Consolidated Financial Statements
[Expressed in U.S. dollars]

JumpTV Inc.

December 31, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of
JumpTV Inc.

We have audited the consolidated balance sheet of **JumpTV Inc**. [the "Company"] as of December 31, 2008, and the related consolidated statements of operations and comprehensive loss, shareholders' equity, and cash flows for the year 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 audit. The financial statements of JumpTV Inc. for the year ended December 31, 2007, were audited by other auditors whose report dated August 22, 2008, expressed an unqualified opinion on those statements.

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 audit provides a reasonable basis for our opinion.

In our opinion, the 2008 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2008 and the consolidated results of its operations and its cash flows for the year then ended in accordance with United States generally accepted accounting principles.

Melville, New York, United States
March 26, 2009

/s/ Ernst & Young LLP
Licensed Public Accountants

JUMPTV INC.

CONSOLIDATED BALANCE SHEETS

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

	As at December 31,	
	2008	**2007**
	$	$
ASSETS		
Current		
Cash and cash equivalents	27,323,021	608,464
Accounts receivable, net *[notes 2 and 11]*	2,284,242	2,017,137
Taxes receivable	983,253	—
Other receivables	227,711	—
Inventory	347,600	323,500
Prepaid expenses and deposits	1,830,260	525,637
Due from related parties *[note 7]*	324,059	188,855
Total current assets	33,320,146	3,663,593
Property, plant and equipment, net *[note 5]*	6,474,989	2,281,667
Intangible assets, net *[notes 3 and 6]*	5,749,332	—
Goodwill *[notes 2 and 3]*	6,846,183	—
Other assets	1,347,032	260,305
Investment in affiliate *[note 7]*	—	1,006,386
Total assets	53,737,682	7,211,951
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable	4,465,388	67,295
Accrued liabilities	7,595,116	830,371
Due to related parties *[note 7]*	56,826	2,093,907
Deferred revenue	3,091,993	429,246
Total current liabilities	15,209,323	3,420,819
Long-term deferred revenue	638,510	544,199
Other long-term liabilities	876,271	—
Total liabilities	16,724,104	3,965,018
Commitments and contingencies *[note 14]*		
Shareholders' equity		
Share capital *[note 9]*	6,762,097	68,871
Common shares, no par value, authorized unlimited; 110,084,044 issued and outstanding		
Additional paid-in capital	56,500,258	17,580,329
Promissory note receivable *[note 9]*	(209,250)	—
Accumulated deficit	(26,039,527)	(14,402,267)
Total shareholders' equity	37,013,578	3,246,933
Total liabilities and shareholders' equity	53,737,682	7,211,951

See accompanying notes

On behalf of the Board:

”Nancy Li”	”John Anderson”
Director	Director

JUMPTV INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

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

	Years ended December 31,	
	2008	**2007**
	$	$
Revenue		
Services revenue	9,542,689	1,284,142
Equipment revenue	3,900,650	6,526,569
Total Revenue	13,443,339	7,810,711
Cost of Sales		
Services revenue	4,519,062	325,097
Equipment revenue	3,120,087	5,179,157
Total Cost of Sales	7,639,149	5,504,254
	5,804,190	2,306,457
Costs and Expenses		
Selling, general and administrative, including stock-based compensation *[note 10]*	14,221,347	4,210,357
Depreciation and amortization	1,572,492	561,077
Impairment of long-lived assets *[note 5]*	1,036,993	—
	16,830,832	4,771,434
Operating loss	(11,026,642)	(2,464,977)
Other income (expense)		
Gain on foreign exchange	265,720	—
Investment income	130,048	33,161
Equity in loss of affiliate *[note 7]*	(1,006,386)	(2,083,943)
	(610,618)	(2,050,782)
Net and comprehensive loss for the year	(11,637,260)	(4,515,759)
Net loss per weighted average number of shares outstanding - basic and diluted *[note 12]*	$(0.21)	$(0.11)
Weighted average number of shares outstanding - basic and diluted *[note 12]*	55,995,297	42,680,587

See accompanying notes

JUMPTV 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**
	#	$	$	$	$	$
Balance, December 31, 2006	39,160,900	61,271	16,910,329	—	(9,886,508)	7,085,092
Issuance of common stock	4,857,483	7,600	—	—	—	7,600
Capital contribution	—	—	670,000	—	—	670,000
Net loss	—	—	—	—	(4,515,759)	(4,515,759)
Balance, December 31, 2007	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 *[note 3]*	49,490,372	(77,569)	31,615,091	—	—	31,537,522
Private placement *[note 9]*	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 *[note 10]*	—	—	1,820,911	—	—	1,820,911
Net loss	—	—	—	—	(11,637,260)	(11,637,260)
Balance, December 31, 2008	110,084,044	6,762,097	56,500,258	(209,250)	(26,039,527)	37,013,578

See accompanying notes

JUMPTV INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Years ended December 31,	
	2008	**2007**
	$	$
OPERATING ACTIVITIES		
Net loss	(11,637,260)	(4,515,759)
Adjustments to reconcile net loss to cash used in operating activities		
Depreciation and amortization *[notes 5 and 6]*	1,572,492	561,077
Equity in loss of affiliate *[note 7]*	1,006,386	2,083,943
Stock-based compensation *[note 10]*	1,848,906	—
Impairment of long-lived assets *[note 6]*	1,036,993	—
	(6,172,483)	(1,870,739)
Changes in operating assets and liabilities		
Accounts receivable	1,943,307	(2,011,788)
Inventory	(24,100)	(323,500)
Prepaid expenses, deposits and other assets	191,621	(731,361)
Other receivables	4,441	—
Taxes receivable	37,398	—
Due from related parties	(135,204)	1,371,074
Accounts payable	(306,999)	(176)
Accrued liabilities	604,465	484,084
Deferred revenue	244,846	921,195
Long-term liabilities	41,833	—
Due to related parties	(2,043,626)	2,076,205
Cash used in operating activities	(5,614,501)	(85,006)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(1,443,438)	(1,628,411)
Acquisition of NeuLion, Inc., net of cash of $22,884,683 *[note 3]*	21,738,421	—
Cash provided by (used in) investing activities	20,294,983	(1,628,411)
FINANCING ACTIVITIES		
Capital contributions	2,600,000	670,000
Private placement *[note 9]*	9,214,700	—
Proceeds from exercise of stock options	219,375	—
Cash provided by financing activities	12,034,075	670,000
Net decrease in cash and cash equivalents during the year	26,714,557	(1,043,417)
Cash and cash equivalents, beginning of year	608,464	1,651,881
Cash and cash equivalents, end of year	27,323,021	608,464

See accompanying notes

JUMPTV INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Expressed in U.S. dollars, unless otherwise noted]
December 31, 2008

1. Nature of Operations

Further to the reverse takeover transaction described below, these consolidated financial statements for the years ended December 31, 2008 and 2007 reflect the assets, liabilities and results of operations of NeuLion Inc. [“NeuLion”], the legal subsidiary, prior to the reverse takeover and the consolidated assets, liabilities and results of operations of JumpTV and NeuLion subsequent to the reverse takeover. These consolidated financial statements are issued under the name of the legal acquirer (JumpTV), but are deemed to be a continuation of the accounting acquirer (NeuLion).

JumpTV's primary business is working with content partners to develop end-to-end solutions for multimedia IPTV services.

On October 20, 2008, the Company completed a merger with NeuLion, an end-to-end IPTV service provider of live and on-demand sports, international and religious programming over the Internet to a computer and/or through set top boxes [“STBs” or “STB”] to a television. Under the terms of the merger, JumpTV issued 49,577,427 common shares, 1,840,097 contingent shares, which represented approximately the entire issued and outstanding shares of JumpTV prior to closing, to the security holders of NeuLion, in exchange for their NeuLion securities. Pursuant to the merger, the Company issued 5,000,000 warrants exercisable for two years at US$0.63 and 2,700,000 employee stock options exercisable for five years at US$0.60 to employees of the Company.

On October 20, 2008, AvantaLion LLC, an entity controlled by Mr. Charles B. Wang, the Chairman of our Board of Directors, purchased 10,000,000 units from JumpTV's treasury at a price of CDN$1.00 per unit. Each unit (a "Unit") consists of one (1) common share and one-half of one common share purchase warrant exercisable at CDN$1.25 and one-half of one common share purchase warrant exercisable at CDN$1.50. The warrants partially comprising the Units are exercisable for a period of two years from the date of issuance. G. Scott Paterson, Vice-Chairman of the Board of Directors, also purchased 1,000,000 Units on the same terms. The aggregate gross proceeds from the sale of Units were CDN$11 million [US$9,214,700].

2. Basis of Presentation and Significant Accounting Policies

On October 20, 2008, in accordance with SFAS 141, *Business Combinations*, the Company determined that NeuLion was the accounting acquirer and accordingly has accounted for this merger as a reverse take over.

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 United States to Canadian GAAP. The Company also has an investment in KyLinTV, Inc. ["KyLinTV"] in which, as at December 31, 2008, it has a 17.1% equity interest [2007 – 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 investment in affiliate including intangible assets and goodwill, inventory obsolescence, assumptions used in determining the fair value of the Company's shares 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.

Revenue recognition

Revenue is recognized when 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.

In addition, the Company recognizes revenue in accordance with Emerging Issues Task Force No. 00-21, *Revenue Arrangements with Multiple Deliverables* and Staff Accounting Bulletin No. 104, *Revenue Recognition* ["SAB 104"] when persuasive evidence of an arrangement exists, delivery has occurred or when risk of ownership has passed, the fee is fixed or determinable and collectability is probable.

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 SAB 104 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, 2008 and 2007, the Company recognized $2,500,000 and $1,250,000 in revenue associated with this arrangement, respectively.

JumpTV earns revenue as follows:

[i] Subscriber Revenue:

Subscriber revenue

Subscriber revenue consists of recurring revenue based on subscriber usage, bandwidth usage fees for the JumpTV 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.

Ecommerce revenue

eCommerce revenue consists of JumpTV 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 internet advertising on websites and in streaming video. Revenue is recognized as the service is performed.

Technology services revenue

Technology services revenue consists of the set up and maintenance services JumpTV provides related to our technology such as website (internet) or console (STB) design, user interface optimization and streaming configuration. Included in technology services revenue is the licensing of the technology required to convert, compress and transmit video signals to our content distribution network and ultimately to end users. Revenue is recognized as the service is performed.

[ii] Equipment revenue

Equipment revenue consists of the sale of STB 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.

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, 2008 and 2007, the allowance for doubtful accounts was $290,538 and $45,000, respectively.

Inventory

Inventory consists of set top boxes and is recorded at the lower of cost and net realizable value and consists of finished goods. 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, 2008 and 2007, the Company’s inventory reserves were $9,700 and zero, respectively. For each of the years ended December 31, 2008 and 2007, the Company expensed amounts related to inventory reserves of $9,700 and zero, 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.

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

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 $1,036,993 and zero in the years ended December 31, 2008 and 2007, 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 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, 2008 and 2007.

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. 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, 2008 and 2007, there was no impairment loss.

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. The Company's carrying value in an equity method investee company is reflected in the caption "Investment in affiliate" on the Company's consolidated balance sheets. Due to KyLinTV's accumulated losses as of December 31, 2008, the investment has been reduced to zero. 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 two to five years. Deferred transcoder costs are included in other assets on the consolidated balance sheet.

Income taxes

The Company has implemented the provisions on Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). SFAS 109 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.

Effective December 1, 2007, the Company adopted FASB Interpretation No. 48 ("FIN 48"), which provides guidance for the recognition, derecognition and measurement in financial statements of tax positions taken in previously filed tax returns or tax positions expected to be taken in tax returns. FIN 48 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. FIN 48 also provides guidance for classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 requires that a liability created for unrecognized tax benefits be presented as a separate liability and not combined with deferred tax liabilities or assets.

We have operations in a number of countries worldwide. Our income tax liability is therefore a consolidation of the tax liabilities we expect to have in various locations. Our tax rate is affected by the profitability of our operations in all locations, tax rates and taxation systems of the countries in which we operate our tax policies and the impact of certain tax planning strategies which we have implemented.

To determine our worldwide tax liability we make estimates of possible tax liabilities. Our 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.

We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. We have had substantial tax losses over the years, therefore we have recorded a valuation allowance against all of our 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, short-term investments, accounts receivable, other receivables, due from/to related parties, deposits, accounts payable and accrued liabilities, notes payable, obligations under capital lease and customer advances which are primarily denominated in U.S. dollars. 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 $366,756 and $138,000 for the years ended December 31, 2008 and 2007, 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 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 common shares equal to the fair value of the common shares less the exercise price divided by the market value of the common shares from treasury or receive common 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. The liability is entitled accrued stock appreciation rights and is classified as a current liability on the consolidated balance sheets. If the holder elects to purchase common shares, the liability is credited to additional paid-in capital.

Restricted share units give the holder the right to one common 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 accrued 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 December 2007, Financial Accounting Standards Board ["FASB"] issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141(R)"). This statement replaces SFAS No. 141, "Business Combinations" and requires an acquirer to recognize the assets acquired, the liabilities assumed, including those arising from contractual contingencies, any contingent consideration, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the statement. SFAS 141(R) also requires the acquirer in a business combination achieved in stages (sometimes referred to as a step acquisition) to recognize the identifiable assets and liabilities, as well as the noncontrolling interest in the acquiree, at the full amounts of their fair values (or other amounts determined in accordance with SFAS 141(R)). In addition, SFAS 141(R)'s requirement to measure the noncontrolling interest in the acquiree at fair value will result in recognizing the goodwill attributable to the noncontrolling interest in addition to that attributable to the acquirer. SFAS 141(R) amends SFAS No. 109, "Accounting for Income Taxes", to require the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. It also amends SFAS 142, "Goodwill and Other Intangible Assets", to, among other things, provide guidance on the impairment testing of acquired research and development intangible assets and assets that the acquirer intends not to use. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The guidance is to be applied prospectively, therefore, the impact of the implementation of this pronouncement cannot be determined until the transaction occurs.

In April 2008, the FASB issued FASB Staff Position ("FSP") FAS 142-3, Determination of the Useful Life of Intangible Assets ("FSP FAS 142-3"). FSP FAS 142-3 amends SFAS No. 142, Goodwill and Other Intangible Assets, to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No 141, Business Combinations, and other U.S. GAAP. FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008. The guidance for determining the useful life of a recognized intangible asset is to be applied prospectively, therefore, the impact of the implementation of this pronouncement cannot be determined until the transactions occur.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS No. 162"). This statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States. This Statement shall be effective sixty days following the SEC's approval of the Public Company Accounting Oversight Board ("PCAOB") amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The Company does not believe the adoption of SFAS No. 162 will have a material impact on its financial condition, results of operations or cash flows.

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements". SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 applies whenever other standards require assets or liabilities to be measured at fair value and does not expand the use of fair value in any new circumstances. SFAS No. 157 establishes a hierarchy that prioritizes the information used in developing fair value estimates. The hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, such as the reporting entity's own data. SFAS No. 157 requires fair value measurements to be disclosed by level within the fair value hierarchy. In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, "Effective Date of FASB Statement No. 157", which deferred the effective date of SFAS No. 157 for all nonrecurring fair value measurements of non-financial assets and non-financial liabilities until fiscal years beginning after November 15, 2008. The provisions of SFAS No. 157 are applicable to recurring fair value measurements of financial assets and liabilities for fiscal years beginning after November 15, 2007, which for the Company is generally limited to annual disclosures required by SFAS No. 107. The Company adopted the provisions of SFAS No. 157 effective January 1, 2008, and at that time determined no transition adjustment was required.

In June 2008, the FASB ratified EITF No. 07-5, "Determining Whether an Instrument (or an Embedded Feature) is Indexed to an Entity's Own Stock" ("EITF 07-5"). EITF 07-5 provides that an entity should use a two-step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument's contingent exercise and settlement provisions. EITF 07-5 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early application is not permitted. The Company is assessing the potential impact of this EITF 07-5 on the financial condition and results of operations.

In October 2008, the FASB issued SFAS No. 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active." This standard expands upon the implementation guidance in SFAS No. 157 for estimating the present value of future cash flows for some hard-to-value financial instruments, such as collateralized debt obligations. This statement became effective upon issuance. The Company doesn't believe that SFAS 157-3 will have a material impact on the Company's consolidated financial statements.

In October 2008, the FASB issued Emerging Issues Task Force ("EITF") 08-6 "Equity Method Investment Accounting Considerations", on how the initial carrying value of an equity method investment should be determined, how an impairment assessment of an underlying indefinite-lived intangible asset of an equity method investment should be performed, and how an equity method investee's issuance of shares should be accounted for. The Company doesn't believe that EITF 08-06 will have a material impact on the Company's consolidated financial statements.

Comparative Information

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

3. Business Combination

On October 20, 2008, the Company completed a merger with NeuLion. Under the terms of the merger, JumpTV issued 49,577,427 common shares and 1,840,097 contingent shares, which represented approximately the entire issued and outstanding shares of JumpTV prior to closing, to the securityholders of NeuLion, in exchange for their NeuLion securities.

In accordance with SFAS 141, *Business Combinations*, the Company determined that NeuLion was the accounting acquirer and accordingly has accounted for this merger as a reverse take over.

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

NeuLion is a full end-to-end enterprise level internet protocol television ["IPTV"] service and technology provider that builds and manages private networks for companies interested in reaching a specific target audience. By using the public internet, customers of NeuLion's clients can reach the broadcast service from most places in the world – on the television, through the web to a computer via STBs or through other consumer devices.

The purchase price of $33,558,784 represents the fair value of 49,577,427 of common shares issued of $31,990,711, the fair value of vested equity instruments in the amount of $515,364 and $1,052,709 in direct transaction costs. The merger had been previously announced on June 9, 2008. In addition to the transaction costs there were $968,553 of share issuance costs required under the merger agreement.

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 allocations of the purchase price is preliminary.

As at October 20, 2008

Cash	$ 22,884,683
Current assets	5,005,670
Property, plant and equipment	5,046,405
Other long-term assets	1,040,516
Intangible assets	6,000,000
Goodwill	6,846,183
Total assets	46,823,457
Current liabilities	(12,430,235)
Other long-term liabilities	(834,438)
Net assets acquired	$ 33,558,784

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 $6,846,183 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.

The purchase price of NeuLion contains contingent purchase price consideration of 1,840,097 common shares. The number of shares will be based on a 24 month revenue milestone for Cycling TV ending on July 31, 2009. The contingent consideration will be accounted for as an addition to the purchase price consideration when the shares are issued or become issuable. As at December 31, 2008, the Company does not believe Cycling TV will achieve the revenue milestone.

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.

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

Proforma

The results of operations for JumpTV and NeuLion 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 2007:

Unaudited Proforma

	December 31, 2008 $	December 31, 2007 $
Total revenue	25,708,760	16,785,370
Total cost of sales	(18,836,212)	(14,282,438)
	6,872,548	2,502,932
Total sales, general and administrative	(38,482,996)	(32,487,244)
Stock-based compensation [ii]	(3,374,767)	(5,293,738)
Impairment of goodwill [iii]	(47,882,317)	—
Impairment of long-lived assets [iv]	(5,982,030)	—
Depreciation and amortization	(3,602,169)	(3,202,306)
Operating loss	(92,451,731)	(38,480,356)
Net loss	(92,459,364)	(36,019,502)
Net loss per weighted average number of shares outstanding – basic and diluted	(0.90)	(0.35)

[i] 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] In accordance with FASB 123R, these amounts represent stock-based compensation for the Company's stock options, restricted share units, stock appreciation rights, warrants and retention warrants.

[iii] 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, accordingly, as at March 31, 2008, performed a goodwill impairment test and, accordingly the Company recorded a non-cash goodwill impairment charge of $47,882,317.

[iv] 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.

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

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%. For the year ended December 31, 2007, two customers accounted for 85% of revenue as follows: 68% and 17%.

As at December 31, 2008, one customer accounted for 25% of the accounts receivable. For the year ended December 31, 2007, two customers accounted for 90% of the accounts receivable as follows: 74% and 16%.

The Company is economically dependent upon TransVideo International, Ltd. ["TransVideo"], a related party *[note 6]*, to provide set top boxes used by Company's customers.

5. Property, Plant and Equipment

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

	December 31, 2008			
	Cost $	Accumulated amortization $	Non-cash Impairment $	Net book value $
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

	December 31, 2007		
	Cost $	Accumulated amortization $	Net book value $
Computer hardware	1,933,047	468,984	1,464,063
Computer software	1,123,053	355,827	767,226
Furniture, fixtures and equipment	71,557	21,179	50,378
Leasehold improvements	775	775	—
	3,128,432	846,765	2,281,667

FASB 144, *Accounting for Disposal and Impairment of Long-Lived Assets*, 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 prior year.

Depreciation expense for the years ended December 31, 2008 and 2007 was $1,321,824 and $561,077, respectively.

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

6. Intangible Assets

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

	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, 2008 and 2007 was $250,668 and zero, respectively.

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

	$
2009	1,260,416
2010	1,180,000
2011	1,180,000
2012	1,180,000
2013	948,916

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:

New York Islanders Hockey Club, LP ["New York Islanders"]

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

Plainview Properties, LLC ["Plainview"]

Plainview is a real estate ownership company owned by the Chairman of the Board of Directors of the Company. Plainview was 100%-owned through January 2007 and 50%-owned from late January 2007 through March 2008. The Company has leased its office premises in Plainview, N.Y., from Plainview. The property and the lease were acquired by an unrelated third party in March 2008.

Renaissance Property Associates, LLC ["Renaissance"]

Renaissance is a real estate management company owned by the Chairman of the Board of Directors of the Company. The Company provides IT related professional services to Renaissance.

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

The Smile Train, Inc. ["Smile Train"]

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

Hawaii IPTV, LLC ["Hawaii"]

The Company has an IPTV customer whose principals are family members of the Chairman of the Board of Directors of the Company.

TransVideo International, Ltd. ["Transvideo"]

The Company purchases a substantial portion of its goods for sale from TransVideo, an entity controlled by the Chairman of the Board of Directors of the Company. Set top box purchases amounted to $2,745,000 and $5,369,500 and transcoder licensing fees amounted to $125,000 and $282,000 for the years ended December 31, 2008 and 2007, respectively. Included in cost of sales is the amount incurred from TransVideo of $2,816,490 and $5,047,000 for the years ended December 31, 2008 and 2007, respectively.

KyLinTV, Inc ["KyLinTV"]

KyLinTV is an IPTV service provider that is controlled by Chairman of the Board of Directors of the Company. The Company also provides KyLinTV with administrative and general corporate support.

Patstar, Inc ["Patstar"]

On occasion, Patstar, a company controlled by the Vice-Chairman of the Board Directors of the Company, receives reimbursement of expenditures on behalf of the Company. The nature of these reimbursements relates to expenses that the Company has incurred in the normal course of business. As at December 31, 2008 and 2007, the Company did not have any balances due from/to Patstar. In addition, rent expense paid by Patstar of $2,596 is included as a recovery in selling, general and administrative expense for the year ended December 31, 2008.

G. Scott Paterson and Charles B. Wang

In October 2008, Mr. Paterson and Mr. Wang purchased securities from the Company, as described in note 9.

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

	December 31, 2008 $	December 31, 2007 $
New York Islanders	296,451	240,000
Renaissance	120,000	120,000
Smile Train	120,000	108,000
Hawaii	57,577	44,070
KyLinTV	920,550	—
	1,514,578	512,070

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

The Company also provides KyLinTV with administrative and general corporate support. For each of the years presented, the amounts paid for these services provided by NeuLion for the years ended December 31, 2008 and 2007 were $1,233,353 and $1,722,862, respectively. Additionally, during the year ended December 31, 2008, the Company acquired equipment from KyLinTV in the amount of $620,000.

As at December 31, 2008 and 2007, the amounts due from (to) related parties are as follows:

	December 31, 2008 $	December 31, 2007 $
New York Islanders	29,189	103,702
Renaissance	(1,146)	43,153
Smile Train	27,000	27,000
Hawaii	17,527	15,000
TransVideo	(55,680)	(1,964,616)
KyLinTV	250,343	(129,291)
	267,233	(1,905,052)

Investment in affiliate – KyLinTV

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

On July 1, 2006, the Company acquired a 20.2% equity interest in KyLinTV through the conversion of $4,100,000 that was due from KyLinTV. The acquisition has been accounted for using the purchase method, with the results of KyLinTV included in the Company's results of operations from the date of acquisition.

As of October 1, 2007, the Company's equity interest in the affiliate decreased to 17.1%. As previously discussed, the Company also provides KyLinTV with administrative and general corporate support. Management has determined that as a result of the 17.1% equity interest combined with the services that NeuLion provides KyLinTV, the Company continues to have significant influence on the operating activities of KyLinTV, therefore the Company continues to account for KyLinTV using the equity method of accounting for investment.

The Company is accounting for its pro-rata share of their equity interest in KyLinTV, 20.2% from July 1, 2006 to September 31, 2007 and 17.1% from October 1, 2007 to December 31, 2008.

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 has been reduced to zero. No further charges will be recorded as the Company has no obligation to fund the losses of KyLinTV.

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

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:

	December 31, 2008 $	December 31, 2007 $
Condensed income statement information:		
Net sales	6,568,101	3,316,364
Net loss	(8,148,974)	(7,751,433)
Condensed balance sheet information:		
Current assets	927,427	777,368
Non-current assets	2,411,319	1,851,677
Total assets	3,338,746	2,629,045
Current liabilities	10,063,909	1,405,235
Non-current liabilities	—	—
Equity (deficiency)	(6,725,163)	1,223,810
Total liabilities and equity	3,338,746	2,629,045

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, 2008 and 2007, the Company made aggregate net matching contributions of $113,000 and $81,000, respectively.

9. Share Capital

As a result of the reverse-take over that occurred on October 20, 2008, the share capital account represents the historical share capital of the accounting acquirer adjusted to reflect the par value of the outstanding shares of the legal acquirer, including the number of shares issued in the business combination. *[note 3]*

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

Share capital consists of the following:

	December 31, 2008 $	December 31, 2007 $
Authorized		
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		
Issued and outstanding		
Common shares		
December 31, 2008: Issued and outstanding: 110,084,044		
[December 31, 2007: Issued and outstanding: 44,018,383]	6,762,097	68,871

During the year ended December 31, 2008, the Company completed the following issuances:

Date	#	$
Balance – December 31, 2007	44,018,383	68,871
Exercise of stock options [i]	5,559,044	8,698
	49,577,427	77,569
Issuance of share in connection with merger *[note 3]*	49,490,372	(77,569)
Private placement [ii]	11,000,000	6,750,700
Issuance of restricted share plan units	16,245	6,518
Release of common shares from escrow for services	—	4,879
Balance – December 31, 2008 [iii]	110,084,044	6,762,097

[i] On October 17, 2008, a total of 5,559,044 NeuLion stock options with an exercise price of $0.24 were exercised for gross proceeds of $1,328,625. Of this amount $219,375 was received in cash and $209,250 was received through promissory notes from employees, bearing interest at 3.16% per annum, repayable in 5 years with annual repayments. Three senior officers of NeuLion repaid their option exercise by returning 193,134 common shares valued at $900,000 to NeuLion.

[ii] On October 20, 2008, AvantaLion LLC, an entity controlled by Mr. Charles B. Wang, the Chairman of the Board of Directors of the Company, purchased 10,000,000 units from JumpTV's treasury at a price of CDN$1.00 per unit. Each unit (a "Unit") consists of one (1) common share and one-half of one common share purchase warrant exercisable at CDN$1.25 and one-half of one common share purchase warrant exercisable at CDN$1.50. The warrants partially comprising the Units are exercisable for a period of two years from the date of issuance. G. Scott Paterson also purchased 1,000,000 Units on the same terms. The aggregate gross proceeds from the sale of Units were CDN$11 million. Proceeds of this transaction were $9,214,700 of which $6,750,700 was allocated to common shares and $2,464,000 was allocated to private placement warrants using a Black-Scholes fair value method.

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

[iii] The Company legally has 113,764,238 common shares outstanding. The difference of 3,680,194 represents common shares issued into escrow, which will only be released if Cycling TV is able to achieve certain revenue milestones. As at December 31, 2008, the Company does not believe Cycling TV will achieve these milestones and as such has not recorded these shares as outstanding.

10. Stock Option and Stock-Based Compensation Plans

[i] Stock Option Plans

2004 stock option plan [the "2004 Plan"]

On January 1, 2006, the Company adopted the provisions of SFAS No. 123R, requiring the recognition of expense related to the fair value of its stock-based compensation awards. The Company elected to use the modified prospective transition method as permitted by SFAS No. 123R and therefore has not restated its financial results for prior periods. Under this transition method, stock-based compensation expense for the years ended December 31, 2007 and 2006 includes compensation expense for all stock-based compensation awards granted prior to, but not yet vested as of, January 1, 2006 based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123. Stock-based compensation expense for all stock-based compensation awards granted subsequent to January 1, 2006 was based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R. The Company recognizes compensation expense for stock option awards on a straight-line basis over the requisite service period of the award.

NeuLion had a stock option plan dated February 1, 2004. Under the plan, employees may be granted options intended to comply with Section 422 of the Internal Revenue Code. In addition, the plan provides for the grant of options to non-employee directors or consultants of NeuLion. Option awards are generally granted with an exercise price equal to an amount determined by the plan's administering committee, which cannot be less than the fair market value of NeuLion's common stock at the date of grant. Options granted generally have 10-year contractual terms and vest over four years.

	#	Weighted average exercise price $
Outstanding, December 31, 2007	5,559,044	0.24
Exercised	(5,559,044)	0.24
Outstanding, December 31, 2008	—	—

For the year ended December 31, 2008 and 2007, no compensation expense was recorded for total stock-based compensation expense related to stock options under the 2004 Plan, as the fair value of those stock options was determined to be nominal on the grant date.

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

New Stock Option Plan [the "New Plan"]

On October 20, 2008, as a result of the merger, the Company adopted JumpTV's stock option plan. The New Plan applies to all previous grants to JumpTV employees and future 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 New Plan is determined by the five-day volume weighted average price of the Company's common shares prior to the date of grant but cannot be less than such a price. 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 common shares issuable upon exercise of options granted pursuant to the New Plan is equal to the greater of [i] 4,000,000 common shares; and [ii] 12.5% of the number of issued and outstanding common shares.

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

	#	Weighted average exercise price $
Outstanding, December 31, 2007	—	—
Options assumed in merger	4,979,786	2.88
Granted	7,523,000	0.52
Forfeited	(2,204,079)	2.68
Outstanding, December 31, 2008	10,298,707	1.19

The following table summarizes stock option information of the New Plan as at December 31, 2008:

Exercise price $	Number outstanding #	Weighted average remaining contractual life [years]	Number exercisable #
0.47	4,793,000	4.88	144,348
0.58	100,000	2.28	100,000
0.60	2,800,000	4.72	233,060
0.64	517,500	0.98	277,825
0.70	27,500	0.25	27,500
1.80	370,583	0.53	358,126
2.50	266,708	1.76	211,374
3.00	502,250	0.87	445,167
3.86	112,500	0.05	112,500
4.00	50,000	1.61	41,800
5.00	100,000	2.61	59,754
5.82	25,000	0.13	25,000
6.00	17,291	0.17	16,420
6.05	498,750	2.96	129,927
6.08	26,750	2.78	26,750
6.26	69,375	3.30	32,445
6.43	21,500	0.45	20,290
	10,298,707	3.94	2,262,286

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

For the year ended December 31, 2008 and 2007, $127,243 and nil, respectively, were recorded for total stock-based compensation expense related to stock options under the New Plan. The weighted average exercise price of options exercisable as at December 31, 2008 was $2.39.

There were no stock options granted during 2007.

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

The exercise price of stock options is calculated using the five day volume weighted average price of the Company's common shares on the TSX 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.

The weighted average fair value of all stock options granted during the year ended December 31, 2008 was $0.34 based on the following assumptions:

Years ended December 31	2008
Weighted average	
Exercise price of stock options granted	$0.51
Expected volatility	79%
Risk-free interest rate	2.26%
Expected life [years]	4
Dividend yield	0%

[ii] Restricted Share Plan

On October 20, 2008, as a result of the merger, the Company assumed JumpTV's restricted share plan ["Restricted Share Plan"]. Restricted share units give the holder the right to one common share for each vested restricted share plan 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 common shares.

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

	#
Outstanding, December 31, 2007	—
Assumed on merger	75,467
Vested and issued for common shares	(16,245)
Outstanding, December 31, 2008	59,222

During the years ended December 31, 2008 and 2007, the Company recognized stock-based compensation expense of $6,518 and nil, respectively related to its restricted share plan.

[iii] Warrants

On October 20, 2008, as a result of the merger, the Company assumed warrants that are convertible into common shares of the Company as follows:

The Company granted 100,000 warrants with an exercise price of $1.80 to one of its directors related to consulting services provided. For the years ended December 31, 2008 and 2007, no compensation expense was recognized related to these warrants. These warrants expired on January 18, 2009.

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, 2008 and 2007, no compensation expense was recognized related to these warrants. These warrants expire on April 27, 2011.

The Company granted, as part of an acquisition, 75,000 warrants at an exercise price of $5.00 [Cdn$5.50] per warrant. For the years ended December 31, 2008 and 2007, the Company expensed $215 and nil, respectively. These warrants expired on January 29, 2009.

In addition, as part of an acquisition, the Company granted 10,000 warrants at an exercise price of $6.00 per warrant. Each warrant is exercisable into one common share, vest immediately and expires on May 31, 2011. The fair value of these warrants in the amount of $229, have been included in the purchase price.

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 common shares of the Company. For the years ended December 31, 2008 and 2007, the Company expensed $182 and nil, respectively. These warrants expire on November 30, 2011.

The Company granted 156,300 warrants to members of the Advisory Board of the Company at exercise prices of $4.00 to $6.00 per warrant. Each warrant is exercisable into one common share of the Company, vests over four years and expires after five years. For the years ended December 31, 2008 and 2007, no compensation expense was recognized related to these warrants. These warrants expired on January 18, 2009.

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, 2008, these milestones have not been met, therefore the measurement date has not occurred. Accordingly, for the year ended December 31, 2008 and 2007, no compensation expense was recognized related to these warrants. Each warrant is exercisable into one common share of the Company, vests over four years and expire 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 common 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.

Additionally, the Company granted the following warrants following the merger:

On October 20, 2008, AvantaLion LLC, an entity controlled by Mr. Charles B. Wang, the Chairman of JumpTV, purchased 10,000,000 units from JumpTV's treasury at a price of Cdn$1.00 per unit. Each unit (a "Unit") consists of one (1) common share and one-half of one common share purchase warrant exercisable at Cdn$1.25 and one-half of one common share purchase warrant exercisable at Cdn$1.50. The warrants partially comprising the Units are exercisable 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.

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

Under the terms of the merger, JumpTV issued 5,000,000 fully-vested warrants with an exercise price of $0.63 exercisable for two years to employees of the Company.

The total stock-based compensation expense related to warrants during the years ended December 31, 2008 and 2007 was $1,678,896 and nil, respectively.

A summary of the warrant activity is as follows:

	#	Weighted average exercise price $
Outstanding, December 31, 2007	—	—
Assumed on merger	663,800	4.12
Private placement	11,000,000	1.16
Granted	5,000,000	0.63
Forfeited	(125,000)	3.86
Outstanding, December 31, 2008	16,538,800	1.09

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

The following table summarizes the warrant information as at December 31, 2008:

Exercise price $	Number outstanding #	Weighted average remaining contractual life [years]	Number exercisable #
0.63	5,000,000	1.80	5,000,000
1.05	5,500,000	1.80	5,500,000
1.26	5,500,000	1.80	5,500,000
1.80	100,000	0.05	88,022
2.20	30,000	8.85	30,000
4.00	66,300	0.05	66,300
5.00	75,000	0.08	47,947
6.00	117,500	0.39	115,185
6.23	100,000	2.92	52,156
n/a	50,000	—	—
	16,538,800	1.78	16,399,609

There were no warrants granted during 2007.

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

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

Weighted average	
Exercise price of warrants granted	$0.99
Expected volatility	85%
Risk-free interest rate	1.84%
Expected life [years]	2
Dividend yield	0%

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

On October 20, 2008, as a result of the merger, the Company adopted JumpTV's retention warrant plan [the "Warrant Plan"] which applies to all previous grants to JumpTV employees and all future 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 common 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 common shares issuable upon exercise of retention warrants granted pursuant to the Warrant Plan is equal to 2,500,000 common shares.

A summary of the retention warrant activity during the year ended December 31, 2008 is as follows:

	#	Weighted average exercise price $
Outstanding, December 31, 2007	—	—
Assumed on merger	1,579,976	2.58
Forfeited	(229,536)	1.98
Outstanding, December 31, 2008	1,350,440	2.68

The following table summarizes the retention warrant information as at December 31, 2008:

Exercise price $	Number outstanding #	Weighted average remaining contractual life [years]	Number exercisable #
0.64	296,145	4.09	68,760
0.70	164,215	4.38	27,649
0.80	37.906	4.31	9,760
3.86	852,174	3.66	295,080
	1,350,440	3.86	401,249

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

There were no retention warrants granted during the years ended December 31, 2008 and 2007.

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

On October 20, 2008, as a result of the merger, the Company adopted JumpTV's stock appreciation rights plan ["SARS Plan"]. 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 common 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 common 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:

[1] Receive cash compensation less the exercise price or to purchase or receive an equivalent number of common shares, less the exercise price;

[2] In lieu of receiving a cash settlement, the unitholder can elect to receive a number of common shares equal to the fair value of the common shares less the exercise price divided by the market value of the common shares from treasury; or

[3] Elect to pay the Company the exercise price and receive common 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, 2008 is as follows:

	#	Weighted average exercise price $
Outstanding, December 31, 2007	—	—
Assumed on merger	1,892,177	3.23
Granted	490,000	0.60
Forfeited	(435,000)	1.43
Outstanding, December 31, 2008	1,947,177	2.97

The following table summarizes the SARS information as at December 31, 2008:

Exercise price $	Number outstanding #	Weighted average remaining contractual life [years]	Number exercisable #
0.60	490,000	4.81	24,148
0.64	200,000	4.33	37,509
3.00	78,750	1.82	60,613
4.00	1,000,000	2.24	899,384
6.26	178,427	0.59	169,358
	1,947,177	2.93	1,191,011

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

There were no stock appreciation rights granted during 2007.

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	2008
Weighted average	
Exercise price of warrants granted	$0.60
Expected volatility	79%
Risk-free interest rate	2.41%
Expected life [years]	4
Dividend yield	0%

11. Valuation Allowances and Reserves

For the years ended December 31, 2008 and 2007, continuity of the Company's reserves are as follows:

	Bad Debt Reserve $	Inventory Reserve $
Balance – December 31, 2007	45,000	—
Charged to costs and expenses	245,538	9,700
Balance – December 31, 2008	290,538	9,700

12. Loss per Share

Basic loss per share is computed by dividing net loss for the year by the weighted average number of shares outstanding for the year. Diluted loss per share is computed by dividing net loss for the year by the weighted average number of shares outstanding and, if dilutive, potential common shares using the treasury stock method. Potential common shares consist of stock options.

For the years ended December 31, 2008 and 2007, the Company had potential common shares which, due to the losses incurred, were considered anti-dilutive equity instruments. Accordingly, the effect of stock options for each of the years has not been reflected in computing diluted loss per share for the years ended December 31, 2008 and 2007.

The following table summarizes the different potential common shares that were outstanding as at December 31, 2008 and 2007 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.

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

	December 31, 2008 #	December 31, 2007 #
Stock options	10,298,707	5,559,044
Restricted share plan units	59,222	—
Stock appreciation rights	1,947,177	—
Warrants	16,538,800	—
Retention warrants	1,350,440	—
Contingent performance consideration	3,680,194	—

13. Supplemental Cash Flow Information

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

14. Commitments and Contingencies

Commitments

The Company has operating lease commitments for its premises in Plainview, United States, Toronto, Canada, Sanford, United States, London, England, New York, United States and Buenos Aires, Argentina. 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:

	$
2009	4,931,281
2010	2,984,872
2011	1,496,589
2012	1,324,485
2013	1,040,023
Thereafter	591,552
	12,368,802

Rent expense for the years ended December 31, 2008 and 2007 was $448,854 and $100,000, respectively.

The Company has signed a sublease for its Toronto office, which will create a total recovery of $5,057,673.

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.

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

15. Segmented Information

The Company operates as one reportable segment – to provide a full 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.

16. 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, 2008 and 2007 is as follows:

	2008 $	2007 $
Combined basic federal and provincial rates	33.5%	36.1%
Income tax benefit based on statutory income tax rate	(3,898,482)	(1,631,092)
Increase in income taxes resulting from:		
Non-deductible expenses	631,824	—
Income while Company was an S Corp. and not subject to tax	1,597,396	1,631,092
Increase in valuation allowance	1,669,262	—
Income tax expense	—	—

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

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, 2008 and 2007 were as follows:

	December 31, 2008 $	December 31, 2007 $
Deferred revenue	1,129,610	—
Property, plant and equipment	1,719,527	—
Intangible assets	2,093,849	—
Software	(542,139)	—
Trade names	(23,321)	—
Customer relationships	(1,643,986)	—
Share issue costs	3,143,219	—
Net operating losses	22,155,774	—
	28,032,533	—
Valuation allowance	(28,032,533)	—
Total deferred tax assets	—	—

The Company has approximately $76,399,216 in non-capital tax losses available to be applied against future years' income which expire as follows:

	$
2009	541,836
2010	198,000
2026	21,263,325
2027	25,544,598
2028	28,851,457
	76,399,216

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 carryforward will not be realized through the reduction of future income tax payments.

The Company does not have any uncertain tax provisions under FIN 48.

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 United States 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

	2008 $	2007 $
NET LOSS USING UNITED STATES GAAP	(11,637,260)	(4,515,759)
Add (deduct) adjustments for:		
Adjustment for stock based compensation on SARS[i]	16,599	—
NET LOSS USING CANADIAN GAAP	(11,620,661)	(4,515,759)
NET AND COMPREHENSIVE LOSS PER SHARE USING CANADIAN GAAP - basic and diluted	$(0.21)	$(0.66)

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

Balance Sheet Items using Canadian GAAP

	2008		2007	
	U.S. GAAP $	Canadian GAAP $	U.S. GAAP $	Canadian GAAP $
Total current liabilities [i]	15,209,323	15,192,724	3,420,819	3,420,819
Total liabilities [i]	16,724,104	16,707,505	3,965,018	3,965,018
Accumulated deficit [i]	(26,039,527)	(26,022,928)	(14,402,267)	(14,402,267)
Total shareholders' equity [i]	37,013,578	37,030,177	3,246,933	3,246,933

Cash Flows Items using Canadian GAAP

	2008		2007	
	U.S. GAAP $	Canadian GAAP $	U.S. GAAP $	Canadian GAAP $
Net loss [ii]	(11,637,260)	(11,620,661)	(4,515,759)	(4,515,759)
Stock-based compensation [ii]	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] Stock Appreciation Rights ["SARS"]

On January 1, 2007, the Company adopted, on a modified prospective basis, CICA Handbook Section 3870, *Stock-Based Compensation and Other Stock Based Payments,* for new awards granted on or after this date under the Company's stock appreciation rights plan.

Under US 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.

The cumulative effects of adopting CICA Handbook Section 3870 on January 1, 2007 in 2008 and 2007 were $16,599 and nil, respectively.

[ii] 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:

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

CICA Handbook Section 1535 – Capital Disclosures

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

	December 31, 2008 $	December 31, 2007 $
Shareholders' equity		
Share capital	6,762,097	68,871
Additional paid in capital	56,500,258	17,580,329
Promissory note receivable	(209,250)	—
Accumulated deficit	(26,039,527)	(14,402,267)
	37,013,578	3,246,951

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

The Company's outstanding share capital is comprised of common shares. At December 31, 2008, an unlimited number of common shares were authorized and 110,084,044 (December 2007 − 44,018,373) common shares were issued and outstanding. Approximately 60% of the common 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 8 of these consolidated financial statements.

On October 20, 2008, the Company completed a private placement for gross proceeds of Cdn$11,000,000 [US$9,214,700] [note 9].

At December 31, 2008, a total of 10,298,707 stock options were outstanding, 59,222 restricted share units, 16,538,800 warrants, 1,350,440 retention warrants and 1,947,177 SARs, which convertible securities cumulatively represented 27% 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 common 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 common 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 common 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, 2008 remained the same as those of the previous fiscal period.

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

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, 2008 $	December 31, 2007 $
Financial Assets		
Held-for-Trading		
Cash and cash equivalents	27,323,021	608,464
Loans and Receivables		
Accounts receivable	2,284,242	2,017,137
Other receivables	227,711	—
Due from related parties	324,059	188,855
Financial Liabilities		
Other Financial Liabilities		
Accounts payable	4,465,388	67,295
Accrued liabilities	7,595,116	830,371
Due to related parties	56,826	2,093,907

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 the majority of 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 and its short-term investments. The interest rates on these instruments are based on the banks' applicable prime rate and therefore are subject to change with the market. The Company does not use derivative financial instruments to reduce its interest rate risk.

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

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 and short-term investments. 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, 2008 $
Current	1,697,271
31-60 days	287,070
61-90 days	105,525
Over 90 days	484,914
Less: Allowance for doubtful accounts	(290,538)
Total accounts receivable, net	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.

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 will be 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 startup, pre-production and similar costs that do not meet the definition and recognition criteria of an asset. The Company is currently evaluating the effects of adopting these changes.

In 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in the adoption by Canadian public companies of IFRS. The Company may be required to report using the converged standards effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company is currently evaluating the effects of adopting these changes.