



**ANNUAL REPORT**  
**2008**

.....  
*Super Shareholder*



Dear Super Shareholder,

Welcome to Team Score, the winningest team in sports broadcasting history. As a member of the team you are part of an exclusive club of champions that will make you the envy of all of your friends.

Since the team was granted its expansion franchise in 1997, Score Media Inc. has worked to create an authentic sports experience. The Score Television Network is a national specialty service providing sports, news, information, highlights and live event programming to more than 6.4 million sports fanatics across Canada. With the support of its fans, The Score has become one of the most feared teams in sports broadcasting history, sending shudders of fear into the jock straps of our rival broadcasters.

Score Media also operates Hardcore Sports Radio, a satellite radio network available across North America on SIRIUS Satellite Radio 98, theScore.com, Score Mobile and Score Poker. Growing from a team of 60 in 1997 to over 220 in 2008, Score Media is on an unbeaten streak unmatched by any of our competitors.

So to celebrate our success and welcome you to the club, Team Score would like to present you with the Team Score Super Shareholder MVS Ring, a list of benefits even A-Rod, Beckham, and Don Moen would lust after, and an ironclad contract. We're sure you'll agree after looking at our team stats, that Team Score is undoubtedly Canada's real dream team.

.....  
JOHN S. LEVY  
CHAIRMAN AND CEO

.....  
TOM HEARNE  
CHIEF FINANCIAL OFFICER

NOVEMBER 20, 2008



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# SCORE MEDIA INC. TEAM MEMBER AGREEMENT

The Super Shareholder ..... agrees to uphold standard practices of The Score. Any violation of these terms will result in the immediate termination of the contract.

## Standard Performance Requirements

Henceforth, the following standard practices must be followed in order to fulfill contractual obligations.

### SUBSECTION 1)

The holder must be caught at least once leaving a "dancing" establishment with an unknown person other than his/her spouse. Clear photographic evidence of the event must be recorded by at least one major daily newspaper and television station.

### SUBSECTION 2)

The holder must submit to random drug tests throughout the year and test positive for at least one of the following banned substances within a twelve-month period: nandrolone, human growth hormone, cannabis, methamphetamine, morphine, oxycontin, horse tranquilizer, cocaine, amphetamine methylphenidate, bemigrade nikethamide, benzphetamine octopamine, bromantan pemoline, and chlorphentermine.

### SUBSECTION 3)

In all dealings with the press one of the following clichés must be used at least once. Bonus clauses will be awarded for establishing a new cliché that is then repeated by other players on the team.

- a) We gave it our all on the field b) We gave it 110% c) We brought our A-game d) We took them out of their game e) It's not over until the fat lady sings
- f) We proved we're the better team g) We're glad to get out of here with the "W" h) We're going to use this win as a building block i) We finally got the monkey off our backs j) Everyone counted us out before the season started k) It was a total team effort l) We made our own breaks m) We played our hearts out n) This team has finally learned how to win o) This team always seems to find a way to win p) This team has overcome a lot of adversity q) This team shows a lot of character (poise, pride, resiliency, heart) r) We sent a message here today s) This win is for all the fans t) Our fans were the 12th man today u) This MVP award belongs to the whole team v) We've got the greatest fans in the world w) I want to thank my Lord and Savior x) You dream about this as a kid y) They're tough competitors z) They're a class act.

### SUBSECTION 4)

At the end of this season but preceding the following season, the shareholder must retire from Team Score by holding a tear filled press conference after which they must stoke speculation that they will come out of retirement and eventually return to the team the following season and deliver a sub par performance.

### SUBSECTION 5)

During the course of the season the shareholder must father at least one illegitimate love child per province and be the focus of at least two public paternity suits. In the event the shareholder is a female, she is exempt from this clause.

### SUBSECTION 6)

When borrowing the championship trophy for the shareholder's hometown parade, you must defile the trophy in one of the following ways:

- a) Cannonball with the priceless trophy into your heart shaped in ground pool while being cheered on by inebriated friends and relatives
- b) Use the trophy as a baptismal font for one of your illegitimate children
- c) Use the cup as an oversized beer cooler for family and friends
- d) Invite your entourage to use the trophy as a port a potty

### SUBSECTION 7)

The shareholder must never appear at a public event with an entourage of under six people. The entourage must include a manager, masseuse, man servant, and cigar roller.

### SUBSECTION 8)

The shareholder must attend at least three dog fights over the course of the year and lose at least \$500 000 in his earnings on bad bets. A bonus clause will be activated if the shareholder actually breeds the dogs himself in a heavily forested compound in the mountains of Virginia.

### SUBSECTION 9)

The shareholder must begin construction on a 20 000 square foot mansion in New Jersey. The design of the compound must include a night club, a work out facility, a full size theatre, bowling lanes, a merry go round, and petting zoo with a giraffe.

### SUBSECTION 10)

In the event of an injury, the holder must secretly seek medical attention from someone other than the doctors recommended by The Score. The treatments must involve at least one shaman healer or exorcist.

### SUBSECTION 11)

The shareholder must read the entire annual report. If the shareholder is illiterate, they must have one of their assistants read them the entire report. Following completion, they must date and sign the report in front of a witness in triplicate. Failure to comply with any of the preceding conditions renders the contract null and void.

In witness whereof, the parties have signed this ..... day of ..... A.D. 20 .....

WITNESS:

SUPER SHAREHOLDER:



I hereby certify that I have, at this date, received, examined and noted of record the within Contract, and that it is in regular form.



## SUPER SHAREHOLDER BENEFITS

*Wearing your Team Score Super Shareholder MVS Ring with pride entitles you to exclusive benefits sure to make you the envy of all your friends.*

- 1 -

Shareholders are entitled to one free tour of The Score's state-of-the-art studio facilities, where they may applaud or heckle our announcers as they see fit. The studios are located in the sports epicenter of Toronto, just blocks from the Rogers Centre and The ACC. The studios are a constant hub of action, and you never know which sports icon might be passing through its doors.

- 2 -

Shareholders are entitled to premium seat designation at all Score Street events throughout 2009.

- 3 -

Shareholders are invited to be a part of the studio audience at one of The Score's in studio tapings of Hardcore Hockey Talk or Court Surfing.

- 4 -

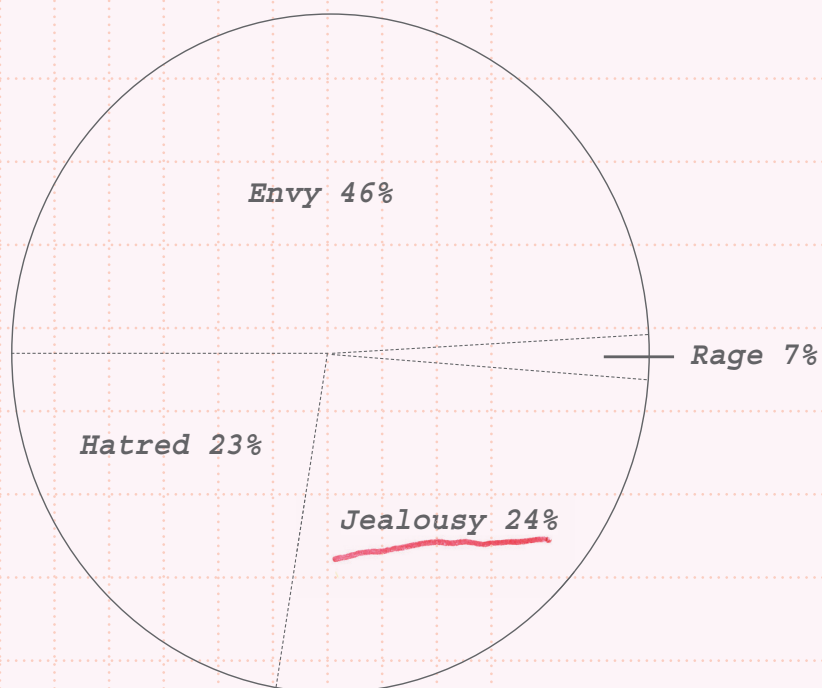
Shareholders are entitled to be a part of The Score's Annual Research Focus Group where shareholders can provide valuable input into the future of The Score and its programming.

- 5 -

Shareholders are invited to take part in The Score's Friday morning hockey game for staff and on air talent where they can showcase their "mad skilz" in front of The Score's staff.

fig. 1

*Emotions your friends will feel when learning of your exclusive shareholder benefits.*





## THE SCORE MANAGEMENT LTD. SUPER SHAREHOLDER MVS RING

*You are now the deserving recipient of an official Team Score Super Shareholder MVS Ring. Expertly handcrafted from only the finest materials, each ring is generously accented with countless dazzling, square-cut stones. This glorious ring is a lasting symbol of Team Score's ability to kick anybody's ass\* and is the highest honour any Team Score member can achieve. So wear your team pride for all to see. We guarantee that it will be the envy of any non-Score shareholder.*

*To obtain your ring, simply go to [www.scoremedia.com/shareholder](http://www.scoremedia.com/shareholder) to register and your bling will arrive in the mail shortly.*

*\*The Score assumes no responsibility for any damage or injury caused by the ass kicking.*



## TEAM STATS

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED AUGUST 31, 2008

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements of Score Media Inc. ("Score Media" or the "Company") and Notes thereto included elsewhere in this Annual Report. Except for the historical information contained herein, the discussion in this Annual Report contains certain forward-looking statements that involve risks and uncertainties, such as statements of the Company's plans, objectives, strategies, expectations and intentions. The words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to the Company, or its management, are intended to identify such forward-looking statements. Many factors could cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, but not limited to, risks and uncertainties such as those related to the nature of the specialty television industry, dependence on broadcasters, programming and production costs, dependence on Broadcast Distribution Undertakings, regulatory environment, dependence on advertisers, reliance on key personnel, management of growth, general economic conditions, competition, possible strategic alliances and acquisitions, Canadian ownership, control and significant interest of concentrated shareholder base, possible volatility of stock price, regulatory approval of certain transactions involving the Corporation, risks related to online poker, and financial risks, which risks and uncertainties are discussed in the Annual Information Form dated November 20, 2008 filed with the Ontario Securities Commission. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward looking statements prove incorrect, actual results may vary materially from those described herein as intended, planned, anticipated, believed, estimated or expected. The Company does not intend, and does not assume any obligation, to update these forward-looking statements. All amounts are stated in Canadian dollars unless otherwise noted. The information presented in this MD&A is as of November 20, 2008.

#### - OVERVIEW -

Score Media 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. Score Media's primary asset, The Score Television Network ("The Score"), is a national specialty television service providing sports news, information, highlights and live event programming in more than 6.4 million homes across Canada. 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. Growing from a team of 60 in 1997 to over 220 employees in 2008, Score Media is a revolutionizing interactive media company.

#### - FISCAL 2008 HIGHLIGHTS -

- In fiscal 2008, Score Media completed construction of its state-of-the-art street front, high definition (HD) broadcasting studio which now gives The Score's audience access to athletes, Score personalities and the broadcast environment. Score Media also completed a full upgrade of its broadcasting infrastructure to HD standards. Approximately 80 percent of The Score's programming in fiscal 2009 will be broadcast in high definition.
- Hardcore Sports Radio and The Score launched Hardcore Hockey Talk, a cross-platform interactive hockey talk show featuring well known hockey reporter, Steve Kouleas. In addition, Drive This!, Hardcore Sports Radio's authentic and innovative sports talk program heard on SIRIUS channel 98, evolved to include a simulcast on the television network.
- In February 2008, The Score began providing sports updates to Global News Ontario for inclusion in their daily news programming. The Score's sports coverage now provides the Global News Ontario audience with timely scores, odds, highlights and breaking news. In addition, the broadcasts include The Score's signature sports ticker.
- The Score continued its commitment to Canadian amateur sport which helped lead the Company to record audience growth. On November 23, 2007, The Score broadcast the Canadian Interuniversity Sports football championship, The Vanier Cup, in HD and achieved a record audience. The Score also broadcast the Canadian Interuniversity Sports basketball championship in HD and achieved a record audience with a tournament average of 77,000 viewers, up 157% from 2007.

- In March 2008, Score Media launched its second year of cross-platform coverage of NCAA March Madness which featured extensive coverage of the tournament on television, the Internet, mobile devices and 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. In addition, web coverage of the tournament included an online portal featuring exclusive video content, fantasy analysis, and real-time game blogs.

- In early September 2007, the Company launched Score Mobile iPhone Edition, a mobile sports website optimized specifically for the iPhone and its touch-screen capabilities. This application was the first commercial iPhone site of any kind in Canada and the first in North America by a mainstream sports media company. Score Mobile iPhone Edition features game previews, real time boxscores, stats, odds, news and standings for all major professional and college sports.

- In August 2008, in conjunction with the launch of the iPhone 3G and Apple's AppStore, the Company introduced a downloadable version of Score Mobile iPhone Edition. Since its launch in August, the application has been downloaded over 200,000 times and is generating over 5 million monthly pageviews.

- 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), gains and losses from investment sales, restructuring charges 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 TABLE RECONCILES NET INCOME TO EBITDA:

	Year ended August 31, 2008	Year ended August 31, 2007
Net income for the period	\$ 2,026	\$ 2,787
Less:		
Gain on sale of investments	597	21
Add back:		
Restructuring charges	967	-
Depreciation and amortization	2,986	2,112
Interest expense, net	72	149
Income tax expense	442	861
<b>EBITDA</b>	<b>\$ 5,896</b>	<b>\$ 5,888</b>

Year ended August 31, 2008 compared  
to Year ended August 31, 2007

- CONSOLIDATED -

The following selected financial data of the Company as it relates to the three years ended August 31, 2008 is derived from the audited consolidated financial statements of the Company.

**Year ended August 31**  
**(\$000's except per share amounts)**

	2008	2007	2006
<b>Earnings Statement Data</b>			
Revenue	36,383	33,534	29,075
EBITDA	5,896	5,888	5,322
Net income	2,026	2,787	13,036
Earnings per share – basic and diluted	0.02	0.03	0.14
Dividends declared per share	–	–	–
<b>Balance Sheet Data</b>			
Total Assets	36,246	35,705	32,086
Long-term Financial Liabilities	3,803	9,250	9,090

Quarterly Results	Revenue	EBITDA	Net income	Income per share – basic and diluted
	(\$000's)	(\$000's)	(\$000's)	(\$)
August 31, 2008	8,524	1,565	1,160	0.01
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

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

**Revenues** for the year ended August 31, 2008 increased by \$2.9 million to \$36.4 million compared to \$33.5 million in the year ended August 31, 2007. This increase was due to a combination of increases in television subscriber and advertising revenue, and revenue from Hardcore Sports Radio and Score Media's emerging business units.

Television advertising revenue increased by approximately \$1.5 million during the year, reflecting successes in broadcasting several new live event sports programs, as well as continued advertising growth associated with the Company's news programs and contra revenue related to marketing and branding initiatives. This advertising growth

was supplemented with advertising revenue growth of approximately \$0.6 million from Score Media's emerging business units and approximately \$0.4 million from Hardcore Sports Radio. The Company anticipates continued growth in fiscal 2009 and beyond from each of these properties.

Television subscriber fee revenue increased by approximately \$0.4 million for the year ended August 31, 2008 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 2007. During the year ended August 31, 2008 two customers represented 10% and 10% (2007 – 11% and 10%) of the Company's consolidated revenue. Both of the customers are BDUs that have represented consistent and stable revenue over the last several years.

**Production and other direct expenses** were \$14.8 million for the year ended August 31, 2008 compared to \$14.2 million in the prior year, an increase of \$0.6 million. This increase resulted from higher programming expenses associated with the Company's emerging business initiatives and more live event programming expenses.

**Selling, general and administrative expenses** were \$11.5 million for the year ended August 31, 2008 compared to \$9.9 million in the prior year, an increase of \$1.6 million. This increase was primarily due to increased contra marketing costs of \$0.7 million, as the Company received promotional and branding advertising in exchange for certain contra services in fiscal 2008, and increased CRTC Part II licence fees of \$0.5 million. In fiscal 2007, subsequent to an initial court ruling stating that Part II fees were an illegal tax, the Company reversed an accrual that had been established for these fees. After the Federal Court of Appeals over-ruled the decision in fiscal 2008, the Company commenced accruing for the fees and \$0.5 million has been accrued related to the fiscal 2007 and 2008 years as of August 31, 2008.

**Program rights** were \$4.2 million for the year ended August 31, 2008 compared to \$3.6 million in the prior year, an increase of \$0.6 million. The increase in program rights at The Score reflects higher program rights fees for NBA basketball, NCAA basketball, Barclays Premier League football, and Canadian college football.

**Restructuring charges** for the year ended August 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. Substantially all of the restructuring charges have been paid as of August 31, 2008.

**Gain on sale of investments** for the year ended August 31, 2008 amounted to \$0.6 million compared to nil for the same period in the prior year. In fiscal 2008 the Company sold two minority investments for proceeds of \$0.6 million; the investments were recorded at nominal amounts on the dates disposed.

**Depreciation and amortization expense** for the year ended August 31, 2008 was \$3.0 million compared to \$2.1 million in the prior year, an increase of \$0.9 million. Depreciation expense increased to \$2.9 million for the year ended August 31, 2008 compared to \$1.7 million in the prior year reflecting a significant capital expenditure program undertaken primarily in fiscal 2008 that relates to the Company's investment in a street-front presence, a high definition broadcasting studio, and infrastructure, software and computer equipment to support the emerging business units.

**Future income tax expense** for the year ended August 31, 2008 amounted to \$0.4 million compared to \$0.9 million for the year ended August 31, 2007 representing a decrease of \$0.5 million. In assessing the realization of future income tax assets, management considers whether it is more likely than not that some portion or all of the future income tax assets will be realized. The ultimate recognition of future income tax assets is dependent upon the generation of future taxable income before the expiry of non-capital losses and the years in which other temporary differences are deductible. Management considers the scheduled reversals of future income tax liabilities, the character of the income tax assets and the tax planning strategies in place in making this assessment. To the extent that management believes that the realization of future income tax assets does not meet the more likely than not realization criterion, a valuation allowance is recorded against the future tax assets.

For the year ended August 31, 2008, the income tax expense of \$0.4 million drew down the future tax asset. The Company's effective tax rate was approximately 18% (2007 – 24%) compared to its statutory tax rate of 34% due to a tax re-organization plan that was executed in August 2008. As a result of the plan, the Company converted certain expiring non-capital losses into cumulative eligible capital which can be amortized for tax purposes at a rate of 7% per annum.

The valuation allowance at August 31, 2008 of \$8.5 million includes \$4.8 million of income tax assets relating to non-capital loss carry forwards, \$3.7 million of income tax assets relating to fixed assets and other deductible differences, and \$0.1 million of income tax assets relating to capital losses.

Net income for the year ended August 31, 2008 was \$2.0 million, or \$0.02 per share based on a diluted weighted average 99.0 million Class A Shares and Special Voting Shares outstanding compared to \$2.8 million, or \$0.03 per share based on a diluted weighted average 98.7 million Class A Shares and Special Voting shares outstanding in the prior year.

## Liquidity and Capital Resources

**Cash flows provided by operations** for the year ended August 31, 2008 were \$5.9 million compared to \$5.2 million in the prior year. The increase of \$0.7 million is largely due to increased accounts payable and accrued liabilities and depreciation, which was partially offset by gains on investment sales.

For fiscal 2009, the Company anticipates that cash flows provided by operations will be consistent with fiscal 2008 based on anticipated increases in both advertising and subscriber revenues with similar increases in operating expenses. The Company's emerging business units, particularly Score Mobile and theScore.com, are expected to contribute increased operating cash flows in fiscal 2009 compared to fiscal 2008.

**Cash flows used in financing activities** for the year ended August 31, 2008 were \$5.2 million compared to cash flows provided by financing activities of \$0.5 million in the prior year.

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.

The Company made significant repayments on the Company's credit facility in the amount of \$5.4 million during fiscal 2008. As a result of these repayments, the Company reduced its interest charges. As of August 31, 2008 the Company had \$3.8 million drawn 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 investment activities** for the year ended August 31, 2008 were \$11.9 million compared to \$5.2 million in the prior year, an increase of \$6.7 million. For the year ended August 31, 2008 fixed asset additions were \$12.4 million compared to \$5.1 million in the prior year, while additions to deferred charges for the year ended August 31, 2008 were \$0.1 million, consistent with the prior year. Fixed asset additions resulted primarily from the Company's investment in its street-front presence, a high definition studio and television broadcasting equipment, information technology and the development of emerging media technologies. Cash flows used in investment activities were partially offset with proceeds from two minority investment sales in fiscal 2008 totaling \$0.6 million.

For fiscal 2009, with the capital expenditure program largely complete, the Company anticipates minimal cash flows to be used in investment activities compared to fiscal 2008, other than the cash payments to be made related to certain fixed assets received in fiscal 2008.

Other than the credit facilities described above, the Company has no other financial instruments and thus believes it is not subject to any significant price, credit or liquidity risks.

## Contractual Obligations

The Company has no debt guarantees, significant capital leases or long-term obligations other than the credit facility which is disclosed on the Consolidated Balance Sheet as at August 31, 2008, and the commitments which are disclosed in the notes to the Consolidated financial statements.

Contractual operating obligations are as follows:

<b>Contractual Obligations (in thousands of dollars)</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>Thereafter</b>	<b>Total</b>
Operating lease obligations	1,454	1,231	743	620	583	583	5,214
Programming rights obligations	4,837	4,835	30	–	–	–	9,702
Long-term debt obligations	–	3,803	–	–	–	–	3,803
<b>Total</b>	<b>6,291</b>	<b>9,869</b>	<b>773</b>	<b>620</b>	<b>583</b>	<b>583</b>	<b>18,719</b>

## Related Party Transactions

During 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 \$23,000 (2007 – \$27,000). 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 2008 amounted to \$35,000 (2006 – \$116,000).

All related party transactions have been reported at their exchange amounts agreed to by the parties which the Company believes is representative of fair values.

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

Levfam’s notice was provided pursuant to a Respective Rights Agreement made November 24, 2000, to which Levfam, CW Media and the Company are parties. The provisions of the Respective Rights Agreement provided that CW Media had a 30 day period in which to choose to accept the offer set forth in the notice, and as CW Media did not accept the offer, Levfam had a period of 120 days during which it could have entered into a binding agreement to sell its shares in the Company to one or more third parties, provided that such sale was made for a price and on terms and conditions no more favourable than those offered to CW Media in the notice. The 120 day period expired on November 17, 2007.

## 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.

### **- ALLOWANCE FOR DOUBTFUL ACCOUNTS -**

The Company has an accounts receivable balance of \$7.7 million at August 31, 2008 (\$6.6 million at August 31, 2007). The valuation of accounts receivable requires significant estimates to be made by management and the valuation of these balances could have a significant impact on the Company’s consolidated financial statements. These accounts receivable are comprised of amounts arising from: (a) contractual arrangements with broadcast distribution undertakings (“BDUs”) for distribution of its standard definition and high definition television service, each of which varies in length; and (b) a large and diverse base of advertisers that contract with the Company’s television, radio, Internet and other interactive operations. The Company determines an allowance for doubtful accounts based on knowledge of the financial conditions of its customers, the aging of the receivables, customer and industry concentrations, the current business environment and historical experience. At August 31, 2008, management has consistently applied this methodology and the Company has had a history of minimal bad debt loss. A change in any of the factors impacting the estimate of the allowance for doubtful accounts will directly impact the amount of bad debt expense recorded in selling, general and administrative expenses.

### **- INCOME TAX ESTIMATES -**

Management continually reviews the estimates of the valuation of future income tax assets recorded on the balance sheet to ensure they are appropriate. This involves the use of judgment in the estimation of future income projections on an entity by entity basis, actual tax exposures, assessing temporary differences that result from differing treatments in items for accounting purposes versus tax purposes, and in estimating the recoverability of the benefits arising from tax loss carryforwards. We are required to assess whether it is more likely than not that future income tax assets will be realized prior to the expiration of the related tax loss carry forwards. As at August 31, 2008, the Company has a future income tax asset of \$7.9 million (\$8.3 million at August 31, 2007).

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

**- ACQUIRED PROGRAM RIGHTS -**

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

The cost of acquired program rights are charged to expense over their estimated useful life based on the current year's revenue to estimated total gross revenue from such programs. Estimates of total gross revenue can change significantly due to a variety of factors, including the level of market acceptance of the products and advertising rates. Accordingly, revenue estimates are reviewed periodically and amortization is adjusted, if necessary.

**- STOCK BASED COMPENSATION -**

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

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

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

**- USEFUL LIVES OF DEPRECIABLE ASSETS -**

The Company depreciates the cost of fixed assets over their respective estimated useful lives. These estimates of useful lives involve estimation and judgment. In determining the estimates of useful lives, the Company considers industry trends and changing technologies. On an annual basis, the Company reviews the estimated useful lives to ensure they correspond with the anticipated life of the respective assets. If a technological change happens more quickly than anticipated, the Company may have to revise the estimates of useful lives of fixed assets which could result in higher depreciation expense in future periods or an impairment charge to write-down the value of the fixed assets.

**- RECOVERABILITY OF LONG-LIVED ASSETS -**

Long-lived assets, including fixed assets, are depreciated over their estimated useful lives. The Company assesses for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of undiscounted cash flows expected to result from the use and eventual disposition of a group of assets is less than its carrying amount, it is considered to be impaired. These analyses involve estimates of future cash flows and estimated periods of use. If the undiscounted net cash flows associated with a group of long-lived assets exceed the carrying amounts, impairment losses are measured as the excess of the carrying amount over the fair value.

**Adoption of New Accounting Pronouncements**

i) In 2005, The Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 3855, Financial Instruments – Recognition and Measurement ("Section 3855"), Handbook Section 1530, Comprehensive Income ("Section 1530"), Handbook Section 3251, Equity ("Section 3251"), and Handbook Section 3865, Hedges ("Section 3865"). The new standards were 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 net income. 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 year ended August 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 year ended August 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 year ended August 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 August 31, 2008.

ii) Effective August 31, 2008 the Company adopted the new recommendations of the CICA Handbook Section 1535, Capital Disclosures. The new standard requires disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. These new disclosures are included in note 11 to the consolidated financial statements.

iii) Effective August 31, 2008 the Company adopted the new recommendations of the CICA Section 3862, Financial Instruments – Disclosures ("Section 3862"), and Handbook Section 3863, Financial Instruments – Presentation ("Section 3863").

Section 3862 requires disclosure about the significance of financial instruments on the entity's financial position and performance, the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. These new disclosures are included in note 12 to the consolidated financial statements.

The adoption of these standards did not have any impact on the classification and measurement of the Company's financial instruments.

#### **Recent Accounting Pronouncements**

i) The CICA plans to converge Canadian GAAP with International Financial Reporting Standards ("IFRS"). The Company will adopt IFRS effective September 1, 2011. The impact on the transition to IFRS on the Company's financial statements is not yet determinable.

ii) Goodwill and Intangible Assets:

In 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets ("Section 3064"). Section 3064 replaces Section 3062, Goodwill and Intangible Assets, and Section 3450, Research and Development Costs. It establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard is effective for the Company's interim and annual consolidated financial statements commencing September 1, 2009. The Company is currently assessing the impact of the new standard.

#### **Risks and Uncertainties**

##### ***- RISKS RELATED TO THE NATURE OF THE SPECIALTY TELEVISION INDUSTRY -***

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

**- REGULATORY ENVIRONMENT -**

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

On October 30, 2008 the CRTC announced changes to the regulatory framework for broadcasting distribution undertakings and discretionary programming services. First, the CRTC loosened certain rules relating to the programming categories that services can air, allowing greater latitude in programming for both The Score and its competitors. All analog and digital Category 1 specialty services will be permitted to air sports programming, including the broadcast of live professional sports during up to 10 percent of each broadcast month. Second, the genres of mainstream sports and mainstream national news services were opened up to direct competition and lost their guaranteed access to broadcast distribution undertakings. Additional Canadian mainstream sports television competitors whose market entry was thus far restricted by genre exclusivity rules may therefore enter the market. The CRTC also determined that The Score is not one of the mainstream sports services whose genre has been opened up to direct competition and will therefore, like other existing analog specialty services outside the mainstream sports and news genres, retain genre exclusivity and guaranteed access to broadcast distribution undertakings. Third, the CRTC has proposed to allow broadcast distribution undertakings to participate directly in advertising sales, including targeted advertising allowing different audience segments to be addressed and advertisements during the local availabilities of non-Canadian services. However, the rules surrounding broadcast distribution undertakings' participation in advertising sales are to be determined through follow-up proceedings. The results of increased competition as a result of these regulatory changes and others to come, including a proposed regulatory framework for video-on-demand undertakings, cannot be predicted.

**- DEPENDENCE ON BROADCAST DISTRIBUTION UNDERTAKINGS -**

The Score is dependent on BDU's (including cable, direct to home and Multipoint Distribution System (MDS) distributors) for distribution of its specialty television services. If any of the distribution agreements are terminated and the Company is unable to secure similar agreements, there could be a significant negative impact on revenues. There could be a further negative impact on revenues if distribution agreements with BDUs are not renewed on terms at least comparable to current terms. During the year ended August 31, 2008, subscriber revenue from two BDUs represented 10% and 10% of the Company's consolidated revenue.

**- PROGRAMMING AND PRODUCTION COSTS -**

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

**- GENERAL ECONOMIC CONDITIONS -**

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

**- RELIANCE ON KEY PERSONNEL -**

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

**- MANAGEMENT OF GROWTH -**

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

**- COMPETITION -**

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

**- CANADIAN OWNERSHIP -**

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

**- CONTROL AND SIGNIFICANT INTEREST OF CONCENTRATED SHAREHOLDER BASE -**

Entities controlled by John Levy own 55.7% of the Company's Special Voting Shares and approximately 37.7% of the Company's Class A Shares. In addition, CanWest Media Inc. ("CW Media") owns 44.3% of the Special Voting Shares and approximately 21.8% of the Class A Shares. Through John Levy's indirect ownership of the Special Voting Shares and the rights of John Levy, and Levfam in the Respective Rights Agreement and the Voting Rights Agreement, John Levy controls the Company and is entitled to nominate a majority of the members of the board of directors of the Company. As a result of Levfam's rights of first refusal in the Respective Rights Agreement, and CW Media's rights of first offer in the same agreement, each of these entities will have significant influence over any sale of the Company's shares or any sale of the shares, or all or substantially all of the assets of, the Company or any other specialty channel owned directly or indirectly by the Company.

In addition, if John Levy divests his indirect ownership interest in Class A Shares below the Threshold Amount (as defined in "Principal Shareholders – Respective Rights Agreement and Voting Rights Agreement – Deemed Conversion" in the Company's Annual Information Form dated November 20, 2008) following which the Special Voting Shares indirectly owned by him are deemed to have been converted to Class A Shares, CW Media (for so long as it owns Class A Shares at least equal to the Threshold Amount) will hold a majority of the Special Voting Shares, will acquire the rights of John Levy and Levfam in the Respective Rights Agreement and Voting Rights Agreement and will control the Company.

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

**- POSSIBLE VOLATILITY OF STOCK PRICE -**

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

**- REGULATORY APPROVAL OF CERTAIN TRANSACTIONS INVOLVING THE COMPANY -**

Transfers of ownership or control of a licensed broadcasting undertaking such as a specialty television service are subject to prior CRTC approval. In addition, the acquisition of certain levels of ownership in a licensed broadcasting undertaking must receive prior approval by the CRTC. Attempts by the Company to undertake selective acquisitions of licensed broadcasting undertakings are subject to prior CRTC approval. Future strategic alliances and partnership opportunities may also be subject to CRTC approval. CRTC approval for such initiatives cannot be guaranteed. Should the CRTC not grant any necessary approvals or should it impose costly conditions on such approvals, the Company's growth strategy will be adversely affected.

**- RISKS RELATED TO ONLINE POKER -**

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

**Disclosure Controls and Procedures**

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

**Outlook**

Moving forward into 2009, the Company will continue to focus on growing its primary asset, The Score Television Network while expanding the development of related sports media properties and applications such as Hardcore Sports Radio, Score Poker, Score Mobile, theScore.com and other creative web-based initiatives. An innovative and leading edge media company, The Score will continue to push boundaries and produce creative, intelligent and interactive sports content.



FINANCIALS

Consolidated Financial Statements of

SCORE MEDIA INC.

Years ended August 31, 2008 and 2007



MANAGEMENT'S REPORT

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

John S. Levy  
Chairman and CEO

Tom Hearne  
Chief Financial Officer

.....  
Toronto, Canada  
November 20, 2008



AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Score Media Inc. as at August 31, 2008 and 2007 and the consolidated statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*KPMG LLP*

Chartered Accountants, Licensed Public Accountants

.....  
Toronto, Canada  
November 20, 2008

**SCORE MEDIA INC.**  
**Consolidated Balance Sheets**  
**(In thousands of dollars)**

August 31, 2008 and 2007

	2008	2007
<i>Assets</i>		
Current assets:		
Cash and cash equivalents	\$ 292	\$ 11,564
Accounts receivable	7,651	6,642
Prepaid expenses and deposits	569	853
Future tax assets (note 8)	1,665	1,963
	10,177	21,022
Fixed assets (note 2)	19,551	8,034
Deferred charges (note 3)	344	332
Future tax assets (note 8)	6,174	6,317
	<u>\$ 36,246</u>	<u>\$ 35,705</u>
<i>LIABILITIES AND SHAREHOLDERS' EQUITY</i>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 6,358	\$ 3,126
Revolving credit facility (note 4)	3,803	9,250
Shareholders' equity (note 5)	26,085	23,329
Commitments (note 7)		
Contingent liability (note 13)		
	<u>\$ 36,246</u>	<u>\$ 35,705</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Director



Director



**SCORE MEDIA INC.**  
**Consolidated Statements of Operations and Retained Earnings**  
**(In thousands of dollars, except per share amounts)**

Years ended August 31, 2008 and 2007

	2008	2007
<b>Revenue</b>	<b>\$ 36,383</b>	<b>\$ 33,534</b>
Production and other direct expenses	14,798	14,219
Selling, general and administration expenses	11,512	9,876
Program rights	4,177	3,551
	30,487	27,646
<b>Income before the undernoted</b>	<b>5,896</b>	<b>5,888</b>
Restructuring charges (note 10)	967	–
Gain on sale of investments (note 14)	(597)	(21)
Interest expense, net (note 4)	72	149
Depreciation	2,853	1,717
Amortization	133	395
	3,428	2,240
<b>Income before income taxes</b>	<b>2,468</b>	<b>3,648</b>
Future income tax expense (note 8)	442	861
<b>Net income and comprehensive income</b>	<b>2,026</b>	<b>2,787</b>
Retained earnings (deficit), beginning of year	1,654	(71,849)
Reduction in stated capital (note 5(a)(i))	–	70,716
Retained earnings, end of year	\$ 3,680	\$ 1,654
Income per share – basic and diluted (note 6)	\$ 0.02	\$ 0.03
Weighted average number of Class A Subordinate Voting and Special Voting shares outstanding (note 6):		
Basic	98,137,287	97,063,122
Diluted	99,017,523	98,740,531

*See accompanying notes to consolidated financial statements.*

**SCORE MEDIA INC.**  
**Consolidated Statements of Cash Flows**  
**(In thousands of dollars)**

Years ended August 31, 2008 and 2007

	2008	2007
Cash provided by (used in):		
Operations:		
Net income	\$ 2,026	\$ 2,787
Items not involving cash:		
Depreciation	2,853	1,717
Amortization	133	395
Non-cash compensation expense	496	714
Future income tax expense	442	861
Gain on sale of investments	(597)	(21)
Change in non-cash operating working capital:		
Accounts receivable	(1,009)	(363)
Prepaid expenses and deposits	284	(141)
Accounts payable and accrued liabilities	1,245	(739)
	5,873	5,210
Financing:		
Issuance of common shares and warrants	233	1,203
Credit facility repayments	(5,447)	(750)
	(5,214)	453
Investments:		
Additions to fixed assets	(12,383)	(5,071)
Deferred charges	(145)	(150)
Proceeds on sale of investments	597	21
	(11,931)	(5,200)
Increase (decrease) in cash and cash equivalents	(11,272)	463
Cash and cash equivalents, beginning of year	11,564	11,101
Cash and cash equivalents, end of year	\$ 292	\$ 11,564
Supplemental cash flow information:		
Interest paid	\$ 232	\$ 145

*See accompanying notes to consolidated financial statements.*

**SCORE MEDIA INC.**  
**Notes to Consolidated Financial Statements**  
**(In thousands of dollars, except per share amounts)**

Years ended August 31, 2008 and 2007

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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, The Score Television Network (“The Score”), is a national specialty television service providing sports news, information, highlights and live event programming in more than 6.4 million homes across Canada. The Company 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.

1. Significant accounting policies:

(a) Basis of presentation:

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

Certain 2007 figures have been reclassified to conform with the financial statement presentation adopted in 2008.

(b) Fixed assets:

Fixed assets are recorded at cost and depreciated over their estimated useful lives. Depreciation is provided using the following methods and annual rates:

Asset	Basis	Rate
Technical production equipment	Declining balance	12% – 30%
Computer equipment	Declining balance	30%
Computer software and video	Declining balance	100%
Office equipment and furniture	Declining balance	5% – 20%
Leasehold improvements	Straight line	Over shorter of estimated useful life and term of lease including Company renewal option

(c) Impairment of long-lived assets:

Long-lived assets, including fixed assets, are depreciated over their estimated useful lives. The Company assesses long-lived assets for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the undiscounted future cash flows expected to result from the use and eventual disposition of a group of assets is less than its carrying amount, it is considered to be impaired. An impairment loss is measured as the amount by which the carrying amount of the group of assets exceeds its fair value. At August 31, 2008 and 2007, no such impairments in the carrying value of these assets existed.

(d) Deferred charges:

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

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

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

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

(e) Acquired program rights:

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

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

(f) Income taxes:

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

(g) Revenue recognition:

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

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

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

The Company periodically exchanges advertising time for the rights to broadcast programming on the television network. Revenue related to advertising barter transactions is recorded at fair value, which is determined based on the historical practice of receiving cash for similar advertising from buyers unrelated to the counterparty in the barter transaction. Additionally, the Company exchanges services for promotional and branding advertising. Revenue related to these barter transactions is recorded at fair value, which is determined based on the value of the promotional and branding advertising received. There were no gains or losses associated with the Company's barter transactions in 2008. Barter transactions for the year were approximately \$1,462 (2007 \$916).

(h) Stock-based compensation:

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

(i) Measurement uncertainty:

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

(j) Income per share:

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

(k) Cash and cash equivalents:

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

(l) Changes in accounting policies:

(i) In 2005, The Canadian Institute of Chartered Accountants (“CICA”) issued Handbook Section 3855, Financial Instruments – Recognition and Measurement (“Section 3855”), Section 1530, Comprehensive Income (“Section 1530”), Section 3251, Equity, and Section 3865, Hedges. The new standards were 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 GAAP. Under the new standards, policies followed for periods prior to the effective date generally are not reversed; 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 net income. 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 year ended August 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 year ended August 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 year ended August 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 August 31, 2008.

(ii) Effective August 31, 2008, the Company adopted the new recommendations of Handbook Section 1535, Capital Disclosures (“Section 1535”). The new standard requires disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the entity’s objectives, policies and processes for managing capital. These new disclosures are included in note 11.

(iii) Effective August 31, 2008, the Company adopted the new recommendations of Handbook Section 3862, Financial Instruments – Disclosures (“Section 3862”) and Section 3863 Financial Instruments – Presentation (“Section 3863”).

Section 3862 requires disclosure about the significance of financial instruments on the entity’s financial position and performance, the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividends, gains and losses, and circumstances in which financial assets and financial liabilities are offset.

The additional disclosures, required as a result of adoption of these standards, are included in note 12.

(m) Changes in accounting policies not yet adopted:

(i) The CICA plans to converge Canadian GAAP with International Financial Reporting Standards (“IFRS”). The Company will adopt IFRS effective September 1, 2011. The Company is evaluating accounting policy differences between Canadian GAAP and IFRS; however, the impact of the transition to IFRS on the Company’s consolidated financial statements is not yet determinable.

(ii) Goodwill and Intangible Assets:

In 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets (“Section 3064”). Section 3064 replaces Section 3062, Goodwill and Intangible Assets, and Section 3450, Research and Development Costs. It establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard is effective for the Company’s interim and annual consolidated financial statements commencing September 1, 2009. The Company is currently assessing the impact of the new standard.

2. Fixed assets:

2008	Cost	Accumulated depreciation	Net book value
Technical production equipment	\$ 21,379	\$ 9,157	\$ 12,222
Computer equipment	1,616	939	677
Computer software and video	3,047	1,787	1,260
Office equipment and furniture	1,262	528	734
Leasehold improvements	6,867	2,209	4,658
	<u>\$ 34,171</u>	<u>\$ 14,620</u>	<u>\$ 19,551</u>
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	1,253	401	852
Leasehold improvements	4,110	1,871	2,239
	<u>\$ 19,801</u>	<u>\$ 11,767</u>	<u>\$ 8,034</u>

Depreciation expense for the year ended August 31, 2008 amounted to \$2,853 (2007 – \$1,717).

3. Deferred charges:

	2008	2007
Pre-operating costs, less accumulated amortization of \$82 (2007 – \$46)	\$ 26	\$ 62
Licence costs, less accumulated amortization of \$200 (2007 – \$160)	80	120
Trademarks, less accumulated amortization of \$21 (2007 – \$8)	115	101
Financing costs, less accumulated amortization of \$45 (2007 – \$1)	123	49
	<u>\$ 344</u>	<u>\$ 332</u>

Amortization of deferred charges for the year ended August 31, 2008 amounted to \$133 (2007 – \$395).

4. 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. 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 August 31, 2008, \$3,803 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 August 31, 2008.

For the year ended August 31, 2008, interest expense includes interest on the bank loans of \$232 (2007 – \$607). Interest expense is net of interest income of \$160 (2007 – \$458).

The weighted average interest rate for the year ended August 31, 2008 was 4.9% (2007 6.3%).

5. Shareholders' equity:

	2008	2007
Capital stock (a)	\$ 20,158	\$ 19,753
Contributed surplus	2,247	1,922
Retained earnings	3,680	1,654
	<u>\$ 26,085</u>	<u>\$ 23,329</u>

(a) Capital stock:

	2008	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
98,411,849 Class A Subordinate Voting shares (2007 – 97,800,182)	20,128	19,723
	<u>\$ 20,158</u>	<u>\$ 19,753</u>

Details of capital stock transactions are as follows:

	Number of shares issued		Amount credited to capital	
	Class A Subordinate Voting	Special Voting	Class A Subordinate Voting	Special Voting
Balance, August 31, 2006	96,357,034	10,000	\$ 88,905	\$ 30
Options exercised	493,248	–	442	–
Warrants exercised	949,900	–	1,092	–
Reduction in stated capital (i)	–	–	(70,716)	–
Balance, August 31, 2007	97,800,182	10,000	19,723	30
Options exercised	611,667	–	405	–
Balance, August 31, 2008	<u>98,411,849</u>	<u>10,000</u>	<u>\$ 20,128</u>	<u>\$ 30</u>

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

(b) Stock option plan:

The Company has a stock option plan (the “Plan”) under which the Board of Directors, or a committee appointed for such purpose may, from time to time, grant to directors, officers, full-time employees of, or consultants to, the Company, options to acquire Class A Subordinate Voting shares. Of the Class A Subordinate Voting shares issued and outstanding, 6,734,251 are reserved for issue under the Plan. 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 10 years and options generally vest over three years.

The following table summarizes the status of the Plan:

	Number	Exercise price	Weighted average exercise price
Outstanding options, August 31, 2006	2,917,500	\$ 0.28 – 1.00	\$ 0.55
Granted	1,232,500	0.84 – 2.30	1.43
Cancelled	(98,333)	0.28 – 1.00	0.51
Exercised	(493,248)	0.28 – 1.00	0.80
Outstanding options, August 31, 2007	3,558,419	0.28 – 2.30	0.80
Granted	1,285,000	0.71 – 1.46	1.19
Cancelled	(435,834)	0.55 – 1.46	1.15
Exercised	(611,667)	0.28 – 0.84	0.38
Outstanding options, August 31, 2008	3,795,918	0.43 – 2.30	0.96
Options exercisable, August 31, 2008			3,063,003
Options exercisable, August 31, 2007			2,647,998

During the year ended August 31, 2008, the Company recorded stock compensation expense of \$496 (2007 – \$714).

The weighted average estimated fair value at the date of grant for options granted during the year ended August 31, 2008 is \$0.63 (2007 – \$0.66).

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

	2008	2007
Risk-free interest rate	4%	4%
Dividend yield	–	–
Volatility factor of the future expected market price of common shares	50% – 52%	50%
Weighted average expected life of the options	4 – 5 years	5 years

As at August 31, 2008, the weighted average remaining contractual life of the options exercisable and outstanding was 3.0 years and 3.1 years, respectively.

The following summarizes information about stock options at August 31, 2008:

Exercise price	Number of options outstanding	Weighted average remaining contractual life (years)	Number of options exercisable
\$ 0.43	423,667	1.5	423,667
0.54	1,000,000	1.8	1,000,000
0.55	327,666	2.7	270,167
0.71	35,000	4.9	–
0.82	500,000	4.8	500,000
0.84	493,335	4.0	267,502
1.46	516,250	4.1	101,667
2.30	500,000	3.8	500,000
	3,795,918	3.1	3,063,003

In 2005, the Company approved options to acquire 500,000 Class A Subordinate Voting shares to be granted to the Chief Executive Officer (“CEO”) with a vesting date of July 1, 2008 and at an exercise price per share equal to the weighted average trading price for five days prior to the grant. These options were granted and vested on July 1, 2008 at an exercise price of \$0.82.

(c) Employee share purchase plan:

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

6. Basic and diluted income per share:

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

	2008	2007
Numerator:		
Net income available to shareholders – basic and diluted	\$ 2,026	\$ 2,787
Denominator:		
Weighted average shares outstanding – basic	98,137,287	97,063,122
Effect of dilutive stock options	880,236	1,677,409
Weighted average shares outstanding – diluted	99,017,523	98,740,531
Income per share – basic and diluted	<u>\$ 0.02</u>	<u>\$ 0.03</u>

During the year ended August 31, 2008, options to purchase 1,016,250 (2007 – 500,000) Class A Subordinate Voting shares were outstanding but not included in the computation of diluted income per share because the exercise price was greater than the average market price of the Class A Subordinate Voting shares for the year.

#### 7. Commitments:

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

2009	\$ 4,837
2010	4,835
2011	30
.....	
	\$ 9,702

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

2009	\$ 1,454
2010	1,231
2011	743
2012	620
2013	583
Thereafter	583
.....	
	\$ 5,214

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

The Company's gross television revenue as defined by the CRTC from The Score for the year ended August 31, 2008 was \$33,830 (2007 – \$31,966).

#### 8. Income taxes:

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

	2008	2007
.....		
Future income tax assets:		
Non-capital income tax loss carryforwards	\$ 7,433	\$ 19,334
Fixed assets and other deductible differences	8,903	4,158
Capital loss carryforwards	51	53
.....		
	16,387	23,545
Less valuation allowance	8,509	15,239
.....		
	7,878	8,306
Future income tax liabilities	(39)	(26)
.....		
Net future income tax assets	7,839	8,280
Less current portion	1,665	1,963
.....		
	\$ 6,174	\$ 6,317

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

In making an assessment of whether future income tax assets are more likely than not to be realized, management regularly prepares information regarding the expected use of such assets by reference to its internal budgets and income forecasts.

The valuation allowance at August 31, 2008 of \$8,509 includes \$4,761 of income tax assets relating to non-capital loss carryforwards, \$3,697 of income tax assets relating to fixed assets and other deductible differences, and \$51 of income tax assets relating to capital losses.

During 2008, the Company implemented a tax planning strategy to convert approximately \$18,348 of non-capital losses into tax attributes with an indefinite life.

As at August 31, 2008, the Company has the following non-capital losses available to reduce future years' income for income tax purposes:

Income tax losses expiring in the year ending August 31:

2009	\$ 12,949
2010	3,850
2014	3,713
2015	635
2026	955
2027	1,539
2028	1,258
.....	
	\$ 24,899

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

	2008	2007
.....		
Income tax expense based on the statutory income tax rate of 34.4% (2007 – 36.1%)	\$ 848	\$ 1,317
Reduction of valuation allowance	(1,566)	(1,756)
Valuation allowance for current year future tax assets	433	814
Tax effect of non-deductible and non-taxable items	95	279
Reduction in income tax rate	632	207
.....		
Future income tax expense	\$ 442	\$ 861
.....		

#### 9. Related party transactions:

(a) During 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 \$23 (2007 – \$27).

(b) 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 2008 amounted to \$35 (2007 – \$116).

All related party transactions have been reported at their exchange amounts, as agreed to between the parties.

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

Levfam’s notice was provided pursuant to a Respective Rights Agreement made November 24, 2000, to which Levfam, CW Media and the Company are parties. The provisions of the Respective Rights Agreement provided that CW Media had a 30-day period in which to choose to accept the offer set forth in the notice, and as CW Media did not accept the offer, Levfam had a period of 120 days during which it could have entered into a binding agreement to sell its shares in the Company to one or more third parties, provided that such sale was made for a price and on terms and conditions no more favourable than those offered to CW Media in the notice. The 120-day period expired on November 17, 2007.

#### 10. 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 recorded a restructuring charge of \$967 of which \$24 remains unpaid and is recorded in accounts payable and accrued liabilities as of August 31, 2008. The Company anticipates that the balance of the restructuring accrual will be paid in the first quarter of fiscal 2009.

#### 11. Capital risk management:

The Company's objectives in managing capital are to maintain its ability to operate as a going concern, to fund future development and growth of the business and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of cash, credit facilities and components of shareholders' equity including retained earnings, contributed surplus, and capital stock.

The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, increase or decrease the revolving credit facility, or undertake other activities as deemed appropriate under the specific circumstances. Other than the covenants required for the credit facility as described in note 4, the Company is not subject to any externally imposed capital requirements.

#### 12. Financial risk management:

##### (a) Overview:

The Company has exposure to credit risk, liquidity risk and market risk from its use of financial instruments. This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing these risks.

##### (b) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers. The carrying amount of financial assets represents the maximum credit exposure. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The Company establishes an allowance for doubtful accounts that represents its estimate of potential credit losses in respect of trade and other receivables but historically has not experienced any significant losses related to individual customers or groups of customers in any particular industry or geographical area. This allowance consists of a specific provision that relates to individually significant exposures. As at August 31, 2008, the Company had an allowance for doubtful accounts of \$190, which represented approximately 2% of the Company's accounts receivable.

The Company has customer concentration risk as two customers represented 10% and 10% (2007 – 11% and 10%) of the Company's consolidated revenue and their outstanding receivable balances represented a combined 12% (2007 – 18%) of the Company's consolidated accounts receivable balance as at August 31, 2008.

##### (c) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined in note 11. The Company's operations and growth is financed through a combination of cash flows from operations and borrowing under the existing credit facility. As at August 31, 2008, the undrawn portion of the Company's bank credit facility was \$21,197.

As at August 31, 2008, the Company had financial assets held-for-trading of \$292, loans and receivables of \$7,651 and financial liabilities of \$10,161. Accounts payable and accrued liabilities have contracted maturities of less three months and the bank credit facility has a maturity in August 2010.

The Company manages its liquidity risk by continuously monitoring forecast and actual EBITDA and cash flows from operations.

(d) Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, equity prices and interest rates, will affect the Company's income or the value of its holdings of financial instruments.

The Company broadcasts in Canada and the majority of the Company's customers, suppliers and programming licensors are based in Canada and, therefore, transact in Canadian dollars. A small amount of customers, suppliers and programming licensors are based outside of Canada and the associated financial assets and liabilities originate in U.S. dollars, Euros or Pounds Sterling thereby exposing the Company to foreign exchange risk. The Company's exposure to foreign exchange risk is minimal as the Company does not frequently engage in transactions denominated in currencies other than Canadian dollars. The Company's foreign exchange loss for the year ended August 31, 2008 was \$43 (2007 – \$17).

The Company is exposed to interest rate risk on the utilized element of the credit facility. Management does not believe the impact of fluctuations in interest rates on the current or forecasted level of borrowings will be significant and accordingly, a sensitivity analysis of the impact of fluctuations in interest rates on net income has not been provided as a result.

(e) Fair values:

The fair values of the Company's cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their carrying amounts due to the short-term nature of these financial instruments.

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

13. Contingent liability:

The CRTC collects two different types of fees from broadcast licencees, which are known as Part I and Part II fees. In 2003 and 2004, lawsuits were commenced in the Federal Court alleging that Part II fees are taxes as opposed to fees and that regulation authorizing them are unlawful. On December 14, 2006 the Federal Court ruled that the CRTC did not have the authority to charge Part II fees. Both the Crown and the applicants brought this case to the Federal Court of Appeal. On April 28, 2008 the Federal Court of Appeal overturned the Federal Court and ruled that Part II fees are valid regulatory charges. As a result, during the year ended August 31, 2008 the Company recorded \$492 for CRTC fees covering the period from September 1, 2006 to August 31, 2008. The Company will continue to record these fees on a prospective basis. An application for leave to appeal has been filed with the Supreme Court of Canada.

14. Gain on sale of investments:

During the year ended August 31, 2008, the Company sold two minority investments for proceeds of \$597. The carrying value of these investments were recorded at nominal amounts on the dates disposed.