



*S C O R E*  
*M E D I A*

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**Q3 – 2008**  
**Consolidated Financial Statements**  
**For the Three and Nine Months Ended**  
**May 31, 2008**

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SCORE  
MEDIA

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
For the Three and Nine Months Ended May 31, 2008**

The following is Management's Discussion and Analysis ("MD&A") of the financial condition of Score Media Inc. ("Score Media" or the "Company") and our financial performance for the three and nine months ended May 31, 2008. The MD&A should be read in conjunction with the interim consolidated financial statements of Score Media as at and for the three and nine months ended May 31, 2008. All amounts are in Canadian dollars unless otherwise stated. As a result of the rounding of dollar differences, certain total dollar amounts in this MD&A may not add exactly to their constituent amounts.

The discussion and analysis set out in this MD&A may contain certain forward-looking statements that involve risks and uncertainties. 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 Company's Annual Information Form dated November 13, 2007. 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. Unless otherwise stated, the information in this MD&A is presented as of July 10, 2008.

## HIGHLIGHTS

- Revenue for the three months ended May 31, 2008 was \$10.2 million, compared to \$9.4 million in the prior year, an increase of \$0.8 million. The Company exceeded \$10 million in quarterly revenue for the first time in its history.
- EBITDA (see "Definitions") for the three months ended May 31, 2008 was \$2.2 million compared to \$1.9 million in the same period last year, an increase of \$0.3 million.
- In March 2008 the Company launched its second year of cross-platform coverage of NCAA March Madness, featuring extensive coverage of the tournament on television, online, on mobile devices and on video-on-demand. In The Score's key 18-49 year old male demographic, television audiences were up 14% over tournament coverage in the prior year. On the web, unique visitors were up 27% versus the same period in 2007. Web coverage of the tournament included an online portal featuring exclusive video content, fantasy analysis, and real-time game blogs.
- In the Company's third quarter, the The Score provided significant coverage of the NBA basketball playoffs. Audiences for the NBA Playoffs were up 40% versus the prior year, including an increase of 38% in the key 18-49 year old male demographic.
- The Score broadcast the Canadian Interuniversity Sports basketball championship in high definition and achieved a record audience with a tournament average of 77,000 viewers, up 157% from 2007.
- This year fans could follow NCAA March Madness on the Apple iPhone and iPod touch via ScoreMobile iPhone Edition. In its first year of availability, the web-based application, which provides previews, box scores, and recaps, delivered more than 500,000 page views during the tournament and over 25,000 unique US and Canadian visitors. The tournament could also be followed on Canadian wireless carriers via ScoreMobile 2.0 and with video highlights and features available on ScoreMobile Video.

## **Overview**

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 6.3 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.

## **Definitions**

The Company focuses its analysis on EBITDA and net income. EBITDA and net income are reconciled in the tables below.

EBITDA is not a measure of performance under Canadian generally accepted accounting principles ("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), restructuring charges, gains and losses from investment sales, 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:

	<b>Three months ended May 31, 2008</b>	<b>Three months ended May 31, 2007</b>
	(000's)	(000's)
Net income for the period	\$ 684	\$ 723
Add back:		
Restructuring charges	37	-
Depreciation and amortization	818	483
Interest expense (net)	15	35
Income tax expense	631	683
<b>EBITDA</b>	<b>\$ 2,185</b>	<b>\$ 1,924</b>

	<b>Nine months ended May 31, 2008</b>	<b>Nine months ended May 31, 2007</b>
	(000's)	(000's)
Net income for the period	\$ 866	\$ 1,856
Less:		
Gain on sale of investments:	462	21
Add back:		
Restructuring charges	966	-
Depreciation and amortization	2,057	1,269
Interest expense (net)	24	114
Income tax expense	880	1,881
<b>EBITDA</b>	<b>\$ 4,331</b>	<b>\$ 5,099</b>

## Consolidated Results

The following selected quarterly financial data of the Corporation relates to the eight quarters ended May 31, 2008.

<b>Quarterly Results</b>	<b>Revenue</b>	<b>EBITDA</b>	<b>Net income</b>	<b>Income per share – basic and diluted</b>
	<b>(\$000's)</b>	<b>(\$000's)</b>	<b>(\$000's)</b>	<b>(\$)</b>
May 31, 2008	10,206	2,185	684	0.01
February 29, 2008	8,363	939	34	0.00
November 30, 2007	9,290	1,207	148	0.00
August 31, 2007	7,218	788	931	0.01
May 31, 2007	9,364	1,924	723	0.01
February 28, 2007	7,731	1,159	262	0.00
November 30, 2006	9,221	2,017	871	0.01
August 31, 2006	6,935	1,015	9,805	0.11

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

### ***Three Months Ended May 31, 2008***

*Revenue* for the three months ended May 31, 2008 increased by \$0.8 million to \$10.2 million compared to \$9.4 million in the prior year. This revenue increase was due to a combination of greater television subscriber revenue, increases in television advertising and barter revenues, and increased revenues from Hardcore Sports Radio and Score Media's interactive properties that were launched during the past 2 years.

Television subscriber revenue increased approximately \$0.1 million in the third quarter reflecting continued growth in the subscriber base with several broadcast distribution undertakings. Television advertising revenue increased by approximately \$0.2 million in the third quarter of fiscal 2008 compared to the prior year, reflecting successes in broadcasting several live event sports programs in the third quarter of fiscal 2008. The emerging business units and television barter transactions provided increased revenue of approximately \$0.5 million compared to the third quarter of fiscal 2007.

*Production and other direct expenses* were \$3.7 million for the three months ended May 31, 2008 compared to \$3.5 million in the prior year, an increase of \$0.2 million. This increase in operating expenses resulted from higher programming expenses associated with the Company's emerging business units and more live event programming expenses (particularly high definition production costs) amounting to \$0.2 million.

*Selling, general and administrative expenses* were \$3.0 million for the three months ended May 31, 2008 compared to \$2.6 million in the prior year, an increase of \$0.4 million. This increase resulted primarily from increased barter marketing costs.

*Program rights expenses* were \$1.3 million during the third quarter of 2008 and 2007. The Score continues to provide coverage of EPL soccer, NBA basketball, and NCAA basketball and football.

*EBITDA* for the three months ended May 31, 2008 was \$2.2 million compared to \$1.9 million in the same period last year, an increase of \$0.3 million. During the three months ended May 31, 2008 several streams of revenue increased compared with the same period in the prior year, with more moderate and anticipated increases in operating costs associated with high definition television programming, marketing efforts, and increased investment in the Company's emerging business units.

*Depreciation and amortization expense* increased \$0.3 million in the third quarter to \$0.8 million compared to \$0.5 million in the prior year, reflecting the depreciation of new fixed assets in The Score as well as in Hardcore Sports Radio and Score Media's interactive properties that were launched in the past 2 years. For the third quarter, fixed asset additions were \$6.2 million compared to \$1.2 million in the prior year, reflecting the Company's investment in high definition broadcasting infra-structure and in new software and computer equipment to support the emerging interactive properties.

*Net income* for the three months ended May 31, 2008 was \$0.7 million or \$0.01 per share based on a diluted weighted average 99.4 million Class A Subordinate Voting Shares and Special Voting Shares outstanding, consistent with the same period in the prior year based on a diluted weighted average 99.6 million Class A Subordinate Voting Shares and Special Voting Shares outstanding.

During the three months ended May 31, 2008 net income was net of future income tax expenses in the amount of \$0.6 million compared to \$0.7 million in the same period last year, a decrease of \$0.1 million. The Company's statutory tax rate in fiscal 2008 is 34.4% (2007 - 36.1%).

### ***Nine Months Ended May 31, 2008***

*Revenue* for the nine months ended May 31, 2008 increased by \$1.6 million to \$27.9 million compared to \$26.3 million in the prior year. This increase was due to increased television subscriber revenue and increased revenues from Hardcore Sports Radio, television barter transactions, and Score Media's interactive properties that were launched in the past 2 years.

Television subscriber revenue increased approximately \$0.4 million in the first nine months of fiscal 2008 reflecting continued growth in the subscriber base with several broadcast distribution undertakings. The emerging business units provided increased revenue of approximately \$0.8 million compared to the first nine months of fiscal 2007. In addition, the Company recorded an additional \$0.4 million in revenue related to television barter transactions in the first nine months of fiscal 2008 compared to the prior year.

*Production and other direct expenses* were \$11.7 million for the nine months ended May 31, 2008 compared to \$10.6 million in the prior year, an increase of \$1.1 million. This increase in operating expenses resulted from higher programming expenses associated with the Company's emerging business initiatives and more live event programming expenses (particularly high

definition production costs) amounting to \$0.9 million, and increased sports data and other technical expenses amounting to \$0.2 million.

*Selling, general and administrative expenses* were \$8.0 million for the nine months ended May 31, 2008 compared to \$7.3 million in the prior year, an increase of \$0.7 million. This increase resulted from increased barter marketing expenses.

*Program rights expenses* were \$3.8 million during the nine month period ended May 31, 2008, compared to \$3.3 million in the prior year, an increase of \$0.5 million. Program rights for the nine month period ended May 31, 2008 increased for live events such as EPL soccer, and NBA and NCAA basketball compared to the same period in fiscal 2007.

*EBITDA* for the nine months ended May 31, 2008 was \$4.3 million, compared to \$5.1 million during the same period last year, a decrease of \$0.8 million. During the nine months ended May 31, 2008 operating costs increased as anticipated reflecting increased spending for high definition television programming, marketing efforts, and increased investment in the Company's emerging business units.

*Restructuring charges* for the nine months ended May 31, 2008 amounted to \$1.0 million compared to nil for the same period in the prior year. During 2008 the Company incurred severance and related compensation charges as the Company transformed the structure of certain operational departments to be more in-line with the Company's growth strategy. To date, \$0.9 million has been paid in respect to these provisions, and as at May 31, 2008, \$0.1 million remains unpaid and is recorded in accrued liabilities. The Company anticipates that the balance of the restructuring accrual will be substantially paid in fiscal 2008.

*Gain on sale of investments* for the nine months ended May 31, 2008 amounted to \$0.5 million compared to nil for the same period in the prior year. In the second quarter of fiscal 2008 the Company sold a minority investment that was purchased in 2000 for proceeds of \$0.5 million; the investment was recorded at a nominal amount on the date disposed.

*Depreciation and amortization expense* for the nine month period ended May 31, 2008 increased \$0.8 million to \$2.1 million, compared to \$1.3 million in the prior year, reflecting the depreciation of new fixed assets in The Score as well as Hardcore Sports Radio and Score Media's interactive properties that were launched in the past 2 years. Fixed asset additions of \$10.5 million were largely associated with the Company's investment in high definition broadcasting infra-structure and in new software and computer equipment to support the emerging interactive properties.

*Net income* for the nine months ended May 31, 2008 was \$0.9 million or \$0.01 per share based on a diluted weighted average 99.3 million Class A Subordinate Voting Shares and Special Voting Shares outstanding, compared to \$1.9 million or \$0.02 per share based on a diluted weighted average 98.4 million Class A Subordinate Voting Shares and Special Voting Shares outstanding in the prior year. Net income declined in the comparative periods primarily due to a restructuring charge in the amount of \$1.0 million recorded in the first 9 months of fiscal 2008, in addition to increases in operating costs which were offset by increased revenues and a reduction in future income taxes.

During the nine months ended May 31, 2008, net income was net of future income tax expense of \$0.9 million compared to \$1.9 million in the same period last year, a decrease of \$1.0 million. The decrease in future income tax expense was the result of (i) reduced income taxes in the amount of \$0.6 million as a result of a decrease in pre-tax net income in comparison to the first nine months of 2007; (ii) an increase in future tax assets in the amount of \$0.4 million based on additional temporary differences arising in the first nine months of fiscal 2008 due to the significant capital expenditure program in the current year; and (iii) a release of valuation allowance in the amount of \$0.3 million. These factors were mitigated by additional future income tax expenses recorded based on a modification in corporate income tax rates. In December 2007, a federal corporate tax rate reduction was implemented by the government. The impact of this rate change was a reduction of the Company's tax asset in the amount of \$0.3 million.

The Company's statutory tax rate in fiscal 2008 has been reduced to 34.4% (2007 - 36.1%).

### **Liquidity and Capital Resources**

*Cash flows provided by operations* for the three months ended May 31, 2008 were \$2.2 million compared to \$1.4 million in the prior year. The increase of \$0.8 million reflects movements in non-cash working capital and increased depreciation related to the Company's HD studio build.

For the nine months ended May 31, 2008, cash flows provided by operations were \$4.6 million compared to \$3.2 million in the prior year. The increase of \$1.4 million reflects movements in non-cash working capital and increased depreciation and gain on sale of investments, which was partially offset by a reduction in net income and reduced future income taxes.

For the balance of fiscal 2008, the Company anticipates that cash flows provided by operations will increase compared to fiscal 2007 based on anticipated increases in both television advertising and subscriber revenues, coupled with additional revenues from the Company's interactive properties and Hardcore Sports Radio, with more moderate increases in operating expenses.

*Cash flows provided by financing activities* for the three months ended May 31, 2008 was \$2.2 million compared to \$0.4 million in the prior year. The Company increased its borrowing under the revolving credit facility in the third quarter of 2008 by \$2.2 million. Additional funds were drawn from the facility to finance the fiscal 2009 capital expenditure plan. Cash flow used in financing activities for the nine months ended May 31, 2008 was \$5.3 million compared to cash flow provided by financing activities of 0.4 million during the prior year. The Company made significant repayments on the Company's credit facility in the amount of \$5.5 million during the current year. As a result of these repayments, the Company reduced its interest charges.

On August 28, 2007, the Company entered into a \$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 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 operating subsidiaries and the subordination and pledge of inter-company loans.

As of May 31, 2008 the Company had drawn \$3.7 million from the credit facility. The Company believes that its cash and cash equivalents, in addition to the bank credit facility, provide it with sufficient working capital to support its operations for the foreseeable future.

*Cash flows used in investing activities* for the three months ended May 31, 2008 was \$6.2 million compared to \$1.3 million in the prior year, an increase of \$4.9 million. Fixed asset expenditures during the third quarter of fiscal 2008 totaled \$4.3 million for technical production equipment – primarily for high definition television broadcasting, \$0.1 million for computer software and video – primarily relating to the Company’s development of theScore.com, and \$1.8 million for leasehold improvements. Leasehold improvement costs in the current period relate to the design and construction of the Company’s streetfront exterior.

Cash flows used in investment activities for the nine months ended May 31, 2008 was \$10.2 million compared to \$4.1 million in the prior year, an increase of \$6.1 million. Fixed asset expenditures during the first nine months of fiscal 2008 totaled \$7.2 million for technical production equipment – primarily for high definition television broadcasting, \$0.2 million for computer equipment, \$0.8 million for computer software and video – primarily relating to the Company’s development of theScore.com, and \$2.6 million for leasehold improvements. Fixed asset expenditures were offset by proceeds from the sale of investments in the amount of \$0.5 million.

For fiscal 2008, the Company anticipates its capital expenditure program will amount to 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 broadcast facilities in Toronto, and continued development expenditures for Score Mobile, theScore.com and other interactive initiatives. The 2008 capital expenditure program will be financed by cash flows from operations, cash and cash equivalents on hand, and the Company’s revolving credit facility.

Other than the credit facility 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 these which are disclosed on the Consolidated Balance Sheets as at May 31, 2008, and August 31, 2007 and the notes thereto.

Contractual operating obligations as at May 31, 2008 for the fiscal years noted below are as follows:

Contractual Obligations (in thousands of dollars)	2008	2009	2010	2011	2012	There-after	Total
Operating lease obligations	493	1,452	1,230	728	578	1,167	5,648
Programming rights obligations	919	1,938	2,026	30	-	-	4,913
Long-term debt obligations	-	-	3,711	-	-	-	3,711
Total	1,412	3,390	6,967	758	578	1,167	14,272

### **Related Party Transactions**

During the three months ended May 31, 2008, the Company obtained consulting services from a director of the Company. The services were provided in the ordinary course of business and amounted to \$6,000 (2007 - \$9,000). For the nine month period ended May 31, 2008, the services amounted to \$23,000 (2007 - \$22,000).

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 the three months and nine months ended May 31, 2008 amounted to \$8,000 and \$24,000 (2007 - \$35,000 and \$105,000), respectively.

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

### **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, 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 at that time represent fair, balanced and appropriate conservative estimates and assumptions. Actual results could differ from those estimates.

In our 2007 Annual Audited Consolidated Financial Statements and Notes thereto, as well as in our 2007 Annual MD&A, we have identified the accounting policies and estimates that are critical to the understanding of our business operations and our results of operations. For the three and nine months ended May 31, 2008 there are no changes to the critical accounting policies and estimates from those found in our 2007 Annual MD&A.

### **Adoption of new accounting pronouncements**

In 2005, The Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 3855, *Financial Instruments - Recognition and Measurement*, Handbook Section 1530, *Comprehensive Income*, Handbook Section 3251, *Equity*, and Handbook Section 3865, *Hedges*. The new standards are effective for the Company's interim and annual financial statements commencing September 1, 2007. Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated. The adoption of these new standards had no impact on opening retained earnings as of September 1, 2007.

Under Section 3855, financial instruments must be classified in one of these five categories: (i) held-for-trading; (ii) loans and receivables; (iii) held-to-maturity; (iv) available for sale; or (v) other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held-to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; and available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income.

Upon adoption of the new standards, the Company has designated its cash and cash equivalents as held-for-trading which are measured at fair value with changes recorded in the statement of operations and retained earnings. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. The Company had no held-to-maturity or available for sale financial assets during the period ending May 31, 2008.

The revolving credit facility and accounts payable and accrued liabilities have been classified as other financial liabilities, which are accounted for at amortized cost using the effective interest method.

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities are accounted for as part of the respective asset or liability's carrying value at inception. Transaction costs associated with the revolving credit facility have been recorded as

an asset on the balance sheet in deferred charges and are being amortized over the term of the facility.

The Company had no "other comprehensive income or loss" transactions during the three and nine month periods ended May 31, 2008 and no opening or closing balances for accumulated other comprehensive income or loss.

The Company reviewed significant contracts in effect on September 1, 2007 and entered into during the nine month period ended May 31, 2008 and determined that there are no significant embedded derivatives or non-financial derivatives that require separate fair value recognition on the consolidated balance sheet on the transition date of September 1, 2007 or at May 31, 2008.

In 2006, the CICA issued Handbook Section 3862, Financial Instruments - Disclosures, and Handbook Section 3863, Financial Instruments - Presentation. These new standards will become effective for the Company beginning September 1, 2008. The Company is currently assessing the impact of these two new standards.

### **Risks and Uncertainties**

Our significant risks and uncertainties are summarized in our 2007 Annual MD&A. There have been no significant changes to those risks and uncertainties since August 31, 2007.

### **Other**

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

**Score Media Inc.**  
**Consolidated Balance Sheets**  
**(in thousands of dollars)**  
**(unaudited)**

	May 31, 2008	August 31, 2007
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 588	\$ 11,564
Accounts receivable	8,739	6,642
Prepaid expenses and deposits	466	853
Future tax assets	1,963	1,963
	<u>11,756</u>	<u>21,022</u>
Fixed assets (note 3)	16,575	8,034
Deferred charges	380	332
Future tax assets	5,437	6,317
	<u>\$ 34,148</u>	<u>\$ 35,705</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	5,733	3,037
Current portion of capital lease obligation	34	37
	<u>5,767</u>	<u>3,074</u>
Revolving credit facility (note 4)	3,711	9,250
Capital lease obligation	25	52
Shareholders' equity (note 5)	24,645	23,329
	<u>\$ 34,148</u>	<u>\$ 35,705</u>

See accompanying notes to unaudited interim consolidated financial statements

## Score Media Inc.

### Consolidated Statements of Operations and Retained Earnings (Deficit)

(in thousands of dollars, except per share amounts)

(unaudited)

	Three months ended		Three months ended		Nine months ended		Nine months ended	
	May 31,		May 31,		May 31,		May 31,	
	2008		2007		2008		2007	
Revenue	\$	10,206	\$	9,364	\$	27,859	\$	26,316
Production and other direct expenses		3,711		3,549		11,735		10,642
Selling, general and administration		2,962		2,617		7,995		7,285
Program rights		1,348		1,274		3,798		3,290
		<u>8,021</u>		<u>7,440</u>		<u>23,528</u>		<u>21,217</u>
Income before undernoted		2,185		1,924		4,331		5,099
Restructuring charges (note 6)		37		-		966		-
Gain on sale of investments		-		-		(462)		(21)
Interest expense, net		15		35		24		114
Depreciation		782		442		1,960		1,151
Amortization		36		41		97		118
Income before income taxes		<u>1,315</u>		<u>1,406</u>		<u>1,746</u>		<u>3,737</u>
Future income tax expense (note 8)		631		683		880		1,881
Net income and comprehensive income for the period	\$	<u>684</u>	\$	<u>723</u>	\$	<u>866</u>	\$	<u>1,856</u>
Retained earnings (deficit), beginning of period		1,836		-		1,654		(71,849)
Reduction in stated capital		-		-		-		70,716
Retained earnings, end of period	\$	<u>2,520</u>	\$	<u>723</u>	\$	<u>2,520</u>	\$	<u>723</u>
Income per share - basic and diluted	\$	<u>0.01</u>	\$	<u>0.01</u>	\$	<u>0.01</u>	\$	<u>0.02</u>
Weighted average number of Class A Subordinate Voting and Special Voting Shares outstanding (note 7) Basic		98,320,327		97,586,418		98,045,713		96,875,937
Diluted		<u>99,371,691</u>		<u>99,619,673</u>		<u>99,255,411</u>		<u>98,388,202</u>

See accompanying notes to unaudited interim consolidated financial statements

**Score Media Inc.**  
**Consolidated Statements of Cash Flows**  
(in thousands of dollars)  
(unaudited)

	Three months ended May 31, 2008	Three months ended May 31, 2007	Nine months ended May 31, 2008	Nine months ended May 31, 2007
Cash provided by (used in):				
Operations:				
Net income for the period	\$ 684	\$ 723	\$ 866	\$ 1,856
Items not involving cash:				
Depreciation	782	442	1,960	1,151
Amortization	36	41	97	118
Non-cash compensation expense	70	57	224	131
Gain on sale of investments	-	-	(462)	(21)
Future income tax expense	631	683	880	1,881
Change in non-cash operating working capital:				
Accounts receivable	(1,189)	(729)	(2,097)	(1,532)
Prepaid expenses and deposits	158	192	387	(525)
Accounts payable and accrued liabilities	997	(54)	2,696	177
	<u>2,169</u>	<u>1,355</u>	<u>4,551</u>	<u>3,236</u>
Financing:				
Issuance of common shares	96	687	226	1,188
Draw from credit facility (repayment)	2,153	(250)	(5,539)	(750)
Capital lease obligation repayments	(9)	(9)	(30)	(31)
	<u>2,240</u>	<u>428</u>	<u>(5,343)</u>	<u>407</u>
Investing:				
Additions to fixed assets	(6,156)	(1,236)	(10,501)	(4,021)
Deferred charges	(7)	(37)	(145)	(100)
Proceeds on sale of investments	-	-	462	21
	<u>(6,163)</u>	<u>(1,273)</u>	<u>(10,184)</u>	<u>(4,100)</u>
Increase (decrease) in cash and cash equivalents	(1,754)	510	(10,976)	(457)
Cash and cash equivalents, beginning of period	2,342	10,134	11,564	11,101
Cash and cash equivalents, end of period	<u>\$ 588</u>	<u>\$ 10,644</u>	<u>\$ 588</u>	<u>\$ 10,644</u>
Supplemental Cash Flow information				
Interest paid	\$ 21	\$ 145	\$ 187	\$ 442
Income taxes paid	-	-	-	-

See accompanying notes to unaudited interim consolidated financial statements

## **Score Media Inc.**

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three and nine months ended May 31, 2008 and May 31, 2007 (unaudited)

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### **1. Nature of operations**

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 6.3 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, and Score Poker.

The Company's revenues have historically reflected a seasonality trend, with the third quarter (ending May 31<sup>st</sup>) being the strongest, followed by the first quarter (ending November 30<sup>th</sup>), the fourth quarter (ending August 31<sup>st</sup>), and finally the second quarter (ending February 28<sup>th</sup>). This seasonality reflects general trends for sports media advertising, which in turn reflects the schedules (particularly the playoffs) of the major sports leagues. Therefore, one quarter's operating results is not necessarily indicative of the performance for the balance of the year.

The unaudited interim consolidated financial statements reflect all adjustments, which are, in the opinion of management, necessary to present fairly the financial position of the Company as of May 31, 2008, and the results of operations and cash flows for the three and nine months ended May 31, 2008, and May 31, 2007.

## Score Media Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three and nine months ended May 31, 2008 and May 31, 2007 (unaudited)

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### 2. Significant accounting policies

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. The disclosures contained in these unaudited interim consolidated financial statements do not include all requirements of generally accepted accounting principles for annual financial statements. The unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended August 31, 2007. These unaudited interim consolidated financial statements follow the same accounting policies and methods of application as the consolidated financial statements for the year ended August 31, 2007, except for the adoption of new accounting policies described below.

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

In 2005, The Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 3855, *Financial Instruments - Recognition and Measurement*, Handbook Section 1530, *Comprehensive Income*, Handbook Section 3251, *Equity*, and Handbook Section 3865, *Hedges*. The new standards are effective for the Company's interim and annual financial statements commencing September 1, 2007. Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated. The adoption of these new standards had no impact on opening retained earnings as of September 1, 2007.

Under Section 3855, financial instruments must be classified in one of these five categories: (i) held-for-trading; (ii) loans and receivables; (iii) held-to-maturity; (iv) available for sale; or (v) other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held-to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; and available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income.

## **Score Media Inc.**

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three and nine months ended May 31, 2008 and May 31, 2007 (unaudited)

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### **2. Significant accounting policies (cont'd):**

Upon adoption of the new standards, the Company has designated its cash and cash equivalents as held-for-trading which are measured at fair value with changes recorded in the statement of operations and retained earnings. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. The Company had no held-to-maturity or available for sale financial assets during the period ending May 31, 2008.

The revolving credit facility and accounts payable and accrued liabilities have been classified as other financial liabilities, which are accounted for at amortized cost using the effective interest method.

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities are accounted for as part of the respective asset or liability's carrying value at inception. Transaction costs associated with the revolving credit facility have been recorded as an asset on the balance sheet in deferred charges and are being amortized over the term of the facility.

The Company had no "other comprehensive income or loss" transactions during the three and nine month periods ended May 31, 2008 and no opening or closing balances for accumulated other comprehensive income or loss.

The Company reviewed significant contracts in effect on September 1, 2007 and entered into during the nine month period ended May 31, 2008 and determined that there are no significant embedded derivatives or non-financial derivatives that require separate fair value recognition on the consolidated balance sheet on the transition date of September 1, 2007 or at May 31, 2008.

In 2006, the CICA issued Handbook Section 3862, Financial Instruments - Disclosures, and Handbook Section 3863, Financial Instruments - Presentation. These new standards will become effective for the Company beginning September 1, 2008. The Company is currently assessing the impact of these two new standards.

## Score Media Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three and nine months ended May 31, 2008 and May 31, 2007 (unaudited)

### 3. Fixed assets:

May 31, 2008	Cost	Accumulated depreciation	Net book value
Technical production equipment	\$ 18,041	\$ 8,683	\$ 9,358
Computer equipment	1,520	888	632
Computer software and video	2,850	1,567	1,283
Office equipment and furniture	1,107	443	664
Office equipment - capital lease	145	50	95
Leasehold improvements	6,639	2,096	4,543
	<u>\$ 30,302</u>	<u>\$ 13,727</u>	<u>\$ 16,575</u>

August 31, 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
	<u>\$ 19,801</u>	<u>\$ 11,767</u>	<u>\$ 8,034</u>

Depreciation expense for the three and nine months ended May 31, 2008 amounted to \$782 and \$1,960 (2007 - \$442 and \$1,151), respectively.

## Score Media Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three and nine months ended May 31, 2008 and May 31, 2007 (unaudited)

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### **4. Revolving credit facility:**

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. 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. As at May 31, 2008, \$3,711 was drawn under the revolving credit facility.

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 operating subsidiaries and the subordination and pledge of intercompany loans. The Company was in compliance with the financial covenants included in the loan agreement as at May 31, 2008.

For the three months ended May 31, 2008, interest expense includes interest on the credit facility of \$21 (2007 - \$147). Interest expense is net of interest income of \$6 (2007 - \$112).

For the nine months ended May 31, 2008, interest expense includes interest on the credit facility of \$187 (2007 - \$460). Interest expense is net of interest income of \$163 (2007 - \$346).

## Score Media Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three and nine months ended May 31, 2008 and May 31, 2007 (unaudited)

### 5. Shareholders' Equity:

	May 31, 2008	August 31, 2007
Capital stock (a)	\$19,993	\$19,753
Contributed surplus	2,132	1,922
Retained earnings	2,520	1,654
	<u>\$24,645</u>	<u>\$23,329</u>

#### (a) Capital Stock

	May 31, 2008	August 31, 2007
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
98,391,849 Class A Subordinate Voting shares (August 31, 2007 – 97,800,182)	19,963	19,723
	<u>\$ 19,993</u>	<u>\$ 19,753</u>

## Score Media Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three and nine months ended May 31, 2008 and May 31, 2007 (unaudited)

### 5. Shareholders' Equity (cont'd):

Details of capital stock transactions during the period 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, 2007	97,800,182	10,000	\$ 19,723	\$ 30
Options exercised	591,667	-	240	-
Balance, May 31, 2008	98,391,849	10,000	\$ 19,963	\$ 30

#### (b) Stock Option Plan:

The following table summarizes the status of the Plan:

	Number	Exercise price	Weighted average exercise price
Outstanding options, August 31, 2007	3,558,419	0.28 – 2.30	0.80
Granted	750,000	1.46	1.46
Cancelled	(417,500)	0.55 – 1.46	1.15
Exercised	(591,667)	0.28 – 0.84	0.38
Outstanding options, May 31, 2008	3,299,252	0.43 – 2.30	0.99
Options exercisable, May 31, 2008			2,575,086
Options exercisable, August 31, 2007			2,647,998

The maximum number of Class A Subordinate Voting Shares issuable under the Company's stock option plan is 8,000,000.

## Score Media Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three and nine months ended May 31, 2008 and May 31, 2007 (unaudited)

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### 5. Shareholders' Equity (cont'd):

As at May 31, 2008, the weighted average remaining contractual life of the options exercisable and outstanding was 2.9 years and 3.1 years, respectively. The following summarizes information about the employee stock options at May 31, 2008:

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Exercise price	Number of options outstanding	Weighted average remaining contractual life (years)	Number of options exercisable
\$0.43	443,667	1.4	443,667
0.54	1,000,000	2.1	1,000,000
0.55	329,333	2.4	268,501
0.84	499,585	3.4	261,251
1.46	526,667	4.4	101,667
2.30	500,000	4.1	500,000
\$0.99	3,299,252	3.1	2,575,086

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During the nine months ended May 31, 2008, 750,000 options were granted. The weighted average estimated fair value at the date of the grant for the options granted was \$1.46. The fair value of each option granted was estimated on the date of the grant using the Black-Scholes 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	50%
Weighted average expected life of the options	4 years

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The estimated fair value of the options is amortized to expense over the vesting period. During the three and nine months ended May 31, 2008, the Company recorded stock-based compensation expense of \$70 and \$224 (2007 - \$57 and \$131), respectively.

## Score Media Inc.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three and nine months ended May 31, 2008 and May 31, 2007 (unaudited)

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### 6. Restructuring charges:

During 2008, the Company incurred severance and related compensation charges as the Company transformed the structure of certain operational departments to be more in-line with the Company's growth strategy. The Company has recorded a restructuring charge of \$966 of which \$104 remains unpaid and recorded in accrued liabilities as of May 31, 2008. The Company anticipates that the balance of the restructuring accrual will be substantially paid in fiscal 2008.

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

Basic and diluted income per share has been calculated using the weighted average and maximum dilutive number of shares outstanding during the period.

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

	Three months ended		Nine months ended	
	May 31,		May 31,	
	2008	2007	2008	2007
Numerator:				
Net income available to shareholders	\$684	\$723	\$866	\$1,856
Denominator (000's):				
Weighted average shares outstanding – basic	98,320	97,586	98,046	96,876
Effect of dilutive stock options	1,052	2,034	1,219	1,512
Weighted average shares outstanding – diluted	99,372	99,620	99,255	98,388
Income per share:				
Basic and diluted	\$0.01	\$0.01	\$0.01	\$0.02

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## **Score Media Inc.**

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

Three and nine months ended May 31, 2008 and May 31, 2007 (unaudited)

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### **8. Income taxes:**

In December 2007, a federal corporate tax rate reduction was enacted by the government. The impact of this rate change was a reduction of the Company's tax asset in the amount of \$317 which was recorded in the second quarter of fiscal 2008. The Company's statutory tax rate for fiscal 2008 is 34.4% (2007 - 36.1%).

During the nine months ended May 31, 2008 the Company recorded additional tax assets in the amount of \$714 of which \$400 related to additional temporary differences arising in the first nine months of fiscal 2008 and \$314 related to a release of valuation allowance due to revised fiscal 2008 forecasts in certain legal entities.

### **9. Related party transactions:**

During the three months ended May 31, 2008, the Company obtained consulting services from a director of the Company. The services were provided in the ordinary course of business and amounted to \$6 (2007 - \$9). For the nine month period ended May 31, 2008, the services amounted to \$23 (2007 - \$22).

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 the three months and nine months ended May 31, 2008 amounted to \$8 and \$24 (2007 - \$35 and \$105).

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

### **10. Contingency:**

The Company, along with other broadcasters, is in the process of filing a leave to appeal with the Supreme Court as to the validity of certain CRTC regulatory fees previously collected from the broadcasting industry. A Federal Court initially ruled in August 2007 that the fees were an invalid tax, which was subsequently overturned by an Appeals Court in April 2008. As of May 31, 2008 it is uncertain as to whether the fees would be applied retroactively in the event that the Supreme Court affirms the decision of the Appeals Court. The methodology that would be employed to calculate a potential retroactive fee is also uncertain.

As of May 31, 2008 the Company estimates that a potential liability exists of an amount between \$0 – \$400 in the event the Supreme Court affirms the Appeals Court decision and the CRTC collects these regulatory fees on a retroactive basis commencing from the period that the fees were last collected. The Company has not recorded a liability for these regulatory fees as at May 31, 2008, as management believes that it is not possible to reasonably estimate the potential liability at this point in time.