$2.0 million in the prior year, an increase of \$3.5 million. The increase in fixed assets reflects increased investment in television and radio broadcasting equipment, information technology and development of new media assets.

Future income tax expense for the year ended August 31, 2007, amounted to \$0.9 million compared to a future income tax recovery of \$9.1 million for the year ended August 31, 2006. Future income tax recovery in 2006 pertains to the release of valuation allowance recorded against the future tax assets which primarily consist of non-capital loss carry forwards. In assessing the

realization of future income tax assets, management considers whether it is more likely than not that some portion or all of the future income tax assets will be realized. The ultimate recognition of future income tax assets is dependent upon the generation of future taxable income before the expiry of non-capital losses and the years in which other temporary differences are deductible. Management considers the scheduled reversals of future income tax liabilities, the character of the income tax assets and the tax planning strategies in place in making this assessment. To the extent that management believes that the realization of future income tax assets does not meet the more likely than not realization criterion, a valuation allowance is recorded against the future tax assets.

In making an assessment of whether future income tax assets are more likely than not to be realized, management regularly prepares information regarding the expected use of such assets by reference to its internal budgets and income forecasts. Based on management's estimates of the expected realization of future income tax assets, during 2006 the Company reduced the valuation allowance to reflect that it is more likely than not those certain future income tax assets will be realized.

For the year ended August 31, 2007, the income tax expense of \$0.9 million drew down the future tax asset. The Company's effective tax rate was approximately 24% compared to its statutory tax rate of 36% due to an additional release of valuation allowance that was recorded against future tax assets in the prior year.

The valuation allowance at August 31, 2007 of \$15.1 million includes \$15.0 million of income tax assets primarily relating to non-capital loss carry forwards of certain related corporate entities within the consolidated group, including the parent company Score Media Inc.

Net income for the year ended August 31, 2007 was \$2.8 million, or \$0.03 per share based on a diluted weighted average 98.7 million Class A Shares

**SUPPORTING FACT:** Until 1978 tennis players could legally use anything as a tennis racket. In 1956 Carver Wilson made it as far as the semi-finals using his cat Mabel.

## LIQUIDITY AND CAPITAL RESOURCES

and Special Voting Shares outstanding compared to \$13.0 million, or \$0.14 per share based on a diluted weighted average 91.1 million Class A Shares and Special Voting shares outstanding in the prior year. For the year ended August 31, 2007, net income was net of income tax expense of \$0.9 million compared to income tax recovery of \$9.1 million in the prior year.

For the year ended August 31, 2007, net income also included non-cash stock based compensation expenses and depreciation which were higher than the prior year. Stock based compensation expenses were \$0.7 million for the current year compared to \$0.2 million in the prior year, an increase of \$0.5 million. The increase resulted primarily from the July 2007 vesting of stock options issued to the CEO pursuant to his Management Services Agreement. Depreciation was \$1.7 million in the current year compared to \$1.0 million in the prior year, an increase of \$0.7 million. The increase resulted from capital expenditures incurred to support new television and radio broadcasting equipment and the development of new media assets. In addition there was no income from discontinued operations in the current year, and for the year ended August 31, 2006 net income included \$0.1 million of income from discontinued operations.

Upon approval from the Company's shareholders in February 2007, the Company reduced the stated capital of the Class A Shares by \$70.7 million pursuant to section 38(1) of the Canada Business Corporations Act. The reduction in stated capital decreased the accumulated deficit of the Company as at February 28, 2007 to nil. No cash distribution was made in connection with the reduction in stated capital and this transaction had no impact on the Company's liquidity or results of operations.

Cash flows provided by continuing operations for the year ended August 31, 2007 were \$5.7 million compared to \$3.5 million provided by continuing operations in the prior year. The increase of \$2.2 million reflects an improvement in operating results in the current year and movements in operating working capital.

For fiscal 2008, the Company anticipates that cash flows provided by operations will increase compared to fiscal 2007 based on anticipated increases in both advertising and subscriber revenues with more moderate increases in operating expenses. The Company's new business initiatives, particularly Score Mobile and theScore.com, are expected to contribute to increased operating profitability in fiscal 2008.

Cash flows provided by financing activities for the year ended August 31, 2007 were \$0.4 million compared to cash flows provided by financing activities of \$9.7 million in the prior year. The decrease of \$9.3 million was primarily as a result of the proceeds of an issue of equity securities in 2006. On February 8, 2006 the Company completed the sale of 11,800,000 Class A Shares to the public at a price of \$0.85 per share. On February 15, 2006, the underwriter exercised an option to acquire 1,770,000 Class A Shares at \$0.85 per share, being the price of the offering to cover over-allotments, representing an amount of 15% of the total number of Class A Shares initially offered. As a result, a total of 13,570,000 Class A Shares were issued for gross proceeds of \$11.5 million. Costs of the transaction totaled \$1.1 million and the net proceeds were \$10.4 million.

As part of the offering of the Class A Shares, the Company granted the underwriter 949,900 warrants to acquire 949,900 Class A Shares at an exercise price of \$0.85 per warrant as partial compensation for services rendered. During the year ended August 31, 2007, the underwriter exercised the 949,900 warrants for net proceeds of \$0.8 million.

On August 28, 2007, the Company entered into a new \$25 million revolving three-year term credit facility with a Canadian chartered bank. The revolving credit facility is available to fund capital improvements and for general corporate purposes. The credit facility allows the Company to borrow by way of prime rate loans, bankers' acceptances ("BAs") or letters of guarantee. Loans and BAs bear interest at rates that are dependent on financial ratios. The provisions of the Company's bank credit facility impose restrictions, the most significant of which are restrictions on investments, sales of assets, and the maintenance of certain financial covenants. Financial covenants include total funded debt to EBITDA (earnings before interest, taxes, depreciation and amortization) and maximum capital expenditure amounts.

Loans under the credit facility are secured by a pledge of substantially all the assets of the Company, including a pledge of all the issued and outstanding shares of each of its subsidiaries and the subordination and pledge of shareholder and inter-company loans.

In August 2007 the Company drew \$9.3 million from the credit facility with the proceeds used to retire the existing term loan then in existence.

The Company believes that the equity issue in February 2006 together with its new credit facility provides it with sufficient working capital to support its operations for the foreseeable future.

Cash flows used in investment activities for the year ended August 31, 2007 were \$5.6 million compared to cash flows used in investment activities of \$2.1 million in the prior year, an increase of \$3.5 million. For the year ended August 31, 2007, fixed asset additions were approximately \$5.5 million compared to \$2.0 million in the prior year, while additions to deferred charges for the year ended August 31, 2007 were \$0.2 million compared to \$0.1 million in the prior year. Fixed asset additions resulted primarily from new investments in television and radio broadcasting equipment, information technology and development of new media technologies.

For fiscal 2008, the Company anticipates a capital expenditure program for replacing and purchasing new fixed assets that will result in costs of approximately \$15 million. These expenditures include the completion of a new high definition television studio and high definition television equipment, developing a 'street-front' presence at The Score's location, and continued development expenditures for Score Mobile, theScore.com and other interactive initiatives. The fiscal 2008 capital expenditure program can be financed by cash flows from operations and cash and cash equivalents on hand.

Other than the credit facilities described above, 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.

## CONTRACTUAL OBLIGATIONS

The Company has no debt guarantees, capital leases or long-term obligations other than loans and the capital lease, which are disclosed on the Consolidated Balance Sheets as at August 31, 2007 and August 31, 2006 and the Notes thereto.

Contractual operating obligations are as follows:

Contractual obligations (in thousands of dollars)	2008	2009	2010	2011	2012	There- after	Total
Operating lease obligations	\$ 1,982	\$ 1,452	\$ 1,230	\$ 728	\$ 578	\$ 1,167	\$ 7,137
Programming rights obligations	2,382	1,938	2,026	30	—	—	6,376
Long-term debt obligations	—	—	9,250	—	—	—	9,250
<b>Total</b>	<b>\$ 4,364</b>	<b>\$ 3,390</b>	<b>\$ 12,506</b>	<b>\$ 758</b>	<b>\$ 578</b>	<b>\$ 1,167</b>	<b>\$ 22,763</b>

**SUPPORTING FACT:** The actual playing time of a two and half hour Major League Baseball game, has been clocked at 9 minutes and 55 seconds. Officially making it 5 seconds shy of being a real sport.

## RELATED PARTY TRANSACTIONS

During 2007, the Company obtained consulting services from a director of the Company. In addition, in the prior year, the Company retained legal services from a firm, one partner of which is a director of the Company. The services were provided in the ordinary course of business and amounted to \$27,000 and nil (2006 – \$26,000 and \$8,000), respectively.

The Company entered into a lease in December 2005 for a property partially owned by a director and officer of the Company. The lease ended August 31, 2006 and continued on a month-to-month basis until May 15, 2007, when the Company entered into a five-year lease for such premises; the aggregate rent paid during 2007 amounted to \$116,000 (2006 – \$105,000).

All related party transactions have been reported at their fair values.

The Company announced on June 20, 2007 that its controlling shareholder, Levfam Holdings Inc. (“Levfam”) had delivered a notice to CW Media Inc. (“CW”), formerly Alliance Atlantis Communications Inc., a shareholder of the Company, offering to sell all of the Class A Shares and Special Voting Shares of the Company held by Levfam and its affiliates and associates for a price of \$2.90 per share.

The Company's Board of Directors established a special committee to assess any potential change of control transaction that may result from Levfam's notice to CW Media. The special committee retained Genuity Capital Markets as its financial advisor in connection with any potential change of control transaction involving the Company. Levfam's notice was provided pursuant to a Respective Rights Agreement made November 24, 2000, to which Levfam, CW Media and the Company are parties. The provisions of the Respective Rights Agreement provided that CW Media had a 30-day period in which to choose to accept the offer set forth in the notice, and as CW Media did not accept the offer, Levfam has a period of 120 days during which it may enter

into a binding agreement to sell its shares in the Company to one or more third parties, provided that such sale is made for a price and on terms and conditions no more favourable than those offered to CW Media in the notice. There can be no assurance that any transaction will be agreed to with another third party to acquire Levfam's shares on the permitted terms.

The Company also announced on June 20, 2007 that it had entered into an agreement with Levfam relating to the sale to Levfam of the Company's Hardcore Sports Radio business for a price of \$1.5 million. The sale is conditional upon the acquisition by CW Media or other third parties of Levfam's shares of the Company at a price of not less than \$2.90 per Class A Share, in addition to a number of other conditions. The agreement may be terminated if the sale by Levfam of its share of the Company to CW Media or a third party has not been completed by November 17, 2007, unless Levfam enters into such an agreement prior to that date, is diligently pursuing the sale transaction and completes the sale by June 20, 2008. The Company's Board of Directors, upon the recommendation of the special committee, approved the proposed Hardcore Sports Radio transaction. Genuity Capital Markets provided the special committee with advice as to the appropriateness of the consideration to be received by the Company.

As at June 20, 2007, Levfam and certain of its affiliates and associates held 36,743,552 Class A Shares, representing approximately 37.8% of the total number of Class A Shares outstanding, and 5,566 Special Voting Shares, representing 55.7% of the total number of the Special Voting Shares outstanding.

There can be no assurance that any transaction will be agreed to with another third party to acquire Levfam's shares on the permitted terms.

## CRITICAL ACCOUNTING 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, but not limited to, the allowance for doubtful accounts, income tax valuation allowances, the useful lives of depreciable assets and 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; and where appropriate, seeks advice from qualified third parties and makes judgments which in the opinion of that time represent fair, balanced and appropriate conservative estimates and assumptions. Actual results could differ from those estimates.

### Allowance for doubtful accounts

The Company has an accounts receivable balance of \$6.6 million at August 31, 2007 (\$6.3 million at August 31, 2006). The valuation of accounts receivable requires significant estimates to be made by management and the valuation of these balances could have a significant impact on the Company's consolidated financial statements. These accounts receivable are comprised of amounts arising from: (a) contractual arrangements with major cable and direct-to-home (“DTH”) satellite companies for distribution of its standard definition and high definition television service, each of which varies in length; and (b) a large and diverse base of advertisers that contract with the Company's television, radio, internet and other interactive operations. The Company determines an allowance for doubtful accounts based on knowledge of the financial conditions of its customers, the aging of the receivables, customer and industry concentrations, the current business environment and historical experience. At August 31, 2007, management has consistently

applied this methodology and the Company has had a history of minimal bad debt loss. A change in any of the factors impacting the estimate of the allowance for doubtful accounts will directly impact the amount of bad debt expense recorded in selling, general and administrative expenses.

### Income tax estimates

Management continually reviews the estimates of the valuation of future income tax assets recorded on the balance sheet to ensure they are appropriate. This involves the use of judgment in the estimation of future income projections on an entity by entity basis, actual tax exposures, assessing temporary differences that result from differing treatments in items for accounting purposes versus tax purposes, and in estimating the recoverability of the benefits arising from tax loss carryforwards. Management is required to assess whether it is more likely than not that future income tax assets will be realized prior to the expiration of the related tax loss carry forwards.

Changes in the forecasts of future profitability, the utilization of income tax loss carry forwards and the valuation allowance could have a material impact on the reported amounts for future income tax assets and future income tax expense.

### Acquired program rights

Acquired program rights are carried at the lower of cost less accumulated amortization and net realizable value. Acquired program rights and the related liabilities are recorded when the license period begins and the program is available for use.

The costs of acquired program rights are charged to expense over their estimated useful life based on the current year's revenue to estimated total gross revenue from such programs. Estimates of total gross revenue can

**SUPPORTING FACT:** Gandhi once provided advice on diet for the world famous strongman Charles Atlas. It went something like this, “If you eat one more cow I'm going to do nothing...quietly.”

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.

**Stock based compensation**

The Company records stock based compensation expense over the vesting period of the options based on the estimated fair value of the stock options granted. The Company's policy is to determine the exercise price of an option based on the average trading price for five days prior to the grant.

The Company uses the Black-Scholes option pricing model to estimate the fair value of stock options on the grant date and the amount is expensed over the vesting period of the stock options. The assumptions used in the calculation of fair value include the risk free interest rate, dividend yield, volatility factor and expected life of the options.

The risk free interest rate is based on the then current risk free interest rate for the expected life of the option. The dividend yield is based on the Company's historical practice of dividend payments. The volatility factor is based on analysis of the history of the Company's share price and management's estimate of the expected volatility over the respective terms of the options. The expected life of the option is based on the expected length of time options are estimated to remain outstanding.

**Useful lives of depreciable assets**

The Company depreciates the cost of fixed assets over their respective estimated useful lives. These estimates of useful lives involve estimation and judgment. In determining the estimates of useful lives, the Company considers industry trends and changing technologies. On an annual basis, the Company reassesses the estimated useful lives to ensure they correspond with the anticipated life of the respective assets. If a technological change

happens more quickly than anticipated, the Company may have to revise the estimates of useful lives of fixed assets which could result in higher depreciation expense in future periods or an impairment charge to write-down the value of the fixed assets.

**Recoverability of long-lived assets**

Long-lived assets, including fixed assets and intangible assets with finite useful lives, are depreciated over their estimated useful lives. The Company reviews 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 undiscounted 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. These analyses involve estimates of future cash flows and estimated periods of use. If the undiscounted net cash flows associated with a group of long-lived assets exceed the carrying amounts, impairment losses are measured as the excess of the carrying amount over the fair value.

**ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS**

**Non-monetary transactions:**

In 2005, the CICA issued Handbook Section 3831, Non-monetary transactions ("CICA 3831"), replacing Section 3830, Non-monetary transactions. CICA 3831 requires that an asset exchanged or transferred in a non-monetary transaction must be measured at its fair value except when: the transaction lacks commercial substance; the transaction is an exchange of a product or property held for sale in the ordinary course of business for a product or property to be sold in the same line of business to facilitate sales to

customers other than the parties to the exchange; neither the fair value of the asset received nor the fair value of the asset given up is reliably measurable; or the transaction is a non-monetary non-reciprocal transfer to owners that represents a spin-off or other form of restructuring or liquidation. In these cases the transaction must be measured at the carrying value. The new requirements were effective for transactions occurring in periods commencing after January 1, 2006.

**RECENT CANADIAN ACCOUNTING PRONOUNCEMENTS**

**Financial Instruments:**

In 2005, the CICA issued Handbook Section 3855, Financial Instruments – Recognition and Measurement, Handbook Section 1530, Comprehensive Income, and Handbook Section 3865, Hedges. The new standards will be effective for interim and annual financial statements commencing in fiscal 2008. Earlier adoption is permitted. The Company is assessing the impact of these new standards.

**RISKS AND UNCERTAINTIES**

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

The specialty television industry in which the Company 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 activities, general economic conditions, public tastes generally and other intangible factors. The lack of audience acceptance for the Company's specialty television channels could have an adverse impact on the Company's 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 of the Company.

The CRTC is undertaking a review of the regulatory frameworks for broadcasting distribution undertakings and discretionary programming services. The Public Hearing associated with this review will likely address in detail a number of areas of regulation impacting specialty television license holders including genre exclusivity, the authorization of non-Canadian satellite services, access and preponderance, distribution and linkage, and programming obligations. The results of this Public Hearing, including possible changes to the regulatory framework and the timing of the implementation of any such changes, cannot be predicted.

**SUPPORTING FACT:** Golf was banned in England in 1457 because it was considered a distraction from the serious pursuit of archery. Golfers came together in protest, but no one could hear their softly spoken objections.

#### **Dependence on Broadcast Distribution Undertakings**

The Score is dependent on BDU's (including cable, 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. During the year ended August 31, 2007, subscriber revenue from two BDUs represented 11% and 10% of the Company's consolidated revenue.

#### **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 of the Company.

#### **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.

#### **Reliance on Key Personnel**

The Company relies to a significant degree on the experience, leadership and skills of John Levy and other members of the executive management team.

If any of these individuals were to be unavailable, the Company could find it difficult to locate replacement individuals with similar skills and knowledge of the industry. There are other senior executives and production personnel engaged by the Company who provide useful services and who would be difficult for the Company to replace on short notice. A loss of any of these key personnel could have an adverse impact on the business, results of operations, and financial condition of the Company.

#### **Management of Growth**

Growth in the Company's businesses will place demands on its managerial and operations resources. If the Company is unable to manage its growth effectively, this could have a material adverse effect on its financial condition and results of operations.

#### **Competition**

The television broadcasting business, in which the Company is engaged is intensely competitive, fragmented and subject to rapid technological change and frequent new content and service introductions and enhancements. Many of the Company's existing competitors are significantly larger and have substantially greater financial, technical, personnel, marketing and other resources than the Company and may have more established reputations for success in their respective businesses. The Company may also face future competition from new services. There can be no assurance that the Company will be able to successfully compete with such competitors and competitive pressures may result in downward pressure on subscriptions, subscription rates and advertising revenues.

#### **Canadian Ownership**

In order for the Company's broadcasting subsidiaries to renew or amend their broadcasting licenses, the Company must meet certain Canadian

ownership requirements as set out in the Direction and be controlled in fact by Canadians. Failure to comply with the Direction will prevent the Company's broadcasting subsidiaries from being issued broadcasting licenses or from having these licenses renewed or amended which would materially adversely affect the business of the Company. Provisions in the Company's articles permit the board of directors to impose certain restrictions on the ownership and transfer of the Company's voting shares if in the view of the directors restrictions are necessary to ensure the Company's broadcasting subsidiaries remain eligible to be issued CRTC licenses or renew or amend these licenses. These restrictions include prohibiting the issuance of the Company's shares or refusing to register the transfer of such shares in certain circumstances. Such provisions may have the effect of limiting transactions involving a change of control of the Company to those undertaken only by Canadian acquirers. Any amendment of certain provisions of the Company's articles (including provisions regarding the issuance or transfer of shares) will require the affirmative vote of at least 66 2/3% of the outstanding shares voting thereon.

#### **Control and Significant Interest of Concentrated Shareholder Base**

Entities controlled by John Levy own 55.7% of the Company's Special Voting Shares and approximately 37.6% of the Company's Class A Shares. In addition, CW owns 44.3% of the Special Voting Shares and approximately 21.9% of the Class A Shares. Through John Levy's indirect ownership of the Special Voting Shares and the rights of John Levy, and Levfam in the Respective Rights Agreement and the Voting Rights Agreement, John Levy controls the Company and is entitled to nominate a majority of the members of the board of directors of the Company. As a result of Levfam's rights of first refusal in the Respective Rights Agreement, and CW's rights of first offer in the same agreement, each of these entities will have significant influence over any sale of the Company's shares or any sale of the shares, or all or substantially all of the assets of, the Company or any other specialty channel owned directly or indirectly by the Company.

In addition, if John Levy divests his indirect ownership interest in Class A Shares below the Threshold Amount (as defined in "Principal Shareholders — Respective Rights Agreement and Voting Rights Agreement — Deemed Conversion") following which the Special Voting Shares indirectly owned by him are deemed to have been converted to Class A Shares, CW (for so long as it owns Class A Shares at least equal to the Threshold Amount) will hold a majority of the Special Voting Shares, will acquire the rights of John Levy and Levfam in the Respective Rights Agreement and Voting Rights Agreement and will control the Company.

Due to the shareholdings and contractual rights of John Levy and Levfam referred to above, John Levy will be in a position to determine whether the Company or its operations are acquired by a third party, to significantly influence the election of the boards of directors of the Company and its subsidiaries, and to generally direct the affairs of the Company.

#### **Possible Volatility of Stock Price**

The market price of the Company's Class A Shares has been volatile due to the emerging nature of the Company as well as general stock market volatility in the past year. There is no guarantee this volatility will subside in the future. Hence, a potential investor in the Company's shares must be prepared to incur a loss and should generally have a longer investment time horizon. The Company believes it can build significant shareholder value over time by applying its growth strategies and focusing on the markets in which it operates.

#### **Regulatory Approval of Certain Transactions Involving the Company**

Transfers of ownership or control of a licensed broadcasting undertaking such as a specialty television service are subject to prior CRTC approval. In addition, the acquisition of certain levels of ownership in a licensed broadcasting undertaking must receive prior approval by the CRTC. Attempts

### **SUPPORTING FACT:**

In the ancient Greek city-state of Sparta, if a man was not married by age 30, he would not be allowed to watch athletic events involving nude young men. Which oddly enough sounds more like a reward than a punishment.

by the Company to undertake selective acquisitions of licensed broadcasting undertakings are subject to prior CRTC approval. Future strategic alliances and partnership opportunities may also be subject to CRTC approval. CRTC approval for such initiatives cannot be guaranteed. Should the CRTC not grant any necessary approvals or should it impose costly conditions on such approvals, the Company's growth strategy will be adversely affected.

#### Risks Related to Online Poker

Although the Company believes that the operation of a play-for-fun poker website is lawful in Canada, there remains a risk that the legality of such activity, and the advertising of the same or similar activities, may be challenged by Canadian legal authorities, or by authorities in other jurisdictions. If such a challenge were to occur and be upheld, it could involve substantial litigation expense, penalties, or other remedies or restrictions being imposed on the Company.

## DISCLOSURE CONTROLS AND PROCEDURES

Based on their evaluation of the Company's disclosure controls and procedures as of the end of the period covered by this Management's Discussion and Analysis, the Chief Executive Officer and Chief Financial Officer have concluded that such controls and procedures are effective.

## OUTLOOK

Moving forward into 2008, the Company intends to continue to focus on growing its primary asset, The Score Television Network while expanding the development of related sports media properties and applications such as Hardcore Sports Radio, Score Poker, Score Mobile, theScore.com and novel web-based initiatives.

## MANAGEMENT'S REPORT

The consolidated financial statements and other financial information in this annual report were prepared by the management of Score Media Inc., reviewed by the Audit Committee and approved by the Board of Directors. Management is responsible for the consolidated financial statements and believes that they present fairly the Company's financial condition and results of operations in conformity with generally accepted accounting principles. Management has included in the Company's consolidated financial statements amounts based on estimates and judgments that it believes are reasonable under the circumstances. To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control, which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further assures the quality of the financial records through careful selection and training of personnel, and through the adoption and communication of financial and other relevant policies. The shareholders have appointed KPMG LLP, Chartered Accountants to audit the consolidated financial statements. Their report outlines the scope of their examination and their opinion.



John S. Levy  
Chairman and CEO  
November 7, 2007



Patrick G. Michaud  
Executive Vice President and CFO

## CONSOLIDATED FINANCIAL STATEMENTS OF SCORE MEDIA INC. YEARS ENDED AUGUST 31, 2007 AND 2006

## AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Score Media Inc. as at August 31, 2007 and 2006 and the consolidated statements of operations and retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants, Licensed Public Accountants



Toronto, Canada

November 7, 2007

**SUPPORTING FACT:** The best shuttlecocks are made from feathers taken from the wing of a goose. The goose disagrees.

# SCORE MEDIA INC.

## Consolidated Balance Sheets (In thousands of dollars)

August 31, 2007 and 2006		
	2007	2006
<b>ASSETS</b>		
Current assets:		
Cash & cash equivalents	\$ 11,564	\$ 11,101
Accounts receivable	6,642	6,279
Prepaid expenses and deposits	853	712
Future tax assets (note 10)	1,963	1,741
	21,022	19,833
Fixed assets (note 2)	8,034	4,275
Deferred charges (note 3)	332	577
Future tax assets (note 10)	6,317	7,401
	\$ 35,705	\$ 32,086
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Term loan (note 4)	–	1,000
Accounts payable & accrued liabilities	3,037	3,330
Current portion of capital lease obligation (note 5)	37	40
	3,074	4,370
Revolving credit facility (note 4)	9,250	–
Term loan (note 4)	–	9,000
Capital lease obligation (note 5)	52	90
Shareholders' equity (note 6)	23,329	18,626
Commitments (note 8)		
	\$ 35,705	\$ 32,086
See accompanying notes to consolidated financial statements.		
On behalf of the Board:		
		
John S. Levy	Mark A. Scholes	
Chairman and Chief Executive Officer	Director	

## Consolidated Statements of Operations and Retained Earnings (Deficit) (In thousands of dollars, except per share amounts)

Years ended August 31, 2007 and 2006		
	2007	2006
<b>REVENUE</b>	\$ 33,534	\$ 29,075
Production and other direct expenses	14,219	12,880
Selling, general & administration expenses	9,876	8,858
Program rights	3,551	2,026
	27,646	23,764
Income before the undernoted	5,888	5,311
Gain on sale of investments	21	11
Income from continuing operations before the undernoted	5,909	5,322
Interest expense, net	149	360
Depreciation	1,717	1,028
Amortization	395	131
	2,261	1,519
Income from continuing operations before income taxes	3,648	3,803
Future income tax expense (recovery) (note 10)	861	(9,142)
Income from continuing operations	2,787	12,945
Income from discontinued operations	–	91
Net income	2,787	13,036
Deficit, beginning of year	(71,849)	(84,885)
Reduction in stated capital (note 6(a)(ii))	70,716	–
Retained earnings (deficit), end of year	\$ 1,654	\$ (71,849)
Income per share (note 7):		
Income per share from continuing operations – basic and diluted	\$ 0.03	\$ 0.14
Income per share – basic and diluted	0.03	0.14
Weighted average number of Class A Subordinate Voting and Special Voting shares outstanding (note 7):		
Basic	97,063,122	90,334,627
Diluted	98,740,531	91,118,136
See accompanying notes to consolidated financial statements.		

## Consolidated Statements of Cash Flows (In thousands of dollars)

Years ended August 31, 2007 and 2006		
	2007	2006
Cash provided by (used in):		
<b>Operations</b>		
Income from continuing operations	\$ 2,787	\$ 12,945
Items not involving cash:		
Depreciation	1,717	1,028
Amortization	395	131
Non-cash compensation expense	714	245
Future income tax expense (recovery)	861	(9,142)
Change in non-cash operating working capital:		
Accounts receivable	(363)	(1,065)
Prepaid expenses and deposits	(141)	(413)
Accounts payable and accrued liabilities	(293)	(196)
Cash flows from continuing operations	5,677	3,533
Cash flows used in discontinued operations	–	(13)
	5,677	3,520
<b>Financing:</b>		
Issuance of common shares and warrants	1,203	10,407
Loan borrowings	9,250	–
Loan repayments	(10,000)	(700)
Capital lease obligation repayments	(41)	(15)
	412	9,692
<b>Investments:</b>		
Additions to fixed assets	(5,476)	(2,022)
Deferred charges	(150)	(115)
	(5,626)	(2,137)
Increase in cash and cash equivalents	463	11,075
Cash and cash equivalents, beginning of year	11,101	26
Cash and cash equivalents, end of year	\$ 11,564	\$ 11,101
Supplemental cash flow information: Interest paid	\$ 149	\$ 593
Supplemental disclosure of non-cash transactions:		
Additions to fixed assets – capital lease obligation	–	145
See accompanying notes to consolidated financial statements.		

Score Media Inc. (the "Company") is a media company committed to creating consumer value through creative solutions, technology and innovation in response to sports fans' growing desire for increased participation in their consumption of sports content. The Company's main asset is The Score Television Network Ltd. ("The Score"), a national specialty television service providing sports news, information, highlights and live event programming, available across Canada in more than 6.2 million homes.

The Company also operates Hardcore Sports Radio, a satellite radio network available across North America on SIRIUS Satellite Radio, and is growing its interactive platform, with assets including theScore.com, Score Mobile, Canada's leading wireless sports application, and Score Poker, an interactive play-for-fun poker site.

### 1. Significant accounting policies:

#### (a) Basis of presentation:

The consolidated financial statements include the accounts of the Company and its subsidiaries and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All significant intercompany balances and transactions have been eliminated upon consolidation.

#### (b) Fixed assets:

Fixed assets are recorded at cost and depreciated over their estimated useful lives. 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 shorter of estimated useful life and term of lease

**SUPPORTING FACT:** A squash ball moving at 150 kilometers per hour has the same impact of a .22 caliber bullet. So next time the boys at the YMCA ask you to play, you have two reasons to decline.

**1. Significant accounting policies (continued):**

(c) Impairment of long-lived assets:

Long-lived assets, including fixed assets and intangible assets with finite useful lives, are depreciated over their estimated 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, 2007 and 2006, no such impairments in the carrying value of these assets existed.

(d) 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 licence and are being amortized on a straight-line basis over the term of the licence.

Trademarks are being amortized on a straight-line basis over the expected useful life of the asset.

(e) 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.

(f) Pre-operating costs:

During the development and pre-operating phases of new products and businesses, related incremental costs are deferred and amortized on a straight-line basis over a period of three years.

(g) Acquired program rights:

Acquired program rights are carried at the lower of cost less accumulated amortization and net realizable value. Acquired program rights and the related liabilities are recorded when the licence period begins and the program is available for use.

The cost of acquired program rights are charged to expense over their estimated useful life 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.

(h) 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. Income tax expense or benefit is the sum of the Company's provision for current income taxes and the difference between the opening and ending balances of the future income tax assets and liabilities.

(i) Revenue recognition:

The Company recognizes revenue once persuasive evidence of an arrangement exists, services have been rendered, fees are fixed and determinable and collectibility is reasonably assured. The Company has two principal sources of revenue - subscription fees and advertising revenue.

- (i) The Company has contracts with broadcast distribution undertakings ("BDUs"), which provide for subscription fees based on the number of BDUs subscribers reported each month. Revenue is recognized monthly based on the number of subscribers reported; and

- (ii) Advertising revenue is recorded at the time advertisements are aired. Funds received from advertising customers in advance of the advertisement's airing are recorded as unearned revenue.

The Company periodically exchanges advertising time for the rights to broadcast programming on the television service. Revenue related to advertising barter transactions is recorded at fair value, which is determined based on the Company's historical practice of receiving cash for similar advertising from buyers unrelated to the counterparty in the barter transaction. There were no gains or losses associated with the Company's barter transactions in 2007. Barter transactions for the year were approximately \$916 (2006 \$222).

(j) Stock-based compensation:

The Company accounts for all stock-based payments using the fair value-based method. The estimated fair value is amortized to expense over the period in which the related services are rendered, which is usually the vesting period or, as applicable, over the period to the date an employee is eligible to retire, whichever is shorter.

(k) Measurement uncertainty:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant estimates are used in determining, but not limited to, the allowance for doubtful accounts, income tax valuation allowances, the useful lives of depreciable assets and the recoverability of fixed assets and deferred charges. Actual results could differ from those estimates.

(l) Income per share:

Basic income per share is calculated by dividing the income available to shareholders by the weighted average number of Class A Subordinate Voting shares and Special Voting shares outstanding during the year. Diluted income per share is calculated using the treasury stock method, which assumes that all stock options with exercise prices below the market prices are exercised

with the proceeds used to purchase shares of the Company at the average market price during the year.

(m) Cash and cash equivalents:

The Company considers all highly liquid investment instruments with a maturity of three months or less at the time of purchase to be cash equivalents.

**2. Fixed assets:**

2007	Cost	Accumulated depreciation	Net book value
Technical production equipment	\$ 11,217	\$ 7,736	\$ 3,481
Computer equipment	1,288	747	541
Computer software and video	1,933	1,012	921
Office equipment and furniture	1,108	369	739
Office equipment – capital lease	145	32	113
Leasehold improvements	4,110	1,871	2,239
	\$ 19,801	\$ 11,767	\$ 8,034

2006	Cost	Accumulated depreciation	Net book value
Technical production equipment	\$ 9,528	\$ 6,582	\$ 2,946
Computer equipment	942	617	325
Computer software and video	900	654	246
Office equipment and furniture	468	304	164
Office equipment – capital lease	145	5	140
Leasehold improvements	2,194	1,740	454
	\$ 14,177	\$ 9,902	\$ 4,275

Depreciation expense for the year ended August 31, 2007 amounted to \$1,717 (2006 – \$1,028).

**SUPPORTING FACT:** Canada beat Denmark 47-0 at the 1949 world hockey championships. Shortly after, Prime Minister St. Laurent sent a note on behalf of Canada. It read, "Try curling."

### 3. Deferred charges:

	2007	2006
Pre-operating costs, less accumulated amortization of \$46 (2006 – \$12)	\$ 62	\$ 76
Licence costs, less accumulated amortization of \$160 (2006 – \$711)	120	160
Trademarks, less accumulated amortization of \$8 (2006 – \$128)	101	28
Financing costs, less accumulated amortization of \$1 (2006 – \$97)	49	313
	\$ 332	\$ 577

Amortization of deferred charges for the year ended August 31, 2007 amounted to \$395 (2006 – \$131).

### 4. Loans:

On August 28, 2007, the Company entered into a new \$25,000 revolving three-year term credit facility with a Canadian chartered bank. The credit facility allows the Company to borrow by way of prime rate loans, bankers' acceptances ("BAs") or letters of guarantee. Loans and BAs bear interest at rates that are dependent on financial ratios. The provisions of the Company's bank credit facility impose restrictions, the most significant of which are restrictions on investments and the maintenance of certain financial covenants. Financial covenants include total funded debt to EBITDA (earnings before interest, taxes, depreciation and amortization) and maximum capital expenditure amounts. The revolving credit facility is available to fund capital improvements and for general corporate purposes.

Loans under the credit facility are secured by a pledge of substantially all the assets of the Company, including a pledge of all the issued and outstanding

shares of each of its subsidiaries and the subordination and pledge of shareholder and intercompany loans.

On August 31, 2007, the Company drew \$9,250 from the revolving credit facility with the proceeds used to retire the balance of the term loan then in existence.

The Company was in compliance with the financial covenants included in the loan agreement as at August 31, 2007.

For the year ended August 31, 2007, interest expense includes interest on the bank loans of \$607 (2006 – \$593). Interest expense is net of interest income of \$458 (2006 – \$234). In connection with the new revolving credit facility, the Company wrote off \$241 in deferred financing charges related to the previous term loan.

The weighted average interest rate for the year ended August 31, 2007 was 6.3% (2006 – 5.9%).

### 5. Capital lease obligation:

In April 2006, the Company entered into a four-year capital lease arrangement for office equipment at a cost of \$145. Interest on the obligation is at a rate of 8%. Included in fixed assets is equipment with a net book value of \$113 as at August 31, 2007 (2006 – \$140). The capital lease obligation is repayable in the amount of approximately \$10 per quarter.

### 6. Shareholders' equity:

	2007	2006
Capital stock (a)	\$ 19,753	\$ 88,935
Warrants	–	284
Contributed surplus (b)	1,922	1,256
Retained earnings (deficit)	1,654	(71,849)
	\$ 23,329	\$ 18,626

#### (a) Capital stock:

	2007	2006
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		
Issued:		
10,000 Special Voting shares	\$ 30	\$ 30
97,800,182 Class A Subordinate Voting shares (2006 – 96,357,034)	19,723	88,905
	\$ 19,753	\$ 88,935

Details of capital stock transactions are as follows:

	Number of shares issued		Amount credited to capital	
	Class A Subordinate Voting	Special Voting	Class A Subordinate Voting	Special Voting
Balance, August 31, 2005	82,763,284	10,000	\$ 78,782	\$ 30
Equity issuance (i)	13,570,000	–	10,116	–
Options exercised	23,750	–	7	–
Balance, August 31, 2006	96,357,034	10,000	88,905	30
Options exercised	493,248	–	442	–
Warrants exercised (i)	949,900	–	1,092	–
Reduction in stated capital (ii)	–	–	(70,716)	–
Balance, August 31, 2007	97,800,182	10,000	\$ 19,723	\$ 30

(i) On February 8, 2006, the Company completed the sale of 11,800,000 Class A Subordinate Voting shares to the public at a price of \$0.85 per share. On February 15, 2006, the underwriter exercised an option to acquire 1,770,000 Class A Subordinate Voting shares at \$0.85 per share, being the price of the offering to cover over-allotments, representing an amount of 15% of the total number of Class A Subordinate Voting shares initially offered. As a result, a total of 13,570,000 Class A Subordinate Voting shares were issued for gross proceeds of \$11,535. Costs of the transaction totalled \$1,135 and net proceeds were \$10,400.

As part of the offering of the Class A Subordinate Voting shares, the Company granted the underwriter 949,900 warrants to acquire 949,900 Class A Subordinate Voting shares at an exercise price of \$0.85 per warrant as partial

**SUPPORTING FACT:** Wrestling is the oldest sport in the world. However, historians typically refer to its earliest forms as mating.

compensation for services rendered. The fair value of the warrants of \$284 was estimated on the date of grant and was to expire in August 2007. During the year ended August 31, 2007, the underwriter exercised the 949,900 warrants for net proceeds of \$807. No warrants remain outstanding as at August 31, 2007.

(ii) On February 28, 2007, the Company reduced the stated capital of the Class A Subordinate Voting shares by \$70,716 pursuant to section 38(1) of the Canada Business Corporations Act. The reduction in stated capital decreased the accumulated deficit of the Company as at February 28, 2007 to nil. No cash distribution was made in connection with the reduction in stated capital.

(b) 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 Subordinate Voting shares. Of the Class A Subordinate Voting shares issued and outstanding, 7,345,918 are reserved for issue under the Plan from time to time. Under the Plan, the exercise price must not be less than the market price of the Class A Subordinate Voting shares at the date of the grant. An option's maximum term is 10 years and options generally vest over three years.

The following table summarizes the status of the Plan:

	Number	Exercise price	Weighted average exercise price
Outstanding options, August 31, 2005	2,881,667	\$ 0.28 - 3.11	\$ 0.84
Granted	510,000	0.55	0.55
Cancelled	(450,417)	0.28 - 3.11	2.54
Exercised	(23,750)	0.28 - 0.43	0.31
Outstanding options, August 31, 2006	2,917,500	0.28 - 1.00	0.55
Granted	1,232,500	0.84 - 2.30	1.43
Cancelled	(98,333)	0.28 - 1.00	0.51
Exercised	(493,248)	0.28 - 1.00	0.80
Outstanding options, August 31, 2007	3,558,419	\$ 0.28 - 2.30	\$ 0.80
Options exercisable, August 31, 2007			2,647,998
Options exercisable, August 31, 2006			2,230,832

During the year ended August 31, 2007, the Company recorded compensation expense of \$714 (2006 – \$245), of which nil (2006 – \$5) was recognized for stock options issued to non-employees under the plan.

The weighted average estimated fair value at the date of grant for options granted during the year ended August 31, 2007 is \$0.66 (2006 – \$0.24).

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

	2007	2006
Risk-free interest rate	4%	4%
Dividend yield	—	—
Volatility factor of the future expected market price of common shares	50%	50%
Weighted average expected life of the options	5 years	5 years

As at August 31, 2007, the weighted average remaining contractual life of the options exercisable and outstanding was 2.8 years and 3.0 years, respectively.

The following summarizes information about stock options at August 31, 2007:

Exercise price	Number of options outstanding	Weighted average remaining contractual life (years)	Number of options exercisable
\$0.28	272,500	0.7	272,500
0.36	200,000	0.4	200,000
0.43	484,501	2.3	389,497
0.54	1,000,000	2.8	1,000,000
0.55	375,167	3.2	170,168
0.84	726,251	4.2	115,833
2.30	500,000	4.8	500,000
	3,558,419	3.0	2,647,998

In 2005, the Company approved options to acquire 500,000 Class A Subordinate Voting shares to be granted to the CEO with a vesting date of July 1, 2007 and at an exercise price per share equal to the market price on July 1, 2007. These options were granted and vested on July 1, 2007 at an exercise price of \$2.30. In addition, the Company approved options to acquire 500,000 Class A Subordinate Voting shares with a vesting date of July 1,

2008, and at an exercise price per share equal to the market price on July 1, 2008.

(c) Employee share purchase plan:

The Company has an employee share purchase plan (the "ESPP") in order to facilitate the acquisition of Class A Subordinate Voting shares of the Company and the retention of such Class A Subordinate Voting shares by eligible employees. The ESPP allows the employees to voluntarily participate in a share purchase program. Under the terms of the ESPP, eligible employees may have up to 5% of their compensation deducted from their pay to contribute towards the purchase of Class A Subordinate Voting shares. The Company will make a contribution equal to the amount of the compensation contributed by each employee one year from the date of the initial contribution. The Company's Class A Subordinate Voting shares are purchased by an independent broker through the facilities of the Toronto Stock Exchange and are held by a custodian on behalf of the ESPP participants.

**SUPPORTING FACT:** In 2007 Jason Wynyard won the Lumberjack's World Championship. He says the key to his success is a profound hate for trees.

**7. Basic and diluted income per share:**

Basic and diluted income per share have been calculated using the weighted average and dilutive number of shares outstanding during the year, which amounted to 97,063,122 and 98,740,531 (2006 – 90,334,627 and 91,118,136) shares, respectively.

The following table sets forth the computation of diluted income per share:

	2007	2006
<b>Numerator:</b>		
Net income available to shareholders	\$ 2,787	\$ 13,036
<b>Denominator:</b>		
Weighted average shares outstanding – basic	97,063,122	90,334,627
Effect of dilutive stock options	1,677,409	783,509
<b>Weighted average shares outstanding – diluted</b>	<b>98,740,531</b>	<b>91,118,136</b>
<b>Income per share:</b>		
Basic	\$ 0.03	\$ 0.14
Diluted	0.03	0.14

During the year ended August 31, 2007, options to purchase 500,000 (2006 – 327,500) Class A Subordinate Voting shares were outstanding but not included in the computation of diluted income per share because the exercise price was greater than the average market price of the Class A Subordinate Voting shares for the year.

**8. 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:

2008	\$ 2,382
2009	1,938
2010	2,026
2011	30
	<b>\$ 6,376</b>

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

2008	\$ 1,982
2009	1,452
2010	1,230
2011	728
2012	578
Thereafter	1,167
	<b>\$ 7,137</b>

Operating lease expense for the year ended August 31, 2007 was \$895 (2006 – \$1,340).

(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 as defined by the CRTC from The Score for the year ended August 31, 2007 was \$31,966 (2006 – \$28,178).

**9. 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-term nature of these financial instruments.

The fair value of the Company's loan under the bank credit facility approximates its carrying amount as the interest being charged approximates current market rates.

**10. Income taxes:**

The income tax effects of temporary differences that give rise to significant portions of the future income tax assets and future income tax liabilities are as follows:

	2007	2006
<b>Future income tax assets:</b>		
Non-capital income tax loss carryforwards	\$ 19,334	\$ 22,931
Fixed assets and deferred charges	4,158	3,947
Capital income tax loss carryforwards	53	67
	<b>23,545</b>	<b>26,945</b>
Less valuation allowance	15,239	17,760
	<b>8,306</b>	<b>9,185</b>
Future income tax liabilities	(26)	(43)
<b>Net future income tax assets</b>	<b>8,280</b>	<b>9,142</b>
Less current portion	1,963	1,741
	<b>\$ 6,317</b>	<b>\$ 7,401</b>

In assessing the realizability of future income tax assets, management considers whether it is more likely than not that some portion or all of the future income tax assets will be realized. The ultimate realization of future income tax assets is dependent upon the generation of future taxable income before the expiry of non-capital losses and the years in which the other temporary differences are deductible. Management considers the scheduled reversals of future income tax liabilities, the nature of the income tax assets and the tax planning strategies in place in making this assessment. To the extent that management believes that the realization of future income tax assets does not meet the more-likely-than-not realization criterion, a

**SUPPORTING FACT:** Sweden's National Sauna Champion is Ari Petrof. He stayed in a sauna for five hours and 10 minutes with a temperature of 212 degrees. More to the point, Sweden has a national sauna champion.

valuation allowance is recorded against the future tax assets.

In making an assessment of whether future income tax assets are more likely than not to be realized, management regularly prepares information regarding the expected use of such assets by reference to its internal budgets and income forecasts. Based on management's estimates of the expected realization of future income tax assets, during 2006, the Company reduced the valuation allowance to reflect that it is more likely than not that certain future income tax assets will be realized.

The valuation allowance at August 31, 2007 of \$15,239 includes \$15,213 of income tax assets primarily relating to non-capital loss carryforwards of certain legal entities within the consolidated group, including the parent company, Score Media Inc.

As at August 31, 2007, the Company has the following non-capital losses available to reduce future years' income for income tax purposes:

Income tax losses expiring in the year ending August 31:	
2008	\$ 10,735
2009	32,716
2010	7,010
2014	3,713
2015	635
2026	955
2027	1,781
	\$ 57,545

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

	2007	2006
Income tax expense based on the statutory income tax rate of 36.1% (2006 – 36.1%)	\$ 1,317	\$ 1,373
Utilization of losses previously included in valuation allowance	–	(1,798)
Reduction of valuation allowance	(1,549)	(9,142)
Valuation allowance for current year future tax assets	814	302
Tax effect of non-deductible and non-taxable items	279	123
Future income tax expense (recovery)	\$ 861	\$ (9,142)

**11. Related party transactions:**

(a) During 2007, the Company obtained consulting services from a director of the Company. In addition, in the prior year, the Company retained legal services from a firm, one partner of which is a director of the Company. The services were provided in the ordinary course of business and amounted to \$27 and nil (2006 – \$26 and \$8), respectively.

(b) The Company entered into a lease in December 2005 for a property partially owned by a director and officer of the Company. The lease ended August 31, 2006 and continued on a month-to-month basis until May 15, 2007 when the Company entered into a five-year lease for such premises; the aggregate rent paid during 2007 amounted to \$116 (2006 – \$105).

All related party transactions have been reported at their fair values.

The Company announced on June 20, 2007 that its controlling shareholder, Levfam Holdings Inc. ("Levfam"), had delivered a notice to CW Media Inc. (formerly Alliance Atlantis Communications Inc.) ("CW Media"), a shareholder of the Company, offering to sell all of the Class A Subordinate Voting shares and Special Voting shares of the Company held by Levfam and its affiliates and associates for a price of \$2.90 per share.

As at June 20, 2007, Levfam and certain of its affiliates and associates held 36,743,552 Class A Subordinate Voting shares, representing approximately 37.8% of the total number of Class A Subordinate Voting shares outstanding, and 5,566 Special Voting shares, representing 55.7% of the total number of the Special Voting shares outstanding. The Company's Board of Directors established a special committee to assess any potential change of control transaction that may result from Levfam's notice to CW Media. The special committee retained Genuity Capital Markets as its financial advisor in connection with any potential change of control transaction involving the Company.

The Company also announced on June 20, 2007 that it had entered into an agreement with Levfam relating to the sale to Levfam of the Company's Hardcore Sports Radio business for a price of \$1,500. The sale is conditional upon the acquisition by CW Media or other third parties of Levfam's shares of the Company at a price of not less than \$2.90 per Class A Subordinate Voting share, in addition to certain other conditions. The agreement may be terminated if the sale by Levfam of its shares of the Company to CW Media or a third party has not been completed by November 17, 2007, unless Levfam enters into such an agreement prior to that date, is diligently pursuing the sale transaction and completes the sale by June 20, 2008. The Company's Board of Directors, upon the recommendation of the special committee, approved the proposed Hardcore Sports Radio transaction. Genuity Capital Markets

provided the special committee with advice as to the appropriateness of the consideration to be received by the Company.

Levfam's notice was provided pursuant to a Respective Rights Agreement made November 24, 2000, to which Levfam, CW Media and the Company are parties. The provisions of the Respective Rights Agreement provided that CW Media had a 30-day period in which to choose to accept the offer set forth in the notice, and as CW Media did not accept the offer, Levfam has a period of 120 days during which it may enter into a binding agreement to sell its shares in the Company to one or more third parties, provided that such sale is made for a price and on terms and conditions no more favourable than those offered to CW Media in the notice.

There can be no assurance that any transaction will be agreed to with another third party to acquire Levfam's shares on the permitted terms.

**12. Significant customers:**

During the year ended August 31, 2007, two customers represented 11% and 10% (2006 – 12% and 12%) of the Company's consolidated revenue.

As at August 31, 2007, one customer represented 13% (2006 – 10%) of the Company's consolidated accounts receivable balance.

**SUPPORTING FACT:** Before 1850, golf balls were made of leather and were stuffed with feathers. At first they tried stuffing them with the entire bird, but soon found that the feathers were enough.



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**SUPPORTING FACT:** In 1870, British boxing champ Jim Mace and American boxer Joe Coburn fought for three hours and 48 minutes without landing one punch. At that time they were moved to the same ring and Mace proceeded to knock out Coburn in minutes.