



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

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**Q1 – 2011**  
**Consolidated Financial Statements**  
**For the Three Months Ended**  
**November 30, 2010**

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
For the Three Months Ended November 30, 2010**

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 months ended November 30, 2010. The MD&A should be read in conjunction with the interim consolidated financial statements of Score Media as at and for the three months ended November 30, 2010. 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 reconcile 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, nature of the digital media industry, 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, and financial risks, which are discussed in the Company's Annual Information Form dated November 29, 2010. 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 January 13, 2011.

## HIGHLIGHTS

- *Revenue* for the quarter ended November 30, 2010 increased by \$0.5 million or 4% to \$11.9 million compared to \$11.4 million in the quarter ended November 30, 2009.
- Excluding the impact of the \$0.8 million CRTC Part II fee reversal in the comparative period in fiscal 2010, EBITDA (see “Definitions”) for the quarter ended November 30, 2010 increased by \$0.1 million or 5% to \$2.6 million, from \$2.5 million in the quarter ended November 30, 2009.
- The Company acquired 20% of NuLayer Inc. (“NuLayer”), a mobile and web development firm. The deal with NuLayer, creators of theScore iPad Edition, brings increased technology development capabilities to Score Media.
- On November 17th, the Company in partnership with Gillette announced that Brent Furtney was crowned the winner of Gillette DRAFTED 2.
- theScore announced its NBA schedule for the 2010-11 season featuring top match-ups of some of the league’s most elite teams as well as comprehensive digital, radio and TV programming. In addition, Court Surfing®, theScore’s NBA show, and Court Cuts, theScore’s weekly highlight feature, will give hoops fans all the 2010-11 action they’ll need to stay connected to everything NBA. theScore's deal with the NBA extends through the 2012/2013 season.
- On October 12th, the Company announced that Greg Wyshynski, a.k.a “Puck Daddy”, officially joined its line-up of broadcast talent. Greg Wyshynski, the editor of Puck Daddy, Yahoo! Sports’ hockey blog, became a member of theScore with a live show on theScore Satellite Radio on SIRIUS Satellite Radio channel 98.
- On Day 1 at DEVCON, RIM’s annual developer conference, ScoreMobile demonstrated forthcoming features and functionality that leverage the newly announced BlackBerry® Messenger (BBM™) SDK. In the months to come, ScoreMobile users will be able to directly access BBM contact lists, share news, scores and photos, and invite friends to download the app.

## **Overview**

Score Media Inc. (the “Company”) is a media company committed to delivering interactive and authentic sports entertainment. Created in 1997 in response to the growing desire for increased participation in the consumption of sports, the Company has now established itself as the home for hardcore sports fans. The Company’s primary asset, theScore Television Network (“theScore”), is a national specialty television service providing sports news, information, highlights and live event programming in more than 6.8 million homes across Canada. The Company’s digital media assets include theScore.com, theScore iPad Edition, the mobile sports apps ScoreMobile and ScoreMobile FC which are available on the Blackberry, iPhone and Android. The Company also operates theScore Satellite Radio, a satellite radio network available across North America on Sirius Satellite Radio.

## **Definitions**

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

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), interest expense, 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 media 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 table reconciles net income to EBITDA:

	<b>Three months ended November 30, 2010</b>	<b>Three months ended November 30, 2009</b>
	(000's)	(000's)
Net income for the period	\$ 839	\$ 1,065
Add back:		
Depreciation and amortization	999	999
Interest expense, net	106	149
Income tax expense	700	1,068
<b>EBITDA</b>	<b>\$ 2,644</b>	<b>\$ 3,281</b>

### Consolidated Results

The following selected quarterly financial data of the Corporation relates to the preceding eight quarters, inclusive of the quarter ended November 30, 2010.

<b>Quarterly Results</b>	<b>Revenue</b>	<b>EBITDA</b>	<b>Net income (loss)</b>	<b>Income (loss) per share – basic and diluted</b>
	<b>(\$000's)</b>	<b>(\$000's)</b>	<b>(\$000's)</b>	<b>(\$)</b>
November 30, 2010	11,863	2,644	839	0.01
August 31, 2010	10,523	1,442	1,100	0.01
May 31, 2010	11,986	1,916	568	0.01
February 28, 2010	9,958	980	(239)	0.00
November 30, 2009	11,371	3,281	1,065	0.01
August 31, 2009	8,909	677	(676)	(0.01)
May 31, 2009	10,816	1,654	12	0.00
February 28, 2009	8,662	204	(1,017)	(0.01)

The Company's revenues have historically reflected a seasonality trend, with the third quarter (ending May 31<sup>st</sup>) typically 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 North American sports leagues.

### *Three Months Ended November 30, 2010*

*Revenue* for the three months ended November 30, 2010 increased by \$0.5 million or 4% to \$11.9 million compared to \$11.4 million for the same period in the prior year. This increase was due to a combination of greater television advertising and subscriber revenue, as well as

increased advertising revenues from Score Media's digital media properties that include theScore.com, theScore iPad edition, ScoreMobile, and ScoreMobile FC.

Television advertising revenue increased by approximately \$0.3 million for the quarter ended November 30, 2010 compared to the same period in the prior year reflecting continued growth associated with the Company's live events, sports news, and short-form content. Revenue from the digital media unit increased by approximately \$0.1 million primarily due to increased advertising on the Company's mobile apps. The Company anticipates continued revenue growth in fiscal 2011 from each of these platforms.

Television subscriber fee revenue increased by approximately \$0.1 million for the quarter ended November 30, 2010 compared to the same period in the prior year. This increase in subscriber revenue reflected continued growth in the subscriber base with several broadcast distribution undertakings ("BDUs") compared to fiscal 2010.

*Production and other direct expenses* were \$4.8 million for the three months ended November 30, 2010 compared to \$4.3 million in the prior year, an increase of \$0.5 million. This increase in production expenses primarily consisted of technical and other operating expenses associated with growth in the Company's digital media businesses.

*Selling, general and administrative expenses* were \$3.1 million for the three months ended November 30, 2010 compared to \$2.7 million in the prior year, an increase of \$0.4 million. This increase was primarily due to the fiscal 2010 first quarter reversal of the Company's \$0.8 million accrual for CRTC Part II fees related to fiscal 2007 through 2009, partially offset by reduced professional fees and stock-based compensation.

*Program rights expenses* were \$1.3 million during the quarter, an increase of \$0.2 million compared to \$1.1 million in the prior year. The increase reflects higher fees associated with live Serie A Italian soccer and NCAA football, and NFL football highlight rights, partially offset by reduced NBA rights fees compared to the prior year. Program rights for fiscal 2011 are anticipated to be similar to the prior year with the addition of Serie A and renewals of several programming rights agreements including NBA and NCAA football offset by reduced fees associated with the non-renewal of Toronto Raptors basketball and English Premier League soccer.

*EBITDA* was \$2.6 million for the three months ended November 30, 2010, a decrease of \$0.7 million compared to \$3.3 million in same period of the prior year. Excluding the impact of the \$0.8 million CRTC Part II fee reversal in fiscal 2010, EBITDA increased by \$0.1 million.

*Interest expense, net and depreciation and amortization expense* for the first quarter remained consistent with the same period last year at \$0.1 million and \$1.0 million, respectively. The Company anticipates similar trending for the remainder of the fiscal year.

*Net income* for the three months ended November 30, 2010 was \$0.8 million or \$0.01 per share based on a diluted weighted average of 83.2 million Class A Subordinate Voting Shares and Special Voting Shares outstanding, compared to \$1.1 million or \$0.01 per share based on a diluted weighted average of 81.2 million Class A Subordinate Voting Shares and Special Voting

Shares outstanding in the prior year. Excluding the impact of the \$0.8 million Part II fee reversal in fiscal 2010, net income increased by \$0.5 million.

During the three months ended November 30, 2010, net income included income tax expense of \$0.7 million compared to income tax expense of \$1.1 million in the same period in the prior year, a decrease of \$0.4 million. Lower income tax expense reflects reduced pre-tax income in the current period.

## **Liquidity and Capital Resources**

*Cash flows provided by operations* for the three months ended November 30, 2010 were \$1.5 million compared to \$1.6 million in the prior year. The decrease of \$0.1 million reflects reduced net income and future income tax expense partially offset by movements in non-cash working capital.

For fiscal 2011, the Company anticipates that cash flows provided by operations will be similar to fiscal 2010 based on anticipated increases in both advertising and subscriber revenues with similar increases in operating expenses and changes in working capital. The Company's digital media unit, particularly ScoreMobile, ScoreMobile FC, theScore.com, and theScore iPad edition are expected to provide increased operating cash flows in the remainder of fiscal 2011.

*Cash flows provided by financing activities* for the three months ended November 30, 2010 were \$0.4 million compared to cash flows used in financing activities of \$0.4 million in the prior year, an increase of \$0.8 million. The increase relates to credit facility drawings primarily relating to the Company's investment in NuLayer. The Company anticipates credit facility repayments during the remainder of fiscal 2011 that will reduce the credit facility balance of \$9.8 million as of November 30, 2010.

On August 28, 2007, the Company entered into a \$25 million revolving three-year term credit facility with a Canadian chartered bank. On December 19, 2008 the Company amended this credit facility by modifying certain financial covenants and extending the term by one year. On August 17, 2010 the Company further revised the terms under the credit facility by extending the term by an additional two years until its expiry on September 30, 2013 and modifying certain financial covenants.

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 operating subsidiaries and the subordination and pledge of shareholder and inter-company loans.

As of November 30, 2010 the Company had drawn \$9.8 million from the credit facility through a combination of its line of credit and bankers' acceptance notes. 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 November 30, 2010 were \$1.9 million compared to \$1.0 million in the prior year, an increase of \$0.9 million. The increase was primarily due to the Company's investment in NuLayer during the first quarter of fiscal 2011.

On September 16, 2010, the Company acquired 20% of the shares of NuLayer for \$0.9 million, inclusive of \$0.1 million in transaction costs that have been capitalized and included as part of the cost of the Company's investment. NuLayer is a privately held corporation with a fiscal year-end of December 31. The Company also entered into a multi-year technology development agreement that will result in NuLayer providing interactive development services for the Company's digital media properties. The Company's obligations under this agreement are disclosed as "Related party service contract obligations" in the contractual obligations table below. NuLayer is a mobile and web application development firm that builds proprietary products and provides development services.

Excluding the credit facilities described above and the interest rate swap described below, the Company has no other significant financial instruments other than standard trade related items and thus believes that there are no significant price, credit or liquidity risks to which the Company is exposed.

### **Interest Rate Swap**

On May 13, 2009, the Company entered into an interest rate swap agreement with a notional amount of \$7.0 million in order to limit its exposure to variability in forecasted cash flows due to changes in the general level of market interest rates. Prior to August 17, 2010, the Company designated \$6.7 million of the swap as an effective cash flow hedge against the designated BA based borrowings under the credit facility. In connection with its credit facility amendment in August 2010, the Company elected to discontinue hedge accounting and did not renew the interest rate swap agreement upon its expiry on October 6, 2010.

### **Contractual Obligations**

The Company has no debt guarantees, capital leases or long-term obligations other than the credit facility, which is presented on the Consolidated Balance Sheets as at November 30, 2010, and August 31, 2010, and the related commitments which are disclosed below.

As at November 30, 2010, contractual operating obligations for the fiscal years noted below are as follows:

Contractual Obligations (in thousands of dollars)	2011	2012	2013	2014	2015	Thereafter	Total
Operating lease obligations	2,319	2,472	2,363	1,317	-	-	8,471
Programming rights obligations	2,961	3,152	2,167	-	-	-	8,280
Related party service contract obligations	1,031	1,125	94	-	-	-	2,250
Long-term debt obligations	-	-	-	9,812	-	-	9,812
Total	6,311	6,749	4,624	11,129	-	-	28,813

### **Related Party Transactions**

The Company entered into a lease in May 2007 for a property partially owned by a director and officer of the Company. The aggregate rent paid during the three months ended November 30, 2010 amounted to \$8,000 (three months ended November 30, 2009 - \$8,000).

Development fees incurred under the development services agreement with NuLayer during the three months ended November 30, 2010 amounted to \$0.2 million and were capitalized under Intangible assets. As at November 30, 2010 the Company's trade payables included \$0.2 million due to NuLayer which will be paid under the Company's normal trade payable terms.

The related party transactions were reported at their exchange amount agreed to by the parties which the Company believes is representative of fair value.

### **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 long lived assets. 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 2010 Annual Audited Consolidated Financial Statements and Notes thereto, as well as in our 2010 Annual MD&A, we have identified the accounting estimates that are critical to the understanding of our business operations and our results of operations. For the three months ended November 30, 2010 there are no changes to the critical accounting policies and estimates from those found in our 2010 Annual MD&A.

### **Recent accounting pronouncements**

The CICA plans to converge Canadian GAAP with IFRS. The Company will adopt IFRS effective September 1, 2011. A preliminary assessment of the accounting and reporting differences under IFRS as compared to Canadian GAAP has been completed by the Company, however, management has not yet finalized its determination of the impact these differences will have on the consolidated financial statements. As this assessment progresses, the Company intends to disclose such impacts in its interim MD&A as deemed appropriate.

We have allocated sufficient resources to our conversion project, which include certain full-time employees in addition to contributions by other employees on a part-time or as-needed basis. We have provided for training to all employees with responsibilities in the conversion process. Other employees who will be influenced by our conversion to IFRS have been coached in relevant areas of impact as well. Training efforts have focused on updating those individuals whose roles and responsibilities are directly affected by IFRS implementation as well as providing general training to other employees involved in the process.

The Company has identified three phases to its conversion: planning and initial diagnostic, comprehensive analysis, and implementation. Our planning and initial diagnostic phase involved performing a high-level impact assessment to identify key areas that are expected to be influenced by the transition to IFRS. The result of these procedures was to prioritize IFRS conversion issues to assess the timing and complexity of transition efforts that will be required in subsequent phases. This planning and initial diagnostic phase is complete.

In the comprehensive analysis phase, each area identified from the planning and initial diagnostic phase is addressed in order of priority. This phase involves a detailed comparison between IFRS and the Company's existing policies, specification of changes required to existing accounting policies, processes and documentation, analysis of policy choices permitted under IFRS and the development of draft IFRS financial statement content. The Company is presently focused on this phase and set out below are notable differences between IFRS and the Company's existing policies currently being evaluated based on our analysis to date. Although we have identified key accounting policy differences, we have only begun the quantification process.

### *Borrowing Costs*

IAS 23, *Borrowing Costs* ("IAS 23"), requires capitalization of borrowing costs directly associated with the acquisition, construction or production of qualifying assets. Under Canadian GAAP, the Company elected the accounting policy choice to expense these costs as incurred. IFRS 1 permits application of the requirements of IAS 23 prospectively on the date of transition,

September 1, 2010. We intend to apply this election and therefore do not expect to have an adjustment on our opening IFRS balance sheet.

#### *Fixed Assets: Componentization*

IAS 16, *Property, Plant and Equipment* (“IAS 16”), requires an entity to identify significant component parts within fixed assets and depreciate those parts over their respective useful lives. Canadian GAAP only requires componentization to the extent practicable. The Company is in the midst of performing a review of its fixed assets to identify whether any additional components are required to be recognized on transition to IFRS. Any adjustment that may be required will result in an increase or decrease to accumulated amortization related to the new component with a corresponding offset in opening retained earnings as of the date of transition. We do not expect that this will have a significant impact on the opening IFRS balance sheet nor do we anticipate electing to measure our fixed assets at fair value on transition which is an optional election available under IFRS 1 (see below).

#### *Impairment of Assets*

IAS 36, *Impairment of Assets* (“IAS 36”), uses a one-step approach for both testing and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value-in-use. Canadian GAAP uses a two-step approach to impairment testing: comparing asset carrying values with undiscounted future cash flows to determine if any impairment is present; and, if impairment is deemed to exist the Company then measures impairment by comparing asset carrying values with their respective fair values. The difference in methodologies may potentially result in an asset impairment charge upon transition to IFRS.

The Company will conduct impairment testing using IFRS guidance in fiscal 2011 as a result of the requirement to perform an impairment test as of the date of transition. Based on the Company’s impairment analysis performed in fiscal 2010 it is not expected that any impairment losses will occur upon adoption of this standard.

#### *Share-Based Payments*

IFRS 2, *Share-Based Payments* (“IFRS 2”), requires that stock-based compensation expense be recognized based on the number of stock options that eventually vest. This is consistent with Canadian GAAP, however IFRS 2 requires an initial estimate of expected forfeitures at the date of grant while currently the Company is permitted to record the impact of forfeitures as they occur. The Company is currently quantifying the impact this policy change will have and it is anticipated that an insignificant adjustment will occur to reduce stock-based compensation expense for the periods leading up to the changeover date. Any difference identified will be adjusted through opening retained earnings on transition.

### *Provisions for Onerous Contracts*

IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* (“IAS 37”), requires an entity to recognize a provision when a contract becomes onerous. A situation may arise in which a contract’s unavoidable costs of meeting its obligations exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it. For accounting purposes, the present obligation under an onerous contract shall be recognized and measured as a provision. We are currently reviewing all significant contracts to determine whether any may be onerous on the date of transition. The Company does not anticipate any of its significant contracts will be deemed to be onerous.

### *First-Time Adoption of International Financial Reporting Standards*

Our adoption of IFRS will require the application of IFRS 1, *First-Time Adoption of International Financial Reporting Standards* (“IFRS 1”). This section articulates specific methodology relevant for an entity’s initial adoption of IFRS. IFRS 1 suggests an organization apply all IFRS on a retrospective basis effective the end of its first IFRS reporting period and includes a requirement for enhanced disclosures as compared to Canadian GAAP. Some exemptions in specified areas of certain standards exist from this general requirement. The Company is currently evaluating which optional exemptions will be applied on the transition date.

The implementation phase includes finalizing accounting policy changes, execution of changes to information systems, controls and processes, preparing documentation to reflect IFRS guidance and completing training programs across the organization, as necessary. It will culminate in the Company fully grasping the impact of IFRS and having the capability to create IFRS financial statements during the year leading up to the first IFRS reporting period. The Company anticipates completion of this phase in fiscal 2011.

In the period leading up to the changeover, the Canadian Accounting Standards Board (“AcSB”) has indicated that it will continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of adopting IFRS on the conversion date. The International Accounting Standards Board may also continue to issue new accounting standards during the conversion period and, as a result, the final impact of IFRS on the Company's consolidated financial statements can only be measured once all the IFRS applicable at the conversion date are known.

## **Controls and Procedures**

There have been no changes in our internal controls over financial reporting during the first quarter of fiscal 2011 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## **Risks and Uncertainties**

Our significant risks and uncertainties are summarized in our 2010 Annual MD&A. There have been no significant changes to those risks and uncertainties since August 31, 2010.

## **Other**

Please refer to the attached interim Consolidated Financial Statements for the three months ended November 30, 2010, including the Notes thereto.

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

	November 30, 2010	August 31, 2010
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 170	\$ 184
Accounts receivable	11,401	9,828
Prepaid expenses and deposits	1,341	1,254
Future tax assets	455	847
	13,367	12,113
Fixed assets (note 3)	15,239	15,193
Intangible assets (note 4)	3,442	2,818
Other asset (note 8)	893	-
Future tax assets	6,350	6,658
	\$ 39,291	\$ 36,782
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	7,474	6,285
Revolving credit facility (note 5)	9,812	9,511
Shareholders' equity (note 6)	22,005	20,986
Subsequent event (note 6)		
	\$ 39,291	\$ 36,782

See accompanying notes to unaudited interim consolidated financial statements

**Score Media Inc.****Consolidated Statements of Operations****(in thousands of dollars, except share and per share amounts)****(unaudited)**

	<b>Three months ended November 30, 2010</b>	<b>Three months ended November 30, 2009</b>
Revenue	\$ 11,863	\$ 11,371
Production and other direct expenses	4,827	4,277
Selling, general and administration	3,095	2,695
Program rights	1,297	1,118
	<u>9,219</u>	<u>8,090</u>
Income before undernoted	2,644	3,281
Interest expense, net	106	149
Depreciation and amortization	999	999
	<u>1,539</u>	<u>2,133</u>
Income before income taxes	1,539	2,133
Future income tax expense	700	1,068
	<u>839</u>	<u>1,065</u>
Net income for the period	\$ 839	\$ 1,065
Income per share - basic and diluted (note 7)	\$ 0.01	\$ 0.01
Weighted average number of Class A Subordinate Voting and Special Voting Shares outstanding (note 7)		
Basic	81,505,332	81,152,056
Diluted	<u>83,152,274</u>	<u>81,156,781</u>

See accompanying notes to unaudited interim consolidated financial statements

**Score Media Inc.**

Consolidated Statements of Shareholders' Equity  
(in thousands of dollars, except share amounts)  
(unaudited)

	Special Voting Shares		Class A Subordinate Voting Shares		Contributed surplus	Retained Earnings (Deficit)	Accumulated other comprehensive income (loss)	Total Shareholders' Equity
	Number of		Number of					
	Amount	Shares	Amount	Shares				
<b>Three months ended November 30, 2010</b>								
Balances, August 31, 2010	\$ 17	5,566	\$ 16,919	81,430,104	\$ 2,802	\$ 1,248	-	\$ 20,986
Stock based compensation expense for the period	-	-	-	-	70	-	-	70
Stock based compensation expense on exercised options	-	-	56	-	(56)	-	-	-
Net income for the period	-	-	-	-	-	839	-	839
Shares issued on exercise of stock options	-	-	110	154,333	-	-	-	110
<b>Balances, November 30, 2010</b>	<b>17</b>	<b>5,566</b>	<b>17,085</b>	<b>81,584,437</b>	<b>2,816</b>	<b>2,087</b>	<b>-</b>	<b>22,005</b>
<b>Three months ended November 30, 2009</b>								
Balances, August 31, 2009	\$ 17	5,566	\$ 16,695	81,146,781	\$ 2,331	\$ (1,246)	(28)	\$ 17,771
Stock based compensation expense for the period	-	-	-	-	177	-	-	177
Net income for the period	-	-	-	-	-	1,065	-	1,065
Change in fair value of interest rate swap	-	-	-	-	-	-	(34)	(34)
Shares issued on exercise of stock options	-	-	4	10,000	-	-	-	4
<b>Balances, November 30, 2009</b>	<b>\$ 17</b>	<b>\$ 5,566</b>	<b>\$ 16,699</b>	<b>\$ 81,156,781</b>	<b>\$ 2,508</b>	<b>\$ (181)</b>	<b>\$ (62)</b>	<b>\$ 18,981</b>

**Score Media Inc.**  
**Consolidated Statements of Comprehensive Income**  
(in thousands of dollars)  
**(unaudited)**

	<b>Three months ended</b>	<b>Three months ended</b>
	<b>November 30, 2010</b>	<b>November 30, 2009</b>
Net income for the period	\$ 839	\$ 1,065
Other comprehensive loss:		
Cash flow hedging derivative instruments:		
Change in fair value of interest rate swap (note 5)	\$ -	\$ (34)
Comprehensive income for the period	<u>\$ 839</u>	<u>\$ 1,031</u>

See accompanying notes to unaudited interim consolidated financial statements

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

	<b>Three months ended</b>	<b>Three months ended</b>
	<b>November 30, 2010</b>	<b>November 30, 2009</b>
Cash provided by (used in):		
Operations:		
Net income for the period	\$ 839	\$ 1,065
Items not involving cash:		
Depreciation and amortization	999	999
Stock-based compensation expense	70	177
Future income tax expense	700	1,068
Change in non-cash operating working capital:		
Accounts receivable	(1,573)	(2,542)
Prepaid expenses and deposits	(87)	(327)
Accounts payable and accrued liabilities	534	1,123
	<u>1,482</u>	<u>1,563</u>
Financing:		
Draws from credit facility	12,706	8,881
Repayments to credit facility	(12,405)	(9,304)
Issuance of Class A subordinate voting shares	110	4
	<u>411</u>	<u>(419)</u>
Investing:		
Additions to fixed assets	(772)	(476)
Change in non-cash working capital related to fixed assets	655	(233)
Acquisition of intangible assets	(897)	(312)
Acquisition of interest in NuLayer (note 8)	(893)	-
	<u>(1,907)</u>	<u>(1,021)</u>
Increase (decrease) in cash and cash equivalents	(14)	123
Cash and cash equivalents, beginning of period	184	276
Cash and cash equivalents, end of period	<u>\$ 170</u>	<u>\$ 399</u>
Supplemental Cash Flow information		
Interest paid	\$ 83	\$ 91

See accompanying notes to unaudited interim consolidated financial statements

## **Score Media Inc.**

Notes to Consolidated Financial Statements

(in thousands of dollars, except share and per share amounts)

Three months ended November 30, 2010 and 2009 (unaudited)

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

Score Media Inc. (the “Company”) is a media company committed to delivering interactive and authentic sports entertainment. Created in 1997 in response to the growing desire for increased participation in the consumption of sports, the Company has now established itself as the home for hardcore sports fans. The Company’s primary asset, theScore Television Network (“theScore”), is a national specialty television service providing sports news, information, highlights and live event programming in more than 6.8 million homes across Canada. The Company’s digital media assets include theScore.com, theScore iPad Edition, the mobile sports apps ScoreMobile and ScoreMobile FC, which are available on the Blackberry, iPhone and Android. The Company also operates theScore Satellite Radio, a satellite radio network available across North America on Sirius Satellite Radio. The Company’s operating segment is comprised of the Company’s media businesses. The Company’s chief operating decision maker is the Chief Executive Officer.

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 November 30, 2010, and the results of operations and cash flows for the three months ended November 30, 2010 and November 30, 2009.

### **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, 2010. 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, 2010.

**Score Media Inc.**

Notes to Consolidated Financial Statements

(in thousands of dollars, except share and per share amounts)

Three months ended November 30, 2010 and 2009 (unaudited)

**2. Significant accounting policies (cont'd)***International Financial Reporting Standards ("IFRS")*

In February 2008, the AcSB confirmed that IFRS will be mandatory in Canada for profit-oriented publicly accountable entities for fiscal periods beginning on or after January 1, 2011. The Company's first annual IFRS financial statements will be for the year ending August 31, 2012 and will include the comparative period of fiscal 2011. Starting in the first quarter of fiscal 2012, the Company will provide unaudited consolidated financial information in accordance with IFRS including comparative figures for fiscal 2011.

**3. Fixed assets:**

November 30, 2010	Cost	Accumulated depreciation	Net book value
Technical production equipment	\$ 23,821	\$ 14,930	\$ 8,891
Computer equipment	2,908	1,687	1,221
Office equipment and furniture	1,414	665	749
Leasehold improvements	7,691	3,313	4,378
	<u>\$ 35,834</u>	<u>\$ 20,595</u>	<u>\$ 15,239</u>

August 31, 2010	Cost	Accumulated depreciation	Net book value
Technical production equipment	\$ 23,379	\$ 14,443	\$ 8,936
Computer equipment	2,723	1,597	1,126
Office equipment and furniture	1,327	640	687
Leasehold improvements	7,633	3,189	4,444
	<u>\$ 35,062</u>	<u>\$ 19,869</u>	<u>\$ 15,193</u>

Depreciation expense for the three months ended November 30, 2010 amounted to \$726 (three months ended November 30, 2009 - \$822).

**Score Media Inc.**

Notes to Consolidated Financial Statements

(in thousands of dollars, except share and per share amounts)

Three months ended November 30, 2010 and 2009 (unaudited)

**4. Intangible assets:**

November 30, 2010	Cost	Accumulated depreciation	Net book value
License costs	\$ 1,637	\$ 1,631	\$ 6
Trademarks	341	198	143
Financing costs	3,736	3,466	270
Computer software	2,095	2,028	67
Interactive development	4,426	1,470	2,956
	<u>\$ 12,235</u>	<u>\$ 8,793</u>	<u>\$ 3,442</u>

August 31, 2010	Cost	Accumulated depreciation	Net book value
License costs	\$ 1,637	\$ 1,630	\$ 7
Trademarks	334	189	145
Financing costs	3,713	3,442	271
Computer software	2,065	2,008	57
Interactive development	3,589	1,251	2,338
	<u>\$ 11,338</u>	<u>\$ 8,520</u>	<u>\$ 2,818</u>

Amortization expense for the three months ended November 30, 2010 amounted to \$273 (three months ended November 30, 2009 - \$177).

**5. Revolving credit facility:**

On August 28, 2007, the Company entered into a \$25,000 revolving three-year term credit facility with a Canadian chartered bank. On December 19, 2008, the Company amended this credit facility by extending the term by one year. On August 17, 2010, the Company further revised the terms under the credit facility by extending the term by an additional two years until its expiry on September 30, 2013 and modifying certain financial covenants. Loans and bankers' acceptances ("BA") 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.

## **Score Media Inc.**

Notes to Consolidated Financial Statements

(in thousands of dollars, except share and per share amounts)

Three months ended November 30, 2010 and 2009 (unaudited)

### **5. Revolving credit facility (cont'd):**

The credit facility is available to fund capital improvements and for general corporate purposes. As at November 30, 2010, \$9,812 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 November 30, 2010.

For the three months ended November 30, 2010, interest expense includes interest on the bank loans of \$133 (three months ended November 30, 2009 - \$149).

The weighted average interest rate for the three months ended November 30, 2010 was 5.5% (three months ended November 30, 2009 – 5.3%).

On May 13, 2009, the Company entered into an interest rate swap agreement with a notional amount of \$7,000 in order to fix the floating interest under its BA based on borrowings and limit its exposure to variability in forecasted cash flows due to changes in the general level of market interest rates. Prior to August 17, 2010, the Company designated \$6,700 of the swap as a cash flow hedge against the designated BA based borrowings under the credit facility. In connection with the most recent credit facility amendment, the Company elected not to renew the interest rate swap agreement upon its expiry on October 6, 2010 and discontinued hedge accounting effective August 17, 2010.

As at November 30, 2010 and 2009, the fair value of the swap was representative of a liability of nil and \$64, respectively, which was recorded as part of accounts payable and accrued liabilities. Included in interest expense, net for the three months ended November 30, 2010 is a gain of \$27 resulting from the termination of the swap. Included in interest expense, net for the three months ended November 30, 2009 is a \$1 charge resulting from changes in the value of the swap.

**Score Media Inc.**

Notes to Consolidated Financial Statements

(in thousands of dollars, except share and per share amounts)

Three months ended November 30, 2010 and 2009 (unaudited)

**6. Shareholders' Equity:**

## (a) Capital Stock:

The Company is authorized to issue the following capital stock:

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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

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## (b) Stock Options:

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. The Company may issue a maximum of 8,000,000 Class A Subordinate Voting shares under the Plan, of which 2,034,506 additional Class A Subordinate Voting shares are available for issue as at November 30, 2010. Under the Plan, the exercise price of an option is based on the average trading price for five days prior to the grant. An option's maximum term is ten years and options generally vest over three years

The following table summarizes the status of the Company's stock option plan:

	<b>Number</b>	<b>Exercise price</b>	<b>Weighted average exercise price</b>
Outstanding options, August 31, 2010	4,443,922	\$0.47 – 0.84	\$0.56
Cancelled	(59,167)	0.47 – 0.56	0.48
Exercised	(154,333)	0.47 – 0.84	0.64
Outstanding options, November 30, 2010	4,230,422	\$0.47 – 0.84	\$0.56
Options exercisable, November 30, 2010			2,577,089
Options exercisable, August 31, 2010			2,208,921

**Score Media Inc.**

Notes to Consolidated Financial Statements

(in thousands of dollars, except share and per share amounts)

Three months ended November 30, 2010 and 2009 (unaudited)

**6. Shareholders' Equity (cont'd):**

As at November 30, 2010, the weighted average remaining contractual life of the options exercisable and outstanding was 6.4 years and 7.0 years, respectively.

The following summarizes information about the employee stock options at November 30, 2010:

<b>Exercise price</b>	<b>Number of options outstanding</b>	<b>Weighted average remaining contractual life (years)</b>	<b>Number of options exercisable</b>
\$0.47	1,457,501	8.9	470,835
0.48	662,085	8.6	662,085
0.56	1,379,168	6.9	724,168
0.71	11,668	1.5	1
0.82	500,000	2.6	500,000
0.84	220,000	0.9	220,000
<b>\$0.56</b>	<b>4,230,422</b>	<b>7.0</b>	<b>2,577,089</b>

**(c) Share Purchase Plan ("SPP")**

Effective January 2011, the Company replaced the annual grant of options to acquire Class A Shares with an amended SPP which includes enhanced employer matching benefits and a vesting schedule. The amended SPP will take the form of the Company matching share purchases, in the open market, made by employees at varying levels based on seniority. The shares contributed by the Company will vest over three years, in equal tranches every six months. Members of the Board of Directors will also be eligible to participate in the amended SPP by contributing up to \$5,000 of their annual Directors' fees.

**Score Media Inc.**

Notes to Consolidated Financial Statements

(in thousands of dollars, except share and per share amounts)

Three months ended November 30, 2010 and 2009 (unaudited)

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

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

	November 30, 2010	November 30, 2009
Numerator:		
Net income available to shareholders	\$ 839	\$ 1,065
Denominator:		
Weighted average shares outstanding - basic	81,505,332	81,152,056
Effect of dilutive stock options	1,646,942	4,725
<b>Weighted average shares outstanding - diluted</b>	<b>83,152,274</b>	<b>81,156,781</b>
<b>Income per share – basic and diluted:</b>	<b>\$ 0.01</b>	<b>\$ 0.01</b>

During the three months ended November 30, 2010, all outstanding options to purchase Class A Subordinate Voting shares were included in the computation of diluted income per share. During the three months ended November 30, 2009, options to purchase 5,788,500 Class A Subordinate Voting shares were outstanding but not included in the computation of diluted income per share because the impact would be anti-dilutive.

**8. Other asset:**

On September 16, 2010, the Company acquired 20% of the capital stock of NuLayer Inc. (“NuLayer”) for \$893, inclusive of \$93 in transaction costs that have been capitalized and included as part of the cost of the Company’s investment. NuLayer is a privately held corporation with a fiscal year-end of December 31. The Company also entered into a multi-year technology development agreement that will result in NuLayer providing interactive development services for the Company’s digital media properties. NuLayer is a mobile and web application development firm that builds proprietary products and provides development services.

**Score Media Inc.**

Notes to Consolidated Financial Statements

(in thousands of dollars, except share and per share amounts)

Three months ended November 30, 2010 and 2009 (unaudited)

**9. Related party transactions:**

The Company entered into a lease in May 2007 for a property partially owned by a director and officer of the Company. The aggregate rent paid during the three months ended November 30, 2010 amounted to \$8 (three months ended November 30, 2009 - \$8).

Development fees incurred under the development services agreement with NuLayer during the three months ended November 30, 2010 amounted to \$246 and were capitalized under Intangible assets. As at November 30, 2010 the Company's trade payables included \$231 due to NuLayer which will be paid under the Company's normal trade payable terms.

The related party transactions were reported at their exchange amounts, as agreed to between the parties.