

NeuLion, Inc.

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders  
NeuLion, Inc.

We have audited the accompanying consolidated balance sheets of NeuLion, Inc. (the "Company") as of December 31, 2009 and 2008, and the related consolidated statements of operations and comprehensive loss, shareholders' equity, 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of NeuLion, Inc. at December 31, 2009 and 2008, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the Company adopted the guidance issued in Financial Accounting Standards Board ("FASB") Statement No. 141(R), "Business Combinations" (codified in FASB Accounting Standards Codification ("ASC") Topic 805, "Business Combinations") and Emerging Issues Task Force 07-5, "Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock" (codified in FASB ASC Topic 815-40) on January 1, 2009.

/s/ Ernst & Young LLP  
Jericho, New York  
March 17, 2010

## NEULION, INC.

## CONSOLIDATED BALANCE SHEETS

[Expressed in U.S. dollars, unless otherwise noted]

As at December 31,

	2009	2008
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	12,957,679	27,323,021
Accounts receivable, net of allowance for doubtful accounts of \$129,550 and \$290,538, respectively [note 2]	1,809,147	2,284,242
Taxes receivable	35,334	983,253
Other receivables	821,834	227,711
Inventory	928,592	347,600
Prepaid expenses and deposits	966,101	1,830,260
Due from related party [note 7]	246,992	324,059
<b>Total current assets</b>	<b>17,765,679</b>	<b>33,320,146</b>
Property, plant and equipment, net [note 5]	5,754,255	6,474,989
Intangible assets, net [notes 3 and 6]	9,542,071	5,749,332
Goodwill [notes 3 and 6]	6,757,194	6,846,183
Other assets	449,964	1,347,032
<b>Total assets</b>	<b>40,269,163</b>	<b>53,737,682</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable	5,383,518	4,465,388
Accrued liabilities	5,822,385	7,595,116
Derivative liability [note 16]	1,389,300	—
Due to related parties [note 7]	298,595	56,826
Deferred revenue	3,907,510	3,091,993
<b>Total current liabilities</b>	<b>16,801,308</b>	<b>15,209,323</b>
Long-term deferred revenue	469,191	638,510
Other long-term liabilities	728,330	876,271
<b>Total liabilities</b>	<b>17,998,829</b>	<b>16,724,104</b>
<b>Shareholders' equity</b>		
Share capital [note 9]	11,260,415	6,762,097
Common shares (par value: none; authorized: unlimited; issued and outstanding: 116,731,794 and 110,084,044, respectively)		
Additional paid-in capital	55,023,567	56,500,258
Promissory notes receivable	(209,250)	(209,250)
Accumulated deficit	(43,804,398)	(26,039,527)
<b>Total shareholders' equity</b>	<b>22,270,334</b>	<b>37,013,578</b>
<b>Total liabilities and shareholders' equity</b>	<b>40,269,163</b>	<b>53,737,682</b>

See accompanying notes

## NEULION, INC.

**CONSOLIDATED STATEMENTS OF OPERATIONS AND  
COMPREHENSIVE LOSS**

[Expressed in U.S. dollars, unless otherwise noted]

	<b>Years ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
	\$	\$
<b>Revenue</b>		
Services revenue	26,464,400	9,542,689
Equipment revenue	1,629,277	3,900,650
	<u>28,093,677</u>	<u>13,443,339</u>
<b>Costs and Expenses</b>		
Cost of services revenue, exclusive of depreciation and amortization shown separately below	12,850,002	4,519,062
Cost of equipment revenue	1,537,150	3,120,087
Selling, general and administrative, including stock-based compensation <i>[note 10]</i>	28,767,049	14,221,347
Depreciation and amortization	4,141,117	1,572,492
Impairment of long-lived assets	—	1,036,993
	<u>47,295,318</u>	<u>24,469,981</u>
<b>Operating loss</b>	(19,201,641)	(11,026,642)
<b>Other income (expense)</b>		
Unrealized loss on derivative <i>[note 16]</i>	(801,350)	—
Gain on foreign exchange	68,245	265,720
Investment income	293,825	130,048
Equity in loss of affiliate	—	(1,006,386)
	<u>(439,280)</u>	<u>(610,618)</u>
<b>Net and comprehensive loss for the year</b>	(19,640,921)	(11,637,260)
Net loss per weighted average number of shares		
outstanding - basic and diluted <i>[note 11]</i>	\$(0.18)	\$(0.21)
Weighted average number of shares		
outstanding - basic and diluted <i>[note 11]</i>	111,314,653	55,995,297

*See accompanying notes*

NEULION, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

[Expressed in U.S. dollars, unless otherwise noted]

	Common shares		Additional paid-in capital	Promissory Notes	Accumulated deficit	Total shareholders' equity
	#	\$	\$	\$	\$	\$
<b>Balance, December 31, 2007</b>	44,018,383	68,871	17,580,329	—	(14,402,267)	3,246,933
Capital contribution	—	—	2,600,000	—	—	2,600,000
Exercise of stock options	5,559,044	8,698	419,927	(209,250)	—	219,375
	49,577,427	77,569	20,600,256	(209,250)	(14,402,267)	6,066,308
Issuance of shares in connection with merger	49,490,372	(77,569)	31,615,091	—	—	31,537,522
Private placement	11,000,000	6,750,700	2,464,000	—	—	9,214,700
Issuance of common shares for RSUs	16,245	6,518	—	—	—	6,518
Release of common shares from escrow for services	—	4,879	—	—	—	4,879
Stock-based compensation	—	—	1,820,911	—	—	1,820,911
Net loss	—	—	—	—	(11,637,260)	(11,637,260)
<b>Balance, December 31, 2008</b>	110,084,044	6,762,097	56,500,258	(209,250)	(26,039,527)	37,013,578
Cumulative effect of change in accounting principle [notes 2 and 16]	—	—	(2,464,000)	—	1,876,050	(587,950)
Exercise of stock options for common shares	187,417	115,831	(28,127)	—	—	87,704
Issuance of common shares on acquisition of Interactive Netcasting Systems Inc. ("INSINC") [note 3[i]]	6,000,012	4,048,442	325,351	—	—	4,373,793
Stock-based compensation:						
Issuance of common shares on vesting of restricted share units	52,498	31,631	—	—	—	31,631
Release of common shares from escrow for services	—	51,757	—	—	—	51,757
Issuance of common shares under Directors' Compensation Plan	407,823	250,657	—	—	—	250,657
Stock options and warrants	—	—	690,085	—	—	690,085
Net loss	—	—	—	—	(19,640,921)	(19,640,921)
<b>Balance, December 31, 2009</b>	116,731,794	11,260,415	55,023,567	(209,250)	(43,804,398)	22,270,334

See accompanying notes

## NEULION, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

[Expressed in U.S. dollars, unless otherwise noted]

	<b>Years ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net loss	(19,640,921)	(11,637,260)
Adjustments to reconcile net loss to cash used in operating activities		
Depreciation and amortization <i>[notes 5 and 6]</i>	4,141,117	1,572,492
Equity in loss of affiliate	—	1,006,386
Stock-based compensation <i>[note 10]</i>	1,167,789	1,848,906
Unrealized loss on derivative <i>[notes 2 and 16]</i>	801,350	—
Impairment of long-lived assets	—	1,036,993
Changes in operating assets and liabilities		
Accounts receivable	848,375	1,943,307
Inventory	(580,992)	(24,100)
Prepaid expenses, deposits and other assets	1,832,496	191,621
Other receivables	(701,145)	4,441
Taxes receivable	966,367	37,398
Due from related parties	77,067	(135,204)
Accounts payable	275,907	(306,999)
Accrued liabilities	(1,364,330)	604,465
Deferred revenue	510,383	244,846
Long-term liabilities	(267,941)	41,833
Due to related parties	241,769	(2,043,626)
<b>Cash used in operating activities</b>	<b>(11,692,709)</b>	<b>(5,614,501)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(1,198,432)	(1,443,438)
Acquisition of INSINC, net of cash of \$344,371 <i>[note 3[i]]</i>	(1,561,905)	—
Acquisition of NeuLion, Inc.	—	21,738,421
<b>Cash (used in) provided by investing activities</b>	<b>(2,760,337)</b>	<b>20,294,983</b>
<b>FINANCING ACTIVITIES</b>		
Capital contributions	—	2,600,000
Private placement	—	9,214,700
Proceeds from exercise of stock options	87,704	219,375
<b>Cash provided by financing activities</b>	<b>87,704</b>	<b>12,034,075</b>
<b>Net (decrease) increase in cash and cash equivalents during the year</b>	<b>(14,365,342)</b>	<b>26,714,557</b>
Cash and cash equivalents, beginning of year	27,323,021	608,464
<b>Cash and cash equivalents, end of year</b>	<b>12,957,679</b>	<b>27,323,021</b>

See accompanying notes

**NEULION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

[Expressed in U.S. dollars, unless otherwise noted]  
December 31, 2009

**1. Nature of Operations**

On October 20, 2008, the company now known as NeuLion USA, Inc. ("NeuLion USA") completed a merger (the "Merger") with the company then known as NeuLion, Inc. ("NeuLion" or the "Company") that was accounted for as a reverse takeover. As a result of the Merger, NeuLion USA became the legal subsidiary of NeuLion, and NeuLion was required to register its common shares (the "Shares") in the United States under the Securities and Exchange Act of 1934, as amended. On June 8, 2009, NeuLion's Registration Statement on Form 10 became effective.

On June 4, 2009, the company now known as NeuLion, Inc., a Delaware corporation and wholly-owned subsidiary of the company then known as JumpTV Inc., a Canadian corporation, changed its name to NeuLion USA. On July 13, 2009, JumpTV Inc. changed its name to NeuLion. In conjunction with the name change, NeuLion's stock symbol was changed from "JTV" to "NLN" on the Toronto Stock Exchange. This Annual Report on Form 10-K reflects these name changes.

These consolidated financial statements for the years ended December 31, 2009 and 2008, and as at December 31, 2009 and 2008 are issued under the name of the legal acquirer in the Merger (NeuLion) but are deemed to be a continuation of the accounting acquirer (NeuLion USA). These financial statements reflect the assets, liabilities and results of operations of NeuLion USA, the accounting acquirer, and only include the assets, liabilities and results of operations of NeuLion, the legal acquirer, subsequent to the reverse takeover on October 20, 2008 (the "Acquired Business").

The Company's primary business is to build and manage private networks for content owners and aggregators (the Company's content partners) that are used to stream content to multiple platforms through browser-based devices. That content includes live and on-demand sports and international and variety programming, which the Company then delivers to subscribers and pay-per-view customers for viewing on Internet-connected browser-based devices such as personal computers, laptops and mobile devices and on standard television sets through Internet-connected set top boxes ("STBs"). The Company also acquires the rights to certain sports and international content from television broadcasters (our channel partners), which the Company then streams to end users through the Company's own private networks.

**2. Basis of Presentation and Significant Accounting Policies**

The accompanying consolidated financial statements include all of our wholly-owned subsidiaries and have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP"). See Note 17 for reconciliation of U.S. GAAP to Canadian generally accepted accounting principles ("Canadian GAAP"). The Company also has an investment in KyLinTV, Inc. ("KyLinTV") in which, as at December 31, 2009, it had a 17.1% equity interest (2008 – 17.1%). KyLinTV is accounted for using the equity method of accounting.

**Use of estimates**

The preparation of financial statements in conformity with U.S. GAAP 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates. Significant estimates made by management include the determination of the useful lives of long-lived assets, impairment of intangible assets and goodwill, inventory obsolescence, assumptions used in stock-based compensation and the allowance for doubtful accounts. On an ongoing basis, management reviews its estimates to ensure they appropriately reflect changes in the Company's business and new information as it becomes available. If historical experience and other factors used by management to make these estimates do not reasonably reflect future actual results, the Company's consolidated financial position and results of operations could be materially impacted.

NEULION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Expressed in U.S. dollars, unless otherwise noted]  
December 31, 2009

**Revenue recognition**

Revenue is recognized when persuasive evidence of an arrangement exists, prices are determinable, collectability is reasonably assured and the goods or services have been delivered. If any of these criteria are not met, revenue is deferred until such time as all of the criteria are met.

For arrangements with multiple elements, the Company allocates revenue to each element using the residual method; this allocation is based on vendor specific objective evidence ("VSOE") of fair value of the undelivered items. VSOE is based on the price that the Company charges for the undelivered element based on the sales price of each element when sold on a standalone basis. In addition, the Company defers the portion of the arrangement fee equal to the fair value of the undelivered elements until they are delivered.

The Company, at the request of one customer, has entered into a "bill and hold" arrangement. The Company accounts for its bill and hold revenue arrangement consistent with the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 605, "Revenue Recognition," and recognizes revenue when the risk of ownership has passed to the customer and a fixed commitment to purchase the goods is received. The Company does not retain any specific performance obligations such that the earning process is not complete and ordered goods are segregated from the Company's inventory and not subject to fulfilling other orders. Inventory consists of finished goods. For the years ended December 31, 2009 and 2008, the Company recognized zero and \$2,500,000 in revenue associated with this arrangement, respectively.

The Company earns revenue as follows:

*[i] Services Revenue:*

*Subscriber revenue*

Subscriber revenue consists of recurring revenue based on subscriber usage, bandwidth usage fees for the Company infrastructure and/or technology usage fees based on the number of subscribers. The subscriber revenue is typically generated on a monthly, quarterly or annual basis and can be either a fixed fee per user or a variable fee measured by bandwidth use or as a percentage of end user pricing. Revenue is recognized over the term of the subscription. The Company defers the appropriate portion of cash received for which services have not yet been rendered and recognizes the revenue over the term of the subscription, which is generally between thirty days and one year. Pay-per-view revenues are deferred and recognized in the period when the content is viewed.

*eCommerce revenue*

eCommerce revenue consists of the Company's services provided to its content providers which include software applications for merchandising (i.e. sale of merchandise), ticketing for a content provider's events and management of a content provider's donor efforts. Included in eCommerce revenue is advertising revenue earned through the insertion of advertising impressions on websites and in streaming video at a cost per thousand impressions. Advertising revenue is recognized based on the number of impressions displayed ("served") during the period. Deferred revenue for eCommerce represents the timing difference between collection of advertising revenue and when the advertisements are served which is typically between thirty and ninety days.

*Technology revenue*

Technology revenue consists of the setup and maintenance services the Company provides such as website (Internet) or console (STB) design, user interface optimization and streaming configuration. Included in technology revenue is the licensing of the technology required to convert, compress and transmit video signals to the Company's content distribution network and ultimately to end users. Revenue is recognized as the service is performed. Deferred revenue on technology fees is as follows:

**NEULION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

[Expressed in U.S. dollars, unless otherwise noted]  
December 31, 2009

[a] Setup fees are deferred at the beginning of the service period and recognized over the term of the arrangement, which is generally three to five years.

[b] Maintenance fees are deferred at the beginning of the maintenance period and are recognized in revenue over the term of the maintenance service, which is generally one year.

[c] Licensing fees for software are deferred at the beginning of the service period and recognized over the term of the arrangement, which is generally three to five years.

*[ii] Equipment revenue*

Equipment revenue consists of the sale of STBs to content partners and/or end users to enable the end user to receive the content over the internet and display the signal on a standard television. Shipping charges are included in total equipment revenue. Revenue is recognized generally upon shipment to the customer. The customer does not have any right of return on STBs.

**Cash and cash equivalents**

Cash and cash equivalents consist of cash and short-term investments, such as money market funds, that have maturities of less than three months.

**Accounts receivable**

Accounts receivable are carried at original invoice amount. The Company maintains a provision for estimated losses resulting from the inability of its customers to make required payments. Management considers the following factors when determining the collectability of specific customer accounts: customer credit-worthiness, past transaction history with the customer, current economic industry trends and changes in customer payment terms. If the financial conditions of the Company's customers were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. As of December 31, 2009 and 2008, the allowance for doubtful accounts was \$129,550 and \$290,538, respectively.

**Inventory**

Inventory consists of STBs, which are finished goods and are recorded at the lower of cost and net realizable value. Cost is accounted for on a first-in, first-out basis. The Company evaluates its ending inventories for estimated excess quantities and obsolescence. This evaluation includes analyses of sales levels and projections of future demand within specific time horizons. Inventories in excess of future demand are reserved. In addition, the Company assesses the impact of changing technology and market conditions on its inventory-on-hand and writes off inventories that are considered obsolete. As at December 31, 2009 and 2008, the Company's inventory reserves were zero and \$9,700, respectively.

**Property, plant and equipment**

Property, plant and equipment are carried at cost less accumulated depreciation. Expenditures for maintenance and repairs are expensed currently, while renewals and betterments that materially extend the life of an asset are capitalized. The cost of assets sold, retired or otherwise disposed of, and the related allowance for depreciation, are eliminated from the accounts, and any resulting gain or loss is recognized.

**NEULION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

[Expressed in U.S. dollars, unless otherwise noted]  
December 31, 2009

Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which are as follows:

Computer hardware	5 years
Computer software	3 years
Furniture and fixtures	7 years
Leasehold improvements	Shorter of useful life and lease term

The Company reviews the carrying value of property, plant and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. If these future undiscounted cash flows are less than the carrying value of the asset, then the carrying amount of the asset is written down to its fair value, based on the related estimated discounted future cash flows. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property, plant and equipment is used and the effects of obsolescence, demand, competition and other economic factors. Based on this assessment, there was an impairment loss of zero and \$1,036,993 for the years ended December 31, 2009 and 2008, respectively.

**Intangible Assets**

Intangible assets are recorded at cost less amortization. Cost for intangible assets acquired through business combinations represents their fair market value at the date of acquisition. Amortization is calculated using the straight-line method over the estimated useful lives of the intangible assets which are as follows:

Customer relationships	5 years
Trademarks	1 year

The Company reviews the carrying value of its definite lived intangible assets for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. If these future undiscounted cash flows are less than the carrying value of the asset, then the carrying amount of the asset is written down to its fair value, based on the related estimated discounted future cash flows. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the intangible assets are used and the effects of obsolescence, demand, competition and other economic factors. Based on this assessment, no impairment was recorded for the years ended December 31, 2009 and 2008.

**Goodwill**

Goodwill represents the excess, at the date of acquisition, of the cost of an acquired business over the fair value of the identifiable assets acquired and liabilities assumed. Goodwill is not amortized but is subject to an annual impairment test at the reporting unit level and between annual tests if changes in circumstances indicate a potential impairment. The Company performs an annual goodwill impairment test as of October 1 of each calendar year. Goodwill impairment is assessed based on a comparison of the fair value of each reporting unit to the underlying carrying value of the reporting unit's net assets, including goodwill. If the carrying value of the reporting unit exceeds its fair value, the Company performs the second step of the goodwill impairment test to determine the amount of the impairment loss. The second step of the impairment test involves comparing the implied fair value of the reporting unit's goodwill with its carrying amount to measure the amount of impairment loss, if any. The Company's impairment test was based on its single operating segment and reporting unit structure. For the years ended December 31, 2009 and 2008, there was no impairment loss.

**NEULION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

[Expressed in U.S. dollars, unless otherwise noted]  
December 31, 2009

**Investment in affiliate**

Investee companies that are not consolidated, but over which the Company exercises significant influence, are accounted for under the equity method of accounting. Whether or not the Company exercises significant influence with respect to an investee depends on an evaluation of several factors including, among others, representation on the investee's board of directors and voting rights. Under the equity method of accounting, an investee's accounts are not reflected within the Company's consolidated balance sheets and statements of operations and comprehensive loss; however, the Company's share of the losses of the investee company is reflected in the caption "Equity in loss of affiliate" in the consolidated statements of operations and comprehensive loss. Due to KyLinTV's accumulated losses, the investment had been reduced to zero at December 31, 2008. No further charges will be recorded as the Company has no obligation to fund the losses of KyLinTV.

**Deferred transcoder costs**

Deferred transcoder costs represent the unamortized costs of licensing fees incurred related to the setup of new channels for NeuLion's customers. These costs are being recognized as a charge to the consolidated statements of operations and comprehensive loss consistent with the related revenue over the remaining initial contractual term between NeuLion and its customers, which typically ranges from three to five years. Deferred transcoder costs are included in other assets on the consolidated balance sheet.

**Income taxes**

Income taxes are accounted for under the provisions on ASC Topic 740, "Income Taxes Recognition" ("ASC 740"). ASC 740 requires that income tax accounts be computed using the liability method. Deferred taxes are determined based upon the estimated future tax effects of differences between the financial reporting and tax reporting bases of assets and liabilities given the provisions of currently enacted tax laws.

ASC 740 requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. If the tax position meets the more-likely-than-not recognition threshold, the tax effect is recognized at the largest amount of the benefit that has greater than a fifty percent likelihood of being realized upon ultimate settlement. ASC 740 also provides guidance for classification, interest and penalties, accounting in interim periods, disclosure, and transition. ASC 740 requires that a liability created for unrecognized tax benefits be presented as a separate liability and not combined with deferred tax liabilities or assets.

The Company operates in a number of countries worldwide. The income tax liability is therefore a consolidation of the tax liabilities in various locations. The tax rate is affected by the profitability of operations in various locations, tax rates and taxation systems of the countries in which the Company operates its tax policies and the impact of certain tax planning strategies which have been implemented.

To determine the worldwide tax liability the Company makes estimates of possible tax liabilities. Tax filings, positions and strategies are subject to review under local or international tax audit and the outcomes of such reviews are uncertain. In addition, these audits generally take place years after the period in which the tax provision in question was provided and it may take a substantial amount of time before the final outcome of any audit is known. Future tax audits could differ materially from the amounts recorded in our financial statements.

**NEULION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

[Expressed in U.S. dollars, unless otherwise noted]  
December 31, 2009

A valuation allowance is recorded to reduce deferred tax assets to the amount that is more likely than not to be realized. The Company has recorded substantial tax losses over the years, therefore a full valuation allowance has been recorded against all net deferred tax assets.

**Foreign currency translation**

The functional currency of the Company is the U.S. dollar. Monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars at exchange rates in effect at the balance sheet dates, and non-monetary assets and liabilities in foreign currencies are translated at exchange rates in effect on the date of the transaction. These transactional foreign exchange gains or losses are included in the consolidated statements of operations and comprehensive loss.

**Financial instruments**

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, other receivables, due from/to related parties, accounts payable and accrued liabilities which are primarily denominated in U.S. dollars. The carrying amount of such instruments approximates their fair values principally due to the short term nature of these items. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest rate, currency or credit risk arising from these financial instruments.

The Company is exposed to credit risk with respect to accounts receivable arising from the potential for counterparties to default on their contractual obligations to the Company. The Company controls credit risk through credit approvals, credit limits and monitoring procedures. The Company performs credit evaluations on its customers, but generally does not require collateral to support accounts receivable. The Company establishes an allowance for doubtful accounts that corresponds with the specific credit risk of its customers, historical trends and economic circumstances.

**Advertising**

Advertising costs are expensed as incurred and totaled \$1,138,400 and \$366,756 for the years ended December 31, 2009 and 2008, respectively.

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

The Company accounts for all stock options and warrants using a fair value-based method. The fair value of each stock option and warrant granted is estimated on the date of the grant using the Black-Scholes-Merton option pricing model and the related stock-based compensation expense is recognized over the vesting period. The fair value of stock options, retention warrants and warrants granted to employees is measured at the date of the grant. The fair value of the warrants granted to non-employees is measured as the warrants vest. The offsetting entry is an increase to additional paid-in capital for an amount equal to the stock-based compensation expense related to the issuance of stock options. Upon exercise, the proceeds of the options and warrants together with the fair value recorded in additional paid-in capital are reclassified to share capital.

Stock appreciation rights give the holder the right to elect to either receive cash in an amount equal to the excess of the quoted market price over the stock appreciation right price or to receive Shares equal to the fair value of the Shares less the exercise price divided by the market value of the Shares from treasury or receive Shares by making a cash payment equal to the exercise price. The Board of Directors has discretionary authority to accept or reject a cash payment request in whole or in part. Stock-based compensation expense is calculated as the fair value of the vested portion of the stock appreciation rights outstanding, with ongoing measurement of the outstanding liability at each reporting date. The liability is classified as a current liability on the consolidated balance sheets. If the holder elects to purchase Shares, the liability is credited to additional paid-in capital.

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Restricted share units give the holder the right to one Share for each vested restricted share plan unit. These awards vest on a monthly basis over the vesting period which is four years. Stock-based compensation expense related to restricted share units is recorded based on the market value of the shares when the shares are issued, which generally coincides with the vesting period of these awards.

**Recently issued accounting standards**

In June 2009, the FASB issued guidance now codified as ASC Topic 105, "Generally Accepted Accounting Principles" ("ASC 105") as the single source of authoritative non-governmental U.S. GAAP. ASC 105 does not change current U.S. GAAP, but is intended to simplify user access to all authoritative U.S. GAAP by providing all authoritative literature related to a particular topic in one place (the "Codification"). On the effective date of ASC 105, the Codification superseded all then-existing non-SEC accounting and reporting standards, and all other non-grandfathered non-SEC accounting literature not included in the Codification became non-authoritative. The provisions of ASC 105 are effective for interim and annual periods ending after September 15, 2009. The Company adopted ASC 105 in the third quarter of 2009. This pronouncement had no effect on our consolidated financial position, results of operations or cash flows, but impacted the financial reporting process by replacing all references to pre-Codification standards with references to the applicable Codification topic.

Effective January 1, 2009, the Company adopted ASC Topic 805-10, "Business Combinations" ("ASC 805"). ASC 805 requires the acquiring entity in a business combination to recognize all assets acquired and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed and requires the acquirer to disclose certain information related to the nature and financial effect of the business combination. ASC 805 also establishes principles and requirements for how an acquirer recognizes any non-controlling interest in the acquiree and the goodwill acquired in a business combination.

In October 2009, the FASB issued ASU 2009-13, "Multiple-Deliverable Revenue Arrangements" ("ASU 2009-13"). ASU 2009-13 amends guidance included within ASC Topic 605-25 to require an entity to use an estimated selling price when vendor specific objective evidence or acceptable third party evidence does not exist for any products or services included in a multiple element arrangement. The arrangement consideration should be allocated among the products and services based upon their relative selling prices, thus eliminating the use of the residual method of allocation. ASU 2009-13 also requires expanded qualitative and quantitative disclosures regarding significant judgments made and changes in applying this guidance. ASU 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption and retrospective application are also permitted. The Company is currently evaluating the impact of adopting the provisions of ASU 2009-13.

Effective January 1, 2009, the Company adopted ASC Topic 815-40, "Derivatives and Hedging" ("ASC 815-40"). One of the conclusions reached under ASC 815-40 was that an equity-linked financial instrument would not be considered indexed to the entity's own stock if the strike price is denominated in a currency other than the issuer's functional currency. The conclusion reached under ASC 815-40 clarified the accounting treatment for these and certain other financial instruments. ASC 815-40 specifies that a contract would not be treated as a derivative if it met the following conditions: (a) indexed to the Company's own stock; and (b) classified in shareholders' equity in the Company's statement of financial position. The Company's outstanding warrants denominated in Canadian dollars as detailed in note 16 are not considered to be indexed to its own stock because the exercise price is denominated in Canadian dollars and the Company's functional currency is United States dollars. Therefore, these warrants have been treated as derivative financial instruments and recorded at their fair value as a liability. All other outstanding convertible instruments are considered to be indexed to the Company's stock, because their exercise price is denominated in the same currency as the Company's functional currency, and are included in shareholders' equity.

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**Comparative Information**

We have reclassified certain prior year information to conform with the current year's presentation.

**3. Business Combinations**

[i] Interactive Netcasting Systems Inc. ("INSINC")

On October 31, 2009, the Company consummated the acquisition of 100% of the outstanding securities of INSINC. Under the terms of the acquisition agreement, shareholders of INSINC received consideration consisting of 6,000,012 Shares of the Company, CDN\$2.5 million in cash, 1,000,000 Share purchase warrants to acquire Shares at US\$1.35 per share and 500,000 Share purchase warrants to acquire Shares at US\$1.80 per share. Both series of warrants are exercisable for a period of 2 years. In addition, the Company incurred approximately \$515,000 of direct transaction costs.

INSINC's core business is to provide live and archived video sports, government and entertainment content to audiences online with integrated pay-per-view and commerce transaction processing.

The purchase price of \$6,694,293 represents the fair value of 6,000,012 of Shares issued of \$4,035,043, cash in the amount of \$2,320,500 and the fair value of the Share purchase warrants in the amount of \$338,750.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. The Company is obtaining third party valuations of certain intangible assets and evaluating certain liabilities and assets, thus the allocation of the purchase price is preliminary.

<b>As at October 31, 2009</b>	
Cash	\$ 344,371
Other current assets	737,406
Property, plant and equipment	739,690
Intangible assets	5,275,000
Goodwill	<u>1,015,525</u>
Total assets	8,111,992
Current liabilities	(1,297,699)
Long-term liabilities	<u>(120,000)</u>
Net assets acquired, net of cash	<u>\$ 6,694,293</u>

Of the \$5,275,000 of acquired intangible assets, \$95,000 was assigned to the INSINC brand, and \$5,180,000 was assigned to customer relationships. None of the intangible assets are expected to be deductible for tax purposes.

All of the \$1,015,525 of goodwill was assigned to the Company as a whole as the company operates in one segment. The goodwill is not expected to be deductible for tax purposes.

As noted above, the purchase price allocation of the tangible and intangible assets is preliminary and may be adjusted as a result of obtaining additional information regarding preliminary estimates of fair values made at the date of purchase.

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*Pro forma*

The results of operations for NeuLion and INSINC have been included in the Company's consolidated statements of operations since the effectiveness of the acquisition on October 31, 2009. The following unaudited pro forma financial information presents the combined results of the Company and the acquisition as if the acquisition had occurred at the beginning of 2008:

Unaudited Pro Forma	December 31, 2009 \$	December 31, 2008 \$
Total revenue	31,429,239	18,668,330
Total cost of services revenue, exclusive of depreciation and amortization shown separately below	(14,712,545)	(7,705,373)
Total cost of equipment revenue	(1,537,150)	(3,120,087)
Total sales, general and administrative	(28,971,112)	(13,695,033)
Stock-based compensation	(1,167,789)	(1,848,906)
Impairment of long-lived assets	—	(1,036,993)
Depreciation and amortization	(5,315,560)	(3,130,535)
Operating loss	(20,274,917)	(11,868,597)
Net loss	(20,714,197)	(12,479,215)
Net loss per weighted average number of shares outstanding – basic and diluted	(0.18)	(0.20)

In determining the pro forma amounts above, the Company made adjustments to depreciation and amortization as a result of the revised fair values of tangible and intangible assets performed as a result of the acquisition.

## [ii] NeuLion

On October 20, 2008, NeuLion completed the Merger with NeuLion USA. Under the terms of the Merger, NeuLion issued 49,577,427 Shares, which represented approximately the entire issued and outstanding shares of NeuLion prior to closing, to the securityholders of NeuLion USA, in exchange for their NeuLion USA securities.

In accordance with ASC Topic 805, "Business Combinations" ("ASC 805"), the Company determined that NeuLion USA was the accounting acquirer and accordingly has accounted for the Merger as a reverse take-over.

The purchase price of \$33,186,247 represents the fair value of 49,577,427 Shares issued (\$31,656,119), the fair value of vested equity instruments (\$515,364) and direct transaction costs (\$1,014,764).

**NEULION, INC.**

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The following table summarizes the final fair values of the assets acquired and liabilities assumed at the date of acquisition.

<b>As at October 20, 2008</b>	
Cash	\$ 22,884,683
Current assets	5,038,462
Property, plant and equipment	5,046,405
Other long-term assets	1,040,516
Intangible assets	6,000,000
Goodwill	5,741,669
<b>Total assets</b>	<b>45,751,735</b>
Current liabilities	(11,731,050)
Other long-term liabilities	(834,438)
<b>Net assets acquired</b>	<b>\$ 33,186,247</b>

Of the \$6,000,000 of acquired intangible assets, \$100,000 was assigned to the JumpTV brand, and \$5,900,000 was assigned to customer relationships. None of the intangible assets are expected to be deductible for tax purposes

All of the \$5,741,669 of goodwill was assigned to the Company as a whole as the company operates in one segment. The goodwill is not expected to be deductible for tax purposes.

*Pro forma*

The results of operations for NeuLion and NeuLion USA (the accounting acquirer) have been included in the Company's consolidated statements of operations since the completion of the Merger on October 20, 2008. The following unaudited pro forma financial information presents the combined results of the Company and the Merger as if the Merger had occurred at the beginning of 2008:

Unaudited Pro Forma	December 31, 2009 \$ [actual]	December 31, 2008 \$ [pro forma]
<b>Total revenue</b>	<b>28,093,677</b>	<b>25,708,760</b>
Total cost of services revenue, exclusive of depreciation and amortization shown separately below	(12,850,002)	(15,716,125)
Total cost of equipment revenue	(1,537,150)	(3,120,087)
Total sales, general and administrative	(27,599,260)	(38,482,996)
Stock-based compensation [a]	(1,167,789)	(3,374,767)
Impairment of goodwill [b]	—	(47,882,317)
Impairment of long-lived assets [c]	—	(5,982,030)
Depreciation and amortization [d]	(4,141,117)	(3,602,169)
Operating loss	(19,201,641)	(92,451,731)
Net loss	(19,640,921)	(92,459,364)
Net loss per weighted average number of shares outstanding – basic and diluted	(0.18)	(0.90)

[a] In accordance with ASC 718, these amounts represent stock-based compensation for the Company's stock options, restricted share units, stock appreciation rights, warrants and retention warrants.

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[b] As at March 31, 2008, the Company's market capitalization decreased below the carrying value of the Company. Management considered this to be an indicator of impairment, and accordingly, performed a goodwill impairment test and recorded a non-cash goodwill impairment charge of \$47,882,317.

[c] As at December 31, 2008, the Company determined that the business climate had changed such that the carrying value of the Company's long-lived assets may not be fully recoverable. Accordingly, the Company recorded non-cash impairment charges of \$4,945,037 prior to the Merger and \$1,036,993 subsequent to the Merger.

[d] In determining the pro forma amounts above, the Company made adjustments to depreciation and amortization as a result of the revised fair values of tangible and intangible assets performed as a result of the acquisition.

**4. Economic Dependence and Concentration of Credit Risk**

For the year ended December 31, 2008, three customers accounted for 54% of revenue as follows: 32%, 12% and 10%.

As at December 31, 2008, one customer accounted for 25% of the accounts receivable.

There were no comparable amounts recorded in 2009.

**5. Property, Plant and Equipment**

The details of property and equipment and the related accumulated depreciation are set forth below:

	December 31, 2009			Net book value \$
	Cost \$	Accumulated amortization \$	Non-cash Impairment \$	
Computer hardware	6,752,515	2,428,478	978,720	3,345,317
Computer software	4,649,297	2,319,488	—	2,329,809
Furniture and fixtures	186,617	49,215	58,273	79,129
Leasehold improvements	6,471	6,471	—	—
	11,594,900	4,803,652	1,036,993	5,754,255

	December 31, 2008			Net book value \$
	Cost \$	Accumulated amortization \$	Non-cash Impairment \$	
Computer hardware	5,655,658	1,101,877	978,720	3,575,061
Computer software	3,812,944	1,003,139	—	2,809,805
Furniture and fixtures	184,062	35,666	58,273	90,123
Leasehold improvements	6,471	6,471	—	—
	9,659,135	2,147,153	1,036,993	6,474,989

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ASC Topic 360, "Property, Plant and Equipment" ("ASC 360"), requires that a long-lived asset be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized as the difference between fair value and carrying amount when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. The Company determined that during the year ended December 31, 2008 the business climate had changed such that the carrying value of the Company's property, plant and equipment may not be fully recoverable. Accordingly, the Company recorded a non-cash impairment charge of \$1,036,993 for the year ended December 31, 2008. There were no such comparable amounts in the current year.

Depreciation expense for the years ended December 31, 2009 and 2008 was \$2,658,856 and \$1,321,824, respectively.

**6. Goodwill and Intangible Assets**

The change in the net carrying amount of goodwill is set forth below:

	\$
Balance – December 31, 2007	—
Acquisition of NeuLion	6,846,183
Balance – December 31, 2008	6,846,183
Acquisition of INSINC	1,015,525
Final purchase price adjustment for NeuLion	(1,104,514)
Balance – December 31, 2009	6,757,194

The details of intangible assets and the related accumulated amortization are set forth below:

	December 31, 2009		
	Cost \$	Accumulated amortization \$	Net book value \$
Customer relationships	11,080,000	1,617,096	9,462,904
Trademarks	195,000	115,833	79,167
	11,275,000	1,732,929	9,542,071

	December 31, 2008		
	Cost \$	Accumulated amortization \$	Net book value \$
Customer relationships	5,900,000	231,084	5,668,916
Trademarks	100,000	19,584	80,416
	6,000,000	250,668	5,749,332

Amortization expense for the years ended December 31, 2009 and 2008 was \$1,482,261 and \$250,668, respectively.

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Based on the amount of intangible assets subject to amortization, the Company's estimated amortization expense over the next five years is as follows:

	\$
2010	2,328,524
2011	2,216,000
2012	2,216,167
2013	1,984,916
2014	796,631

**7. Related Party Transactions**

The Company has entered into certain transactions and agreements in the normal course of operations with related parties. Significant related party transactions are as follows:

*TransVideo International, Ltd. ("TransVideo")*

TransVideo is a company controlled by the Chairman of the Board of Directors of the Company that designs and sells equipment and technology for IPTV content delivery. STB purchases amounted to \$1,029,136 and \$2,745,000 and transcoder licensing fees amounted to \$78,000 and \$125,000 for the years ended December 31, 2009 and 2008, respectively. Included in cost of equipment revenue is the cost of STBs sold of \$937,204 and \$2,816,490 for the years ended December 31, 2009 and 2008, respectively.

*KyLinTV*

KyLinTV is an IPTV company that is controlled by the Chairman of the Board of Directors of the Company. On June 1, 2008, the Company entered into an agreement with KyLinTV to build and deliver the setup and back office operation of an IPTV service. The Company also provides and charges KyLinTV for administrative and general corporate support. For each of the periods presented, the amounts received for these services provided by the Company for the years ended December 31, 2009 and 2008 were \$645,722 and \$1,233,353, respectively. During the year ended December 31, 2008, the Company purchased computer equipment from KyLinTV in the amount of \$620,000.

*New York Islanders Hockey Club, LP ("New York Islanders")*

The Company provides IT related professional services to the New York Islanders, a professional hockey club that is owned by the Chairman of the Board of Directors of the Company.

*Renaissance Property Associates, LLC ("Renaissance")*

Renaissance is a real estate management company owned by the Chairman of the Board of Directors of the Company. In June 2009, the Company signed a sublease agreement with Renaissance for office space in Plainview, New York. Rent expense paid by the Company to Renaissance of \$388,975 and zero, inclusive of taxes and utilities, is included in selling, general and administrative expense for the years ended December 31, 2009 and 2008, respectively.

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*Patstar, Inc. ("Patstar")*

Patstar, an investment holding company, is controlled by the Vice Chairman of the Board of Directors of the Company. Rent expense paid to the Company by Patstar of \$3,649 and \$2,596 is included as a recovery in selling, general and administrative expense for the years ended December 31, 2009 and 2008, respectively.

*Hawaii IPTV, LLC ("Hawaii")*

The Company had an IPTV customer, Hawaii, an IPTV company, whose principals are family members of the Chairman of the Board of Directors of the Company. Hawaii ceased operations during the third quarter of 2009.

*The Smile Train, Inc. ("Smile Train")*

The Company provides IT related professional services to Smile Train, a public charity whose founder and significant benefactor is the Chairman of the Board of Directors of the Company.

The Company recognized revenue from related parties for the years ended December 31 as follows:

	December 31, 2009	December 31, 2008
	\$	\$
New York Islanders	395,681	296,451
Renaissance	140,580	120,000
Smile Train	108,000	120,000
Hawaii	41,789	57,577
KyLinTV	1,755,985	920,550
	2,442,035	1,514,578

As at December 31, 2009 and 2008, the amounts due from (to) related parties are as follows:

	December 31, 2009	December 31, 2008
	\$	\$
New York Islanders	(304)	29,189
Renaissance	—	(1,146)
Smile Train	—	27,000
Hawaii	—	17,527
TransVideo	(298,291)	(55,680)
KyLinTV	246,992	250,343
	(51,603)	267,233

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**Investment in affiliate – KyLinTV**

The Company records its investment in KyLinTV using the equity method.

From January 1, 2008 through December 31, 2009, the Company's equity interest in the affiliate was 17.1%. As previously discussed, the Company also provides and charges KyLinTV for administrative and general corporate support. Management has determined that as a result of the 17.1% equity interest combined with the services that the Company provides KyLinTV, the Company continues to have significant influence on the operating activities of KyLinTV; therefore, the Company continues to account for its investment in KyLinTV using the equity method of accounting for investment.

The Company's proportionate share of the equity loss from KyLinTV has been accounted for as a charge on the Company's consolidated statements of operations and comprehensive loss. Due to KyLinTV's accumulated losses, the investment had been reduced to zero as at December 31, 2008. No further charges will be recorded as the Company has no obligation to fund the losses of KyLinTV.

The results of operations and financial position of the Company's equity basis investment in KyLinTV are summarized below for the years ended December 31:

	Year ended, December 31, 2009	Year ended, December 31, 2008
	\$	\$

## Condensed income statement information:

Net sales	8,127,760	6,568,101
Net loss	(5,604,118)	(8,148,974)

	December 31, 2009	December 31, 2008
	\$	\$

## Condensed balance sheet information:

Current assets	1,924,891	927,427
Non-current assets	913,977	2,411,319
Total assets	2,838,868	3,338,746
Current liabilities	15,168,149	10,063,909
Non-current liabilities	—	—
Equity (deficiency)	(12,329,281)	(6,725,163)
Total liabilities and equity	2,838,868	3,338,746

On February 26, 2010, a group of investors invested \$10.0 million in KyLinTV for 15.1% of its equity, which reduced the Company's equity interest in KyLinTV to 12.2%. Of the total \$10.0 million investment, \$1.0 million was invested by AvantaLion LLC, a company controlled by the Chairman of the Board of Directors of the Company.

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**8. 401(K) Profit Sharing Plan**

The Company sponsors a 401(k) Profit Sharing Plan to provide retirement and incidental benefits for its eligible employees. Employees may contribute a percentage of their annual compensation through salary reduction, subject to certain qualifications and Internal Revenue Code limitations. The Company provides for voluntary matching contributions up to certain limits. Matching contributions vest over five years.

For the years ended December 31, 2009 and 2008, the Company made aggregate net matching contributions of \$436,716 and \$113,000, respectively.

**9. Share Capital**

Share capital consists of the following:

	December 31, 2009	December 31, 2008
	\$	\$
<b>Authorized</b>		
Unlimited common shares, voting, no par value, discretionary non-cumulative dividend		
Unlimited Class 1 preference shares, non-voting, no par value, discretionary partly cumulative or non-cumulative dividends		
Unlimited Class 2 preference shares, non-voting, no par value, discretionary partly cumulative or non-cumulative dividends		
<b>Issued and outstanding</b>		
Common shares		
December 31, 2009: Issued and outstanding: 116,731,794	11,260,415	6,762,097
(December 31, 2008: Issued and outstanding: 110,084,044)		

During the year ended December 31, 2009, the Company completed the following issuances:

<b>Date</b>	<b>#</b>	<b>\$</b>
Balance – December 31, 2008	110,084,044	6,762,097
Exercise of stock options and retention warrants	187,417	115,831
Issuance of Shares in connection with acquisition [note 3[i]]	6,000,012	4,048,442
Issuance of restricted share units	52,498	31,631
Issuance of Shares pursuant to Directors' Compensation Plan	407,823	250,657
Release of Shares from escrow for services	—	51,757
<b>Balance – December 31, 2009</b>	<b>116,731,794</b>	<b>11,260,415</b>

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**10. Stock Option and Stock-Based Compensation Plans**

[i] Amended and Restated Stock Option Plan [the "Plan"]

The Plan applies to all grants of options to directors, officers, employees and consultants of the Company or any entity controlled by the Company. The exercise price for any new option granted under the Plan is determined by the closing price of the Company's Shares prior to the grant date. If the option is granted on a pre-determined basis the exercise price is determined using the five-day volume weighted average price of the Company's Shares prior to the date of grant. In all cases the exercise price is not less than fair market value. Options are exercisable during a period established at the time of their grant provided that such period will expire no later than five years after the date of grant, subject to early termination of the option in the event the holder of the option dies or ceases to be a director, officer or employee of the Company or ceases to provide ongoing management or consulting services to the Company or entity controlled by the Company. The maximum number of Shares issuable upon exercise of options granted pursuant to the Plan is equal to the greater of [i] 4,000,000 Shares; and [ii] 12.5% of the number of issued and outstanding Shares.

A summary of stock option activity under the Plan is as follows:

	#	Weighted average exercise price \$
Outstanding, December 31, 2008	10,298,707	1.19
Granted	790,000	0.63
Exercised	(180,354)	0.46
Forfeited	(2,250,456)	1.86
Outstanding, December 31, 2009	8,657,897	0.98

The following table summarizes stock option information of the Plan as at December 31, 2009:

Exercise price \$	Number outstanding #	Weighted average remaining contractual life [years]	Number exercisable #	Aggregate intrinsic value \$
0.47	4,428,022	3.88	1,238,626	247,725
0.58	50,000	3.50	50,000	4,500
0.60	2,646,500	3.80	821,160	57,481
0.64	30,000	3.25	13,121	394
0.67	500,000	4.84	20,534	—
0.88	40,000	4.63	3,723	—
1.80	100,000	0.69	100,000	—
2.50	175,000	1.24	171,167	—
3.00	81,250	2.44	59,091	—
4.00	17,500	1.32	16,111	—
5.00	100,000	1.61	84,736	—
6.05	450,000	2.27	243,566	—
6.26	37,125	2.38	27,367	—
6.43	2,500	1.94	1,915	—
	8,657,897	3.68	2,851,117	310,100

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The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the company's closing stock price on the last trading day of fiscal 2009 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2009. The amount changes based on the fair market value of the Company's Shares.

For the year ended December 31, 2009 and 2008, \$638,442 and \$127,243, respectively, were recorded for total stock-based compensation expense related to stock options under the Plan. The weighted average exercise price of options exercisable as at December 31, 2009 was \$1.42.

The Company estimates the fair value of stock options granted using a Black-Scholes-Merton option pricing model. The assumptions used in determining the fair value of stock options granted are as follows:

Years ended December 31,	2009	2008
<b>Weighted average</b>		
Exercise price of stock options granted	\$0.46	\$0.51
Fair value of stock options granted	\$0.32	\$0.34
Expected volatility	98%	79%
Risk-free interest rate	1.97%	2.26%
Expected life [years]	4	4
Dividend yield	0%	0%

The exercise price of stock options is calculated using the five day volume weighted average price of the Company's Shares on the Toronto Stock Exchange preceding the grant date. The Company estimates volatility based on a blended rate between the Company's historical volatility and the volatility of comparable companies. The Company estimates the risk-free rate based on the federal reserve rate. The Company estimates the expected life of stock options to be four years for all option grants.

As at December 31, 2009, there was \$2,304,070 of total unrecognized compensation cost related to non-vested stock options which is expected to be recognized over a weighted-average period of 2.68 years.

[ii] Restricted Share Plan

Restricted share units give the holder the right to one Share for each vested restricted share unit. These awards vest on a monthly basis over a 48-month period. The maximum number of restricted shares issuable shall be no greater than the equivalent of 1,000,000 Shares.

A summary of restricted share activity under the restricted share plan is as follows:

	#
Outstanding, December 31, 2008	59,222
Vested and issued for Shares	(52,498)
Outstanding, December 31, 2009	6,724

During the years ended December 31, 2009 and 2008, the Company recognized stock-based compensation expense of \$31,631 and \$6,518, respectively, related to its restricted share plan.

**NEULION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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[iii] Warrants

The Company granted to a channel partner 7,500 warrants with an expiry of five years from the date of issuance at an exercise price of \$6.00 per warrant. For the years ended December 31, 2009 and 2008, no compensation expense was recognized related to these warrants as the total fair value of these warrants were previously recorded as part of the purchase price of a previous acquisition. These warrants expire on April 27, 2011.

The Company granted, as part of an acquisition, 10,000 warrants at an exercise price of \$6.00 per warrant. Each warrant is exercisable into one Share, vest immediately and expires on May 31, 2011. The fair value of these warrants, in the amount of \$229, was included in the purchase price of the Acquired Business.

In connection with the Company obtaining broadcast rights from a channel partner, the Company granted 100,000 warrants with an exercise price of \$6.23 to purchase Shares of the Company. For the years ended December 31, 2009 and 2008, the Company expensed \$920 and \$182, respectively. These warrants expire on November 30, 2011.

The Company granted 50,000 warrants to a television manufacturer. The exercise price of these warrants will be determined based on meeting certain milestones. As at December 31, 2009, these milestones have not been met, therefore the measurement date has not occurred. Accordingly, for the years ended December 31, 2009 and 2008, no compensation expense was recognized related to these warrants. Each warrant is exercisable into one cShare of the Company, vests over four years and expires on August 3, 2012.

The Company issued 30,000 warrants to a sports media broadcaster at an exercise price of \$2.20 per warrant. Each warrant is exercisable into one Share of the Company, vests immediately and expires on November 5, 2017. The fair value of these warrants in the amount of \$7,341 was included as part of the purchase price of the Acquired Business.

On October 20, 2008, AvantaLion LLC, an entity controlled by Charles B. Wang, the Chairman of the Company, purchased 10,000,000 units from the Company's treasury at a price of Cdn\$1.00 per unit. Each unit (a "Unit") consists of one (1) Share and one-half of one Series A Share purchase warrant and one-half of one Series B Share purchase warrant. Each whole Series A Share purchase warrant is exercisable at Cdn\$1.25, and each whole Series B Share purchase warrant is exercisable at Cdn\$1.50, in each case for a period of two years from the date of grant. G. Scott Paterson, Vice Chairman of the Company, also purchased 1,000,000 Units on the same terms. The aggregate gross proceeds from the sale of Units were Cdn\$11 million. Refer to Note 16 for further information.

On October 20, 2008, the Company granted 5,000,000 fully-vested warrants with an exercise price of \$0.63 exercisable for two years to employees of the Company in connection with the Merger.

On October 31, 2009, the Company granted 1,000,000 Share purchase warrants to acquire Shares at \$1.35 per share and 500,000 Share purchase warrants to acquire Shares at \$1.80 per share in conjunction with the acquisition of INSINC. Both series of warrants are exercisable for a period of 2 years. The fair value of these warrants, in the amount of \$338,750, has been included in the purchase price of INSINC.

The total stock-based compensation expense related to warrants during the years ended December 31, 2009 and 2008 was \$920 and \$1,678,896, respectively.

**NEULION, INC.**

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A summary of the warrant activity is as follows:

	#	Weighted average exercise price \$
Outstanding, December 31, 2008	16,538,800	1.09
Granted	1,500,000	1.50
Forfeited	(341,300)	4.04
Outstanding, December 31, 2009	17,697,500	1.07

The fair value of warrants was determined using the Black-Scholes-Merton option pricing model.

The following table summarizes the warrant information as at December 31, 2009:

Exercise Price \$	Number outstanding #	Weighted average remaining contractual life [years]	Number exercisable #	Aggregate intrinsic value \$
0.63	5,000,000	0.80	5,000,000	200,000
1.19	5,500,000	0.80	5,500,000	—
1.35	1,000,000	1.84	1,000,000	—
1.43	5,500,000	0.80	5,500,000	—
1.80	500,000	1.84	500,000	—
2.20	30,000	7.85	30,000	—
6.00	17,500	1.34	17,059	—
6.23	100,000	1.92	77,139	—
n/a	50,000	—	—	—
	17,697,500	0.91	17,624,198	200,000

The weighted fair value of warrants granted during the years ended December 31, 2009 and 2008 was, based on the following assumptions:

Years ended December 31,	2009	2008
<b>Weighted average</b>		
Exercise price of stock options granted	\$1.50	\$0.99
Expected volatility	100%	85%
Risk-free interest rate	2.28%	1.84%
Expected life [years]	2	2
Dividend yield	0%	0%

As at December 31, 2009, there was \$843 of total unrecognized compensation cost related to non-vested warrants which is expected to be recognized over a weighted-average period of 0.9 years.

## NEULION, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## [iv] Retention Warrant Plan ["Warrant Plan"]

The Company's retention warrant plan [the "Warrant Plan"] applies to all grants of retention warrants to employees and consultants of the Company or any entity controlled by the Company. The exercise price for any retention warrant granted under the Warrant Plan will be determined by the five-day average closing price of the Company's Shares prior to the date of grant but cannot be less than such a price. Retention warrants are exercisable during a period established at the time of their grant provided that such period will expire no later than five years after the date of grant, subject to early termination of the retention warrant in the event the holder of the retention warrant dies or ceases to be an employee or consultant of the Company or ceases to provide ongoing management or consulting services to the Company or entity controlled by the Company. The maximum number of Shares issuable upon exercise of retention warrants granted pursuant to the Warrant Plan is equal to 2,500,000 Shares.

A summary of the retention warrant activity during the year ended December 31, 2009 is as follows:

	#	Weighted average exercise price \$
Outstanding, December 31, 2008	1,350,440	2.68
Exercised	(7,063)	0.65
Forfeited	(495,485)	2.72
Outstanding, December 31, 2009	847,892	2.67

The following table summarizes the retention warrant information as at December 31, 2009:

Exercise price \$	Number outstanding #	Weighted average remaining contractual life [years]	Number exercisable \$	Aggregate intrinsic value \$
0.64	182,500	3.20	90,869	2,726
0.70	111,642	3.29	47,047	—
0.80	21,500	3.62	12,439	—
3.86	532,250	2.64	313,353	—
	847,892	2.87	463,708	2,726

There were no retention warrants granted during the years ended December 31, 2009 and 2008.

As at December 31, 2009, there was \$65,943 of total unrecognized compensation cost related to non-vested retention warrants which is expected to be recognized over a weighted-average period of 1.9 years.

## [v] Stock Appreciation Rights Plan ["SARS"]

The maximum number of units that can be granted under the SARS Plan is equivalent to the greater of 4,150,000 or 5% of the aggregate number of issued and outstanding Shares. The exercise price shall be determined by the Board of Directors at the time of grant but in no event shall the exercise price be lower than the market price of the Shares at the time of the grant. Each unit granted under the SARS Plan has a maximum life of five years from the date of the grant. The SARS Plan provides the unitholder the right to settle the award as follows:

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- [1] Receive cash compensation less the exercise price or to purchase or receive an equivalent number of Shares, less the exercise price;
- [2] In lieu of receiving a cash settlement, the unitholder can elect to receive a number of Shares equal to the fair value of the Shares less the exercise price divided by the market value of the Shares from treasury; or
- [3] Elect to pay the Company the exercise price and receive Shares equal to the number of units granted under the SARS Plan from treasury.

The Board of Directors has discretionary authority to accept or reject a cash payment request in whole or in part.

A summary of the SARS activity during the year ended December 31, 2009 is as follows:

	#	Weighted average exercise price \$
Outstanding, December 31, 2008	1,947,177	2.97
Forfeited	(272,177)	5.03
<b>Outstanding, December 31, 2009</b>	<b>1,675,000</b>	<b>2.63</b>

The following table summarizes the SARS information as at December 31, 2009:

Exercise price \$	Number outstanding #	Weighted average remaining contractual life [years]	Number exercisable #	Aggregate intrinsic value \$
0.60	475,000	3.81	142,077	9,945
0.64	200,000	3.33	87,474	2,624
4.00	1,000,000	1.24	1,000,000	—
	1,675,000	2.21	1,229,551	12,569

The weighted fair value of stock appreciation rights granted during the year ended December 31, 2008 was \$0.05 based on the following assumptions:

Years ended December 31	2009	2008
<b>Weighted average</b>		
Exercise price of stock options granted	n/a	\$0.60
Expected volatility	n/a	79%
Risk-free interest rate	n/a	2.41
Expected life [years]	n/a	4
Dividend yield	n/a	0%

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[vi] Directors' Compensation Plan ["Directors' Plan"]

Non-management directors of the Company receive a minimum 50% of their retainers and fees in the form of Shares and may elect to receive a greater portion of their retainers and fees in Shares. The number of Shares to be issued to non-management directors is determined by dividing the dollar value of the retainers and fees by the closing price of the Shares on the relevant payment date. The maximum number of Shares available to be issued by the Company under the Directors' Plan is 500,000.

During the year ended December 31, 2009, the Company issued 407,823 Shares with a fair value of \$250,657 in regards to fees and retainers to non-management directors. There were no comparable amounts in the prior year.

**11. Loss per Share**

Basic loss per share is computed by dividing net loss for the period by the weighted average number of Shares outstanding for the period. Diluted loss per share is computed by dividing net loss for the year by the weighted average number of Shares outstanding, and excludes the effect of dilutive potential Shares, as their inclusion would be anti-dilutive due to the losses recorded by the Company.

The following table summarizes the potential Shares that were outstanding as at December 31, 2009 and 2008 but were not included in the computation of diluted loss per share as their effect would have been anti-dilutive. See note 10 for additional details.

	2009	2008
	#	#
Stock options	8,657,897	10,298,707
Restricted share units	6,724	59,222
Stock appreciation rights	1,675,000	1,947,177
Warrants	17,697,500	16,538,800
Retention warrants	847,892	1,350,440
Contingent performance consideration	—	3,680,194

**12. Supplemental Cash Flow Information**

For each of the years presented, the Company did not pay any cash income taxes or cash interest expense.

**13. Commitments and Contingencies***Commitments*

The Company has operating lease commitments for its premises in the United States (Plainview, New York; New York, New York; and Sanford, Florida), Canada (Toronto, Ontario and Vancouver, British Columbia) and England (London). In addition, the Company has operating leases for certain computer hardware and infrastructure equipment. Furthermore, the Company has marketing and content license fee commitments to channel partners. Future minimum annual payments over the next five years and thereafter (exclusive of taxes, insurance and maintenance costs) under these commitments are as follows:

**NEULION, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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	\$
2010	3,185,943
2011	1,506,912
2012	1,304,364
2013	809,256
2014	86,080
Thereafter	281,627
	<u>7,174,182</u>

Rent expense for the years ended December 31, 2009 and 2008 was \$955,420 and \$448,854, respectively.

The Company has signed a sublease for its Toronto office, which is expected to create a total recovery of \$5,243,517.

*Contingencies*

During the ordinary course of business activities, the Company may be contingently liable for litigation and a party to claims. Management believes that adequate provisions have been made in the accounts where required. Although the extent of potential costs and losses, if any is uncertain, management believes that the ultimate resolution of such contingencies will not have an adverse effect on the consolidated financial position or results of operations of the Company.

**14. Segmented Information**

The Company operates, as one reportable segment, to provide end-to-end enterprise-level IPTV and other professional services. Substantially all of Company's revenues and long-lived assets are in the United States.

**15. Income Taxes**

The reconciliation of income taxes computed at the Canadian statutory tax rate to the Company's effective income tax rate for the years ended December 31, 2009 and 2008 is as follows:

	2009	2008
	\$	\$
Combined basic federal and provincial rates	33.0%	33.5%
Income tax benefit based on statutory income tax rate	(6,481,504)	(3,898,482)
Increase in income taxes resulting from:		
Non-deductible expenses and foreign rate differential	409,699	631,824
Income while Company was an S Corp. and not subject to tax	—	1,597,396
Increase in valuation allowance	6,071,805	1,669,262
Income tax expense	<u>—</u>	<u>—</u>

The increase in valuation allowance consists of the creation of additional tax losses which have not been recognized for accounting purposes.

**NEULION, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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Deferred income taxes result principally from temporary differences in the recognition of loss carry forwards and expense items for financial and income tax reporting purposes. Significant components of the Company's deferred tax assets as of December 31, 2009 and 2008 were as follows:

	December 31, 2009 \$	December 31, 2008 \$
Deferred revenue	1,722,245	1,129,610
Property, plant and equipment	2,423,828	1,177,388
Intangible assets	(291,668)	426,542
Share issue costs	1,754,781	3,143,219
Net operating losses	29,540,867	22,155,774
	35,150,053	28,032,533
Valuation allowance	(35,150,053)	(28,032,533)
<b>Total deferred tax assets</b>	<b>—</b>	<b>—</b>

The Company has approximately \$93,368,139 in non-capital tax losses available to be applied against future years' income, which expire as follows:

	\$
2010	198,000
2026	21,263,325
2027	25,544,598
2028	28,851,457
2029	17,510,759
	93,368,139

Due to the losses incurred since inception and expected future operating results, a 100% valuation allowance has been recorded against the Company's net deferred tax assets as it is more likely than not that the future tax asset resulting from the tax losses available for carry-forward will not be realized through the reduction of future income tax payments.

The Company does not have any uncertain tax provisions under ASC 740.

**16. Derivative Instruments**

The Company's only derivative instruments are 11,000,000 warrants, the exercise price for which are denominated in a currency other than the Company's functional currency, as follows:

- 5,500,000 Series A warrants exercisable at Cdn\$1.25 that expire on October 20, 2010.
- 5,500,000 Series B warrants exercisable at Cdn\$1.50 that expire on October 20, 2010.

These warrants have been recorded at their relative fair values at issuance and will continue to be recorded at fair value at each subsequent balance sheet date. Any change in value between reporting periods will be recorded as other income (expense). These warrants will continue to be reported as a liability until such time as they are exercised or expire. The fair value of these warrants is estimated using the Black-Scholes-Merton option-pricing model.

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As of January 1, 2009, the grant date fair value of these warrants in the amount of \$2,464,000 was reallocated from additional paid-in-capital and a derivative liability was recorded in the amount of \$587,950, being the fair value of the warrants on January 1, 2009 offset by an adjustment to accumulated deficit of \$1,876,050.

As of December 31, 2009, the fair value of the warrants was determined to be \$1,389,300; accordingly, the Company recorded \$801,350 in other expense for the year ended December 31, 2009, respectively, related to the change in the fair value of these warrants. There is no cash flow impact for these derivatives until the warrants are exercised. If these warrants are exercised, the Company will receive the proceeds from the exercise at the current exchange rate at the time of exercise.

**17. Reconciliation of U.S. GAAP to Canadian GAAP**

The consolidated financial statements of the Company are prepared in U.S. dollars in accordance with U.S. GAAP. The following adjustments and disclosures would be required in order to present these consolidated financial statements in accordance with Canadian GAAP:

**Reconciliation to Canadian GAAP**

**Income Statements Items using Canadian GAAP**

	2009	2008
	\$	\$
NET LOSS USING UNITED STATES GAAP	(19,640,921)	(11,637,260)
Add (deduct) adjustments for:		
Adjustment for stock based compensation on SARS[i]	131,343	16,599
Adjustment for unrealized loss on derivative [ii]	801,350	—
<b>NET LOSS USING CANADIAN GAAP</b>	<b>(18,708,228)</b>	<b>(11,620,661)</b>

NET AND COMPREHENSIVE LOSS PER SHARE USING CANADIAN GAAP - basic and diluted	\$(0.17)	\$(0.21)
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**Balance Sheet Items using Canadian GAAP**

	2009		2008	
	U.S. GAAP	Canadian GAAP	U.S. GAAP	Canadian GAAP
	\$	\$	\$	\$
Accrued liabilities [i]	5,822,385	5,662,128	7,595,116	7,578,517
Derivative liability [ii]	1,389,300	—	—	—
Total current liabilities [i]	16,801,308	15,251,751	15,209,323	15,192,724
Total liabilities [i]	17,998,829	16,449,272	16,724,104	16,707,505
Accumulated deficit [i]	(43,804,398)	(44,731,156)	(26,039,527)	(26,022,928)
Total shareholders' equity [i]	22,270,334	23,807,576	37,013,578	37,030,177

## NEULION, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## Cash Flows Items using Canadian GAAP

	2009		2008	
	U.S. GAAP \$	Canadian GAAP \$	U.S. GAAP \$	Canadian GAAP \$
Net loss [ii]	(19,640,921)	(18,708,228)	(11,637,260)	(11,620,661)
Stock-based compensation [ii]	1,167,789	1,036,446	1,848,906	1,832,307

Areas of material difference between Canadian GAAP and U.S. GAAP and their impact on the consolidated financial statements are as follows:

## [i] SARs

- Under U.S. GAAP, the Company recognizes a liability and compensation expense for the fair value of the SARs on each reporting date.
- Under Canadian GAAP, the Company recognizes a liability and compensation expense for the “in the money” value of the SARs on each reporting date.

## [ii] Derivative Liability

- Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. The revisions change the accounting for certain financial instruments that have liability and equity characteristics.
- Under U.S. GAAP, the Company recognizes a derivative liability on the consolidated balance sheets for the fair value of all convertible instruments with an exercise price denominated in a currency other than the Company’s functional currency. The Company fair values this liability on each reporting date with the corresponding entry to unrealized gain (loss) on derivative on the consolidated statement of operations.
- Under Canadian GAAP, the Company records these convertible instruments at fair value on the grant date and includes them within additional paid in capital on the consolidated balance sheets. The Company does not recognize any changes in fair value.

**NEULION, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**CICA Handbook Section 1535 – Capital Disclosures**

The Company manages the following accounts in regards to capital management:

	December 31, 2009	December 31, 2008
	\$	\$
<b>Shareholders' equity</b>		
Share capital	11,260,415	6,762,097
Additional paid in capital	55,023,567	56,500,258
Promissory note receivable	(209,250)	(209,250)
Accumulated deficit	(43,804,398)	(26,039,527)
	<u>22,270,334</u>	<u>37,013,578</u>

(the figures in the table above are in accordance with U.S. GAAP)

The Company's outstanding share capital is comprised of Shares. At December 31, 2009, an unlimited number of Shares were authorized and 116,731,794 (December 2008 – 110,084,044) Shares were issued and outstanding. Approximately 57% of the Shares are held by insiders, and the remaining shares are widely held. Further information on the Company's outstanding share capital is provided in note 9 of these consolidated financial statements.

At December 31, 2009, a total of 8,657,897 stock options were outstanding, 6,724 restricted share units, 17,697,500 warrants, 847,892 retention warrants and 1,675,000 SARs, which convertible securities cumulatively represented 25% of the Company's issued and outstanding share capital. Pursuant to guidelines set by the Company's respective equity plans, stock option grants are limited to the greater of 12.5% of the issued and outstanding Shares outstanding and 4,000,000, restricted share unit grants have been fully granted, retention warrants are limited to 2,500,000 and SARs grants are limited to the greater of 5% of the issued and outstanding Shares and 4,150,000. The Company is currently in compliance with these guidelines.

The Company's objective in managing capital is to ensure a sufficient liquidity position to finance its revenue growth, general and administrative expenses, working capital and capital expenditures.

In order to maintain or adjust its capital structure, the Company may issue new shares and/or purchase shares for cancellation pursuant to normal course issuer bids.

To finance its activities, the Company has relied on revenue growth and issuance of common equity. Since inception, the Company has financed its activities primarily through public offerings of Shares.

The Company's policy is to maintain a minimal level of debt. At this time the Company has not utilized debt facilities as part of its capital management program nor has it paid dividends to its shareholders.

The capital management objectives for the period ended December 31, 2009 remained the same as those of the previous fiscal year.

The Company is not subject to any externally imposed capital requirements.

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**CICA Handbook Sections 3862 and 3863 – Financial Instruments – Disclosures and Presentation**

The Company's financial instruments are comprised of cash and cash equivalents, short-term investments, accounts receivable, interest receivable, other receivables, accounts payable, other accrued liabilities, amounts due to/from related party, notes payable and obligations under capital lease.

The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties.

The fair value of assets and liabilities were as follows:

	December 31, 2009 \$	December 31, 2008 \$
<b>Financial Assets</b>		
Held-for-Trading		
Cash and cash equivalents	12,957,679	27,323,021
Loans and Receivables		
Accounts receivable	1,809,147	2,284,242
Other receivables	821,834	227,711
Due from related parties	246,992	324,059
<b>Financial Liabilities</b>		
Other Financial Liabilities		
Accounts payable	5,383,518	4,465,388
Accrued liabilities	5,822,385	7,595,116
Due to related parties	298,595	56,826

All fair values denoted above approximate their carrying values due to their short term nature and/or variable interest rates.

Risk management is primarily the responsibility of the Company's corporate finance function. Significant risks are regularly monitored and actions are taken, when appropriate, according to the Company's approved policies, established for that purpose. In addition, as required, these risks are reviewed with the Company's Board of Directors.

**Foreign Exchange Risk**

The Company is exposed to foreign exchange risk as a result of transactions in currencies other than its functional currency of the United States dollar. The majority of the Company's revenues are transacted in U.S. dollars, whereas a portion of its expenses are transacted in U.S. or Canadian dollars. The Company does not use derivative instruments to hedge against foreign exchange risk.

**Interest Rate Risk**

The Company is exposed to interest rate risk on its invested cash and cash equivalents. The interest rates on these instruments are based on the banks' applicable rate and therefore are subject to change with the market. The Company does not use derivative financial instruments to reduce its interest rate risk.

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**Credit Risk**

The Company sells its services to a variety of customers under various payment terms and therefore is exposed to credit risk. The Company has adopted policies and procedures designed to limit this risk. The maximum exposure to credit risk at the reporting date is the carrying value of receivables. The Company establishes an allowance for doubtful accounts that represents its estimate of incurred losses in respect of accounts receivable. The Company believes that the concentration of credit risk is limited due to the Company's primary source of revenues to date being subscription revenues, for which monies are received in advance principally through credit cards.

There is no significant credit risk related to the Company's cash and cash equivalents. Credit risk is managed through conducting financial and other assessments of these investments on an ongoing basis.

The following table sets out details of the age of accounts receivable that are outstanding and related allowance for doubtful accounts:

	December 31, 2009	December 31, 2008
	\$	\$
Current	938,298	1,697,271
31-60 days	409,804	287,070
61-90 days	262,836	105,525
Over 90 days	327,759	484,914
Less: Allowance for doubtful accounts	(129,550)	(290,538)
Total accounts receivable, net	1,809,147	2,284,242

The carrying amount of accounts receivable is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statements of operations and comprehensive loss. When a receivable balance is considered uncollectible, it is written off against the allowance for accounts receivable. Subsequent recoveries of amounts previously written off are credited against operating expenses in the consolidated statements of operations and comprehensive loss.

In addition, recent Canadian GAAP accounting pronouncements that may impact the Company's financial position and results of operations and disclosure requirements are as follows:

**Recent Accounting Pronouncements**

In February 2008, the CICA issued new Handbook Section 3064, *Goodwill and Intangible Assets*, which replaces Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*. The new standard addresses when an internally developed intangible asset meets the criteria for recognition as an asset. The section also issued amendments to Section 1000, *Financial Statement Concepts*. These changes are effective for fiscal years beginning on or after October 1, 2008, with earlier adoption permitted, and have been adopted by the Company effective January 1, 2009. The objectives of the changes are to reinforce a principle-based approach to the recognition of costs as assets and to clarify the application of the concept of matching revenues and expenses in Section 1000. Collectively, these changes bring Canadian practice closer to International Financial Reporting Standards ("IFRS") by eliminating the practice of recognizing as assets a variety of start-up, pre-production and similar costs that do not meet the definition and recognition criteria of an asset. There was no material effect on the Company's consolidated financial statements as a result of adopting CICA Handbook Section 3064.

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In February 2008, the CICA Accounting Standards Board confirmed that the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises, effective for the interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company became an SEC issuer effective June 8, 2009 and expects to continue to use U.S. GAAP until the date that IFRS is implemented in the United States, which is currently estimated to occur no sooner than 2014.

Effective January 1, 2009 the Company adopted CICA Handbook Section 1582 "Business Combinations" which replaces Section 1581. This standard establishes the principles and requirements of the acquisition method for business combination and related disclosures and applies prospectively to business combinations for which the acquisition date.

Effective January 1, 2009, the Company adopted CICA Handbook Section 1601 "Consolidated Financial Statements" and section 1602 "Non-controlling Interest" which replace Section 1600. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The adoption of Sections 1582, 1601, and 1602 did not materially impact the Company's consolidated financial statements as the provisions of these standards are substantially similar to the Company's accounting in accordance with U.S. GAAP.