

JUMPTV

JUMPTV INC.

FISCAL 2008

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF
OPERATIONS**

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion & Analysis ("MD&A") of JumpTV Inc.'s (the "Company" or "JumpTV") financial condition and results of operations, prepared as of March 26, 2009, should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes for the years ended December 31, 2008 and 2007, which have been prepared in accordance with United States generally accepted accounting principles ("US GAAP"). For additional information and details, readers are referred to the Company's Annual Information Form ("AIF") for 2008 which can be found on www.sedar.com. All dollar amounts are in U.S. dollars ("US\$" or "\$") unless stated otherwise.

On October 20, 2008, JumpTV completed a merger (the "Merger") with NeuLion, Inc. ("NeuLion") described later in this MD&A that was a reverse takeover for accounting purposes. Therefore, this MD&A is for the years ended December 31, 2008 and 2007, reflects the assets, liabilities and results of operations of NeuLion, the accounting acquirer, and only includes the assets, liabilities and results of operations of JumpTV, the legal acquirer, subsequent to the reverse takeover on October 20, 2008 (the "Acquired Business"). This MD&A is issued under the name of the legal acquirer (JumpTV), but is deemed to be a continuation of the accounting acquirer (NeuLion).

Our MD&A is intended to enable readers to gain an understanding of JumpTV's current results and financial position. To do so, we provide information and analysis comparing the results of operations and financial position for the current year to those of the preceding comparable twelve-month period. We also provide analysis and commentary that we believe is required to assess the Company's future prospects. Accordingly, certain sections of this report contain forward-looking statements that are based on current plans and expectations. These forward-looking statements are affected by risks and uncertainties that are discussed in the AIF, and could have a material impact on future prospects. Readers are cautioned that actual results could vary.

Cautions regarding forward-looking statements

This MD&A contains certain forward-looking statements, which reflect management's expectations regarding the Company's growth, results of operations, performance and business prospects and opportunities.

Statements about the Company's future plans and intentions, results, levels of activity, performance, goals or achievements or other future events constitute forward-looking statements. Wherever possible, words such as "may," "will," "should," "could," "expect," "plan," "intend," "anticipate," "believe," "estimate," "predict," or "potential" or the negative or other variations of these words, or similar words or phrases, have been used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management as at the date hereof.

Forward-looking statements involve significant risk, uncertainties and assumptions. Many factors could cause actual results, performance or achievements to differ materially from the results discussed or implied in the forward-looking statements. These factors should be considered carefully and readers should not place undue reliance on the forward-looking statements. Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, the Company cannot assure readers that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this MD&A, and the Company assumes no obligation to update or revise them to reflect new events or circumstances, except as required by law. Many factors could cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including: general economic and market segment conditions, competitor activity, product capability and acceptance, international risk and currency exchange rates and technology changes. More detailed assessment of the risks that could cause actual results to materially differ from current expectations is contained in the "Risk Factors" section of the AIF.

MERGER AND REVERSE TAKE-OVER

On October 20, 2008, the Company completed the 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 a set top box (“STB”) to a television. Under the terms of the Merger, JumpTV issued 49,577,427 common shares directly, as well as 1,840,097 common shares subject to a performance escrow relating to a prior acquisition, which represented approximately the entire issued and outstanding common shares of JumpTV prior to closing, to the securityholders of NeuLion in exchange for their NeuLion securities. The common shares of JumpTV are referred to herein as “Shares,” or each individually as a “Share.” Pursuant to the Merger, the Company also issued 5,000,000 warrants, fully vested and exercisable for two years at US\$0.63, and 2,700,000 employee stock options, vesting in equal monthly amounts over 48 months and exercisable for five years at US\$0.60, to employees of NeuLion who became employees of the Company.

On October 20, 2008, AvantaLion LLC, an entity controlled by Charles B. Wang, our Chairman and the spouse of Nancy Li, our CEO and the founder and CEO of NeuLion, 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 Share, one-half of one Share purchase warrant exercisable at CDN\$1.25 and one-half of one 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, our Vice Chairman, also purchased 1,000,000 Units on the same terms. The aggregate gross proceeds from the sale of Units (the “Private Placement”) were CAN\$11.0 million or US\$9.2 million

In accordance with SFAS 141, *Business Combinations*, the Company has determined that NeuLion was the accounting acquirer and accordingly has accounted for the Merger as a reverse takeover. Therefore, the financial statements and this MD&A for the years ended December 31, 2008 and 2007 reflect the assets, liabilities and results of operations of NeuLion, the accounting acquirer, and only include the assets, liabilities and results of operations of JumpTV, the legal acquirer, subsequent to the reverse takeover on October 20, 2008 (the “Acquired Business”). This MD&A is issued under the name of the legal acquirer (JumpTV), but is deemed to be a continuation of the accounting acquirer (NeuLion).

OVERVIEW

JumpTV is an IPTV service and technology provider that builds and manages private networks for companies interested in reaching specific target audiences. JumpTV provides an “end-to-end” IPTV service of live and on-demand sports, international television content and family programming. “IPTV” refers to the distribution over an IP network of streamed audio, video and other multimedia content, similar to television programming content, using industry standard streaming protocols.

This end-to-end enterprise technology solution enables the distribution of IPTV content to subscribers and pay-per-view customers for viewing on multiple platforms, including Internet-connected browser-based devices such as personal computers, laptops and mobile devices and standard television sets through Internet-connected STBs.

JumpTV's business model has evolved from its inception in December 2003 as a professional services provider to, in fiscal 2006, an end-to-end provider of the following IPTV services:

- content management — encoding of various digital and analog TV and video formats
- subscriber management — managing subscriber access and control of subscriber accounts
- digital rights management — preserving the integrity of the content and protecting it from unauthorized access
- billing services — enabling customers to view subscription accounts, providing pay-per-view transactional billing, payment, processing and advertising insertion
- delivery — delivering streamed audio, video and other multimedia content anywhere, anytime through JumpTV's IPTV service and infrastructure

This evolution commenced in 2006 and is the one of the reasons for the increase in revenue, cost of sales and expenses between fiscal 2007 and fiscal 2008.

Through the acquisition of the Acquired Business on October 20, 2008, JumpTV has expanded its portfolio of content from professional sports (the National Hockey League (“NHL”) and the National Football League (“NFL”)), international content (Chinese programming through KyLinTV, Inc. (“KyLinTV”)) and faith based programming (Sky Angel U.S. LLC (“Sky Angel”)) to include college sports, cycling events, soccer events and additional international channels.

JumpTV’s business objective is to enter into agreements with companies seeking private services and to provide complete IPTV services to these companies. JumpTV’s success is dependent upon several factors, including securing contractual relationships, maintaining technological advantage in a rapidly changing industry and efficiently operating the distribution network.

Revenue

JumpTV earns revenue in two areas services revenue and equipment revenue. Service revenue includes subscription revenue, eCommerce revenue and technology services revenue. Equipment revenue includes the sale of STBs and related shipping. These are described in detail under the Operations section.

Customer relationships

JumpTV has two types of relationships – business-to-consumer (“B2C”) and business-to-business (“B2B”).

The B2C relationships are more individual consumer oriented. The Company has signed distribution agreements with individual channel or content providers in exchange for royalty payments to such providers. The Company then markets the content on one (or more) of the targeted websites that the company has developed which is focused on a specific diaspora community (e.g. Talfazat, LLC for the Middle East community; TV-Desi, Inc. for the South Asian community), as well as on the general JumpTV website for purchase by an end user. The Company often aggregates the content into bundles or packages of similar interest. The Company incurs marketing expenses in promoting the availability of the content. The Company expects to have this group of customer relationships migrate to a B2B relationship over time through partnerships and/or affiliates (partially or wholly owned) that group the content into similar interests.

The B2B relationships have been the focus of the Company in the past and are expected to be the focus in the future. A B2B relationship is focused on providing an end-to-end solution to a customer to enable that customer to provide IPTV to its end users. This type of relationship is different than above in that the B2B customer typically aggregates the content, negotiates the licensing rights and markets directly the availability of the content. This customer avails itself of the full services of the Company in delivery to its end users. This type of relationship is typical in the professional and sports properties and the Sky Angel U.S. LLC (“Sky Angel”), a faith-based-programming content provider, agreements.

Products

Sports Programming

JumpTV offers live and on-demand sports content. JumpTV has content and distribution agreements with leading professional and collegiate sports properties. Amongst professional sports leagues, JumpTV counts the National Football League (“NFL”), the National Hockey League (“NHL”), the American Hockey League (“AHL”), and Universal Sports as clients. JumpTV also owns IPTV rights to distribute in North America live streaming of South American Fédération Internationale de Football Association (“FIFA”) World Cup Qualifier games in 2009. JumpTV also operates a portfolio of sports-oriented web sites, including Jumptv.com, Sportsya.com, Cycling.tv and CollegeSportsDirect.com. On the collegiate landscape, JumpTV is the premier partner for National Collegiate Athletic Association (“NCAA”) colleges and universities, with agreements in place with approximately 170 colleges, universities or related sites.

Ethnic/International and Specialty Programming

JumpTV also offers what is referred to in the industry as “ethnic television,” which JumpTV defines as television directed at a specific diaspora community, as determined by a shared nationality, language or culture, generally excluding communities for which English is the primary language. JumpTV has license agreements directly

with television broadcasters (referred to as “channel partners”) representing approximately 160 channels in 35 countries that give the Company rights to stream, predominantly on an exclusive world-wide basis and generally for an initial four-year term, the channel partners’ live linear television feeds over the public Internet.

Distribution Methods

JumpTV distributes content through two primary distribution methods:

- Internet-connected browser-based devices such as personal computers, laptops and mobile devices; and
- Standard television through JumpTV’s Internet-connected STBs.

Both of JumpTV’s distribution methods take advantage of an open IPTV network, the public Internet. As a result, content delivered by JumpTV is available globally and is potentially unlimited in breadth.

Corporate History

JumpTV Inc. was incorporated in Canada under the Canada Business Corporations Act on January 14, 2000. On October 20, 2008 the company merged with NeuLion as described above in a reverse takeover whereby NeuLion is considered the accounting acquirer and the financial information is considered a continuation of the NeuLion financial information.

Prior to the Merger, the Acquired Business had completed two acquisitions in 2007:

- On August 31, 2007, the acquisition of the BroadBand Network (or “XOS Network”) business unit of XOS Technologies Inc., based in Sanford, Florida, was completed through an asset purchase agreement for \$60.2 million and the grant of 1,570,000 retention warrants and warrants to employees. The Company has integrated the operations related to content delivery/bandwidth, product development, advertising sales and general administration.
- On July 31, 2007, the acquisition of Cycling Television Limited, based in London, England, was completed for a total of \$4.7 million, 50% in cash and 50% in common stock. The Company has integrated the operations related to content delivery/bandwidth, product development and advertising.

Both of these transactions are considered transactions of the Acquired Business and are incorporated in the fair value of the Acquired Business on October 20, 2008.

On October 20, 2008, the Company completed the Merger with NeuLion (as described above). On the same date, the Company issued 10,000,000 Units (described above) to AvantaLion LLC, an entity controlled by Mr. Wang, our Chairman and the spouse of the founder and CEO of NeuLion, and 1,000,000 Units (described above) to Mr. Paterson, our Vice Chairman.

Fiscal 2008

On October 20, 2008, the Company completed the acquisition of the Acquired Business described above. The acquisition has been accounted for as a reverse take over using the purchase method, with the results of the Acquired Business included in the Company’s results of operations from the date of acquisition.

The net assets acquired (in millions) are as follows:

Cash	\$ 22.9	Current Liabilities	\$ 12.4
Current assets	5.0	<u>Long term liabilities</u>	<u>0.8</u>
Property, plant and equipment	5.1	<u>Total liabilities</u>	<u>\$ 13.2</u>
Long-term assets	1.0		
Intangible assets	6.0	Net assets acquired	\$ 33.6
<u>Goodwill</u>	<u>6.8</u>		
<u>Total assets</u>	<u>\$ 46.8</u>		

The intangible assets included in the table above consist of customer relationships of \$5.9 million which are being amortized over a five-year period and trademarks of \$0.1 million which are being amortized over a one-year period. The software fixed asset of \$2.0 million included in the Acquired Business is being amortized over a three-year period.

Industry and Business Trends

JumpTV faces competition from other online content providers who also offer sports, entertainment, and/or international programming. In addition, there are multiple operators of pirated video content who stream content for which they have not received consent from the legal and beneficial owners of such content. Furthermore, there are multiple front end providers that provide a menu of links to streaming video content via websites on the Internet. These bootleggers and front-end providers have varying menus of ethnic content and offer such content at varying degrees of streaming quality. Moreover, certain IPTV service providers have an internal IP distribution strategy whereby they make their live linear feeds, as well as repurposed content, available through their own websites on a paid basis or free advertisement-supported basis.

New technologies and entrants could also have a material adverse effect on the demand for JumpTV's IPTV offerings. For example, fixed line telecommunications and mobile telephony companies who offer or plan to offer video services may be competitors to JumpTV. Together with other industry observers, JumpTV has witnessed and expects to witness the launch of various closed network IPTV services around the world. As they strive to maintain and grow their customer bases, fixed line telecommunications companies will likely see closed network IPTV as a central element of a "triple-play" strategy that will package telephone, television and Internet services in a single offering.

Finally, JumpTV may be placed at a competitive disadvantage to the extent that other video providers are able to offer programming in higher definition than JumpTV. While the Company expects that it will continue to offer its video content at increasingly higher streaming speeds, there can be no assurance that it will be able to compete effectively with high definition program offerings from other video providers.

To distinguish our product line from our competitors' offerings, we seek to be a "one-stop shopping" source for our customers. Our suite of technology and other services is directed at the entire spectrum of content aggregation and delivery. Our services include:

- content ingestion;
- web site design and hosting;
- live and on-demand streaming of content on multiple platforms;
- billing services;
- facilitating online merchandise sales;
- mobile features (streaming highlights, alerts, wallpaper and ring tones);
- online ticketing;
- auction engine (jerseys, tickets);
- social networking;
- customer and fan support; and
- marketing and advertising sales.

Many competitors in our markets offer far narrower choices of services than we offer. For example, some content providers deliver only their own content, while we offer the content of multiple providers. Or, an agency may provide only online ticketing services, while we also provide related online shopping and fan networking. We also provide the STBs used to view our content on a television set. We strive to meet every customer's needs at every level and partner with them across product lines and extensions.

Operating Performance

Revenue for fiscal 2008 was \$13.4 million, up 72% from \$7.8 million in fiscal 2007. The revenue growth of \$5.6 million was due to an increase in services revenue of \$8.2 million and was offset by a decrease in our equipment revenue of \$2.6 million. In part, the revenue growth is due to the acquisition of the Acquired Business, which contributed \$3.3 million of the growth. The organic increase (excluding the results of the Acquired Business)

in services revenue is consistent with the increasing scope of operations. As the number of subscribers increases, there is a cumulative effect of increasing subscriber revenue on a month over month basis. The decrease in equipment revenue is a result of the uneven nature of this revenue stream – customers often place large single orders made to meet minimum order requirements, to manage the lead time between ordering and shipping and to minimize the related shipping costs. The lead time on new orders is approximately 12 weeks from order to receipt. The purchase by customers of STBs is a leading indicator of future subscriptions.

Our net loss for 2008 was \$11.6 million, or a loss of \$0.21 per fully diluted share, compared with a net loss of \$4.5 million or a loss of \$0.11 per fully diluted share in 2007. The increase in net loss of \$7.1 million is due to increased organic expenses as we expanded our operations to support new and potential clients of \$4.8 million, impairment of long-lived assets of \$1.0 million, losses incurred in the Acquired Business of \$2.2 million subsequent to October 20, 2008, stock-based compensation incurred upon closing the Merger of \$1.8 million, and increased depreciation and amortization of \$1.0 million, which was offset by improved organic gross margin of \$2.3 million, increased investment income and foreign exchange of \$0.4 million, a reduction in the equity losses of affiliate of \$1.1 million and other miscellaneous items.

Our non-GAAP Adjusted EBITDA loss was \$6.6 million compared with a non-GAAP Adjusted EBITDA loss of \$1.9 million in 2007. The increase in non-GAAP Adjusted EBITDA is due to the cash impact of the items noted above. The reconciliation from net loss to adjusted EBITDA loss is as follows:

	Year ended December 31,	
	2008	2007
	\$	\$
Net loss for the year	(11,637,260)	(4,515,759)
Add back:		
Depreciation and amortization	1,572,492	561,077
Stock-based compensation	1,848,906	-
Impairment of long-lived assets	1,036,993	-
Equity in loss of affiliate	1,006,386	2,083,943
Investment income and foreign exchange gain	(395,768)	(33,161)
Non-GAAP Adjusted EBITDA loss	<u>(6,568,251)</u>	<u>(1,903,900)</u>

The Company reports Non-GAAP Adjusted EBITDA loss because it is a key measure used by management to evaluate the results of the Company and make strategic decisions about the Company. Non-GAAP Adjusted EBITDA loss represents net loss before interest, income taxes, depreciation and amortization, stock-based compensation, impairment of long-lived assets, equity in loss of affiliate, investment income and foreign exchange gain. This measure does not have any standardized meaning prescribed by GAAP and therefore is unlikely to be comparable to the calculation of similar measures used by other companies, and should not be viewed as an alternative to measures of financial performance or changes in cash flows calculated in accordance with GAAP.

OPERATIONS

Revenue

JumpTV earns revenue in four broad categories:

- 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 (collectively, “subscriber revenue”). The subscriber revenue is typically based on a monthly, quarterly or annual billing cycle to end users through our billing systems and can be either a fixed fee per user or a variable fee measured as a percentage of the end user pricing. Subscriber revenue is recognized over the period of service or usage.
- 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. eCommerce revenue is recognized as the service is performed.
- Technology services revenue consists of the set up and maintenance services JumpTV provides related to our technology such as website (Internet) or console (STBs) design, user interface optimization and streaming configuration. Included in technology services revenue is the licensing of the technology required to convert, compress and transmit the video signals to our content distribution network and ultimately the end users. Set up and transcoder revenue is recognized over the life of the contract.
- 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. Equipment revenue is recognized when title of the STB passes to the customer.

Service revenue includes subscriber revenue, eCommerce revenue and technology services revenue. While our revenues have been growing due to the organic growth in our existing business and the Merger, we are uncertain as to how our revenues will be impacted by the current downturn in the global economy.

Cost of Sales

Cost of services revenue primarily consists of:

- Cost of Subscriber revenue consists of three primary components
 - Royalty payments
 - Network operating costs
 - Bandwidth usage fees
- Cost of eCommerce revenue consists of:
 - Merchandising, donor and ticket sales, which has no associated cost – revenue is booked on a net basis
 - Cost of Advertising revenue is subject to revenue shares with the content provider
- Cost of Technology services revenue consists of
 - third party transcoder software purchased
 - maintenance costs for transcoders

Cost of 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 television. Cost of equipment revenues primarily consists of purchases from TransVideo of the products and parts for resale to customers. Shipping revenue and costs are included in equipment revenue and cost of equipment revenue, respectively.

Selling, General and Administrative expenses

Selling, general and administrative (“SG&A”) costs include:

- *Wages and benefits* – represents compensation for the Company's full-time and part-time employees as well as fees for consultants who are used by the Company from time to time;
- *Marketing* – represents expenses for both global and local marketing programs that focus on various target sports properties and ethnic communities. These initiatives include both on-line and off-line marketing expenditures. These expenditures also include search engine marketing and search engine optimization;
- *Professional fees* – represents legal, recruiting and accounting fees; and
- *Other SG&A expenses* – represents expenses for travel expenses, rent, office supplies, corporate IT services, credit card processing fees and other general operating expenses.

Stock-based compensation

We estimate the fair value of our options, warrants, restricted share units and stock appreciation rights (“Convertible Securities”) for financial accounting purposes using the Black-Scholes-Merton model, which requires a number of subjective assumptions, including the expected life of the Convertible Securities, risk-free interest rate, dividend rate, forfeiture rate, future volatility of the price of our Shares and vesting period. Based on the estimated fair value of the Convertible Securities, we expense the estimated fair value over the vesting period of the Convertible Securities. The vesting period is normally over a four year period, vesting in an equal amount each month; however, the Board of Directors has the discretion to grant options with different vesting periods.

Equity Losses of Affiliate

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 net results of KyLinTV included in the Company's results of operations from the date of acquisition. The Company is accounting for its pro-rata share of the results of operations based on its 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 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 JumpTV 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 its investment.

The Company's proportionate share of the applicable equity loss from KyLinTV has been accounted for as a charge on the Company's consolidated statements of operations and comprehensive loss. In 2008 the cumulative losses were equal to the total value of the equity interest and no further losses have been recorded. The Company retains its 17.1% interest in KyLinTV.

Impairment of Long Lived Assets

As at December 31, 2008, management determined that the recoverable value of certain long lived assets did not support the carrying amount of the assets, accordingly the Company recorded a non-cash long lived asset impairment charge of \$1.0 million during the year. There were no such comparable amounts for the prior year.

SELECTED ANNUAL INFORMATION

The selected consolidated financial information set out below for the three years ended December 31, 2008, 2007 and 2006 and as at December 31, 2008, 2007 and 2006 has been derived from the Company's audited consolidated financial statements and accompanying notes posted on www.sedar.com. Readers should read the following information in conjunction with those statements and related notes.

	Years ended,		
	Dec 31, 08	Dec 31, 07	Dec 31, 06
	\$	\$	\$
<u>Consolidated Statement of Operations Data:</u>			
Revenue	13,443,339	7,810,711	1,500,975
Cost of sales	7,639,149	5,504,254	489,195
Net loss for the year	(11,637,260)	(4,515,759)	(3,906,378)
Basic and diluted loss per share	(0.21)	(0.11)	(0.09)
		As at,	
	Dec 31, 08	Dec 31, 07	Dec 31, 06
	\$	\$	\$
<u>Consolidated Balance Sheet Data:</u>			
Cash and cash equivalents	27,323,021	608,464	1,651,881
Total assets	53,737,682	7,211,951	7,576,402
Non-current liabilities	1,514,781	544,199	31,250
Total liabilities	16,724,104	3,965,018	483,710
Share capital	6,762,097	68,871	68,871
Total shareholders' equity	37,013,578	3,246,933	7,092,692

JumpTV's business model has evolved from its inception in December 2003 as a professional services provider to fiscal 2006, where it was a startup end-to-end provider of IPTV services. Fiscal 2006 revenue included \$1.0 million in services revenue and \$0.5 million in equipment revenue. Four customers accounted for 72% of the revenue. Cost of sales included the operating costs of the IPTV network and costs related to the equipment revenue. Net loss for the year was a result of the startup nature of the operations and the investments being made in research and development. Losses were being funded by the founder and CEO of the Company.

In fiscal 2007 revenue increased to \$7.8 million, which included \$1.3 million in services revenue and \$6.5 million in equipment revenue. Fiscal 2007 included the sale of \$6.4 million in equipment revenue to two customers as these customers launched their IPTV strategy. The Company continued to pursue its objectives of being an end-to-end provider of IPTV services. Two customers accounted for 85% of the total revenue. Cost of sales increased by \$5.0 million, primarily for cost of equipment revenue – a lower margin component of the Company's business. The increase in loss is due to expanding operations and continued investment in research and development. Losses continued to be funded by the founder and CEO of the Company.

Fiscal 2008 included the acquisition of the Acquired Business described above. The Acquired Business has been substantially integrated into the Company's operations. In fiscal 2008 revenue increased to \$13.4 million; which included \$9.5 million in services revenue and \$3.9 million in equipment revenue. Of the \$13.4 million, the Merger described above contributed \$3.3 million in revenue. The balance of the revenue growth ("organic growth") was growth in services revenue, offset by a decline in equipment revenue. Services revenue is primarily recurring revenue – subscriber growth provides a baseline of revenue that continues to grow month over month, albeit with some seasonality impact depending on the sports season. The continuous trend over the past three years has been increasing services revenue from being an end-to-end IPTV service provider. In fiscal 2008 costs continued to scale with the growth in the existing business, and then were accelerated through the Merger. The Company is carefully reviewing the operating structure to reduce costs and achieve profitability. Net loss increased to \$11.6 million due to growth in operations, the additional operating costs acquired in the Merger, and costs related to non-cash stock-based compensation. Losses prior to the Merger were funded by a capital contribution of \$2.6 million by the founder and CEO of the Company. Included in the Merger was cash from the Acquired Business of \$22.9 million which increased the Company's cash balance to \$27.3 million at December 31, 2008.

RESULTS OF OPERATIONS

Comparison of Fiscal Year Ended December 31, 2008 to Fiscal Year Ended December 31, 2007

Our consolidated financial statements for our fiscal year ended December 31, 2008 have been prepared in accordance with U.S. generally accepted accounting principles. Included in Note 17 of the financial statements is the reconciliation between our consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles and Canadian generally accepted accounting principles.

	2008 \$	2007 \$	Change %
Revenue			
Services revenue	9,542,689	1,284,142	643%
Equipment revenue	3,900,650	6,526,569	-40%
Total Revenue	13,443,339	7,810,711	72%
Cost of Sales			
Services revenue	4,519,062	325,097	1290%
Equipment revenue	3,120,087	5,179,157	-40%
Total Cost of Sales	7,639,149	5,504,254	39%
	5,804,190	2,306,457	
Costs and expenses			
Selling, general and administrative	12,372,441	4,210,357	194%
Stock-based compensation	1,848,906	-	-
Depreciation and amortization	1,572,492	561,077	180%
Impairment of long-lived assets	1,036,993	-	-
	16,830,832	4,771,434	253%
Operating loss	(11,026,642)	(2,464,977)	347%
Other income (expense)			
Gain on foreign exchange	265,720	-	-
Investment income	130,048	33,161	292%
Equity loss in affiliate	(1,006,386)	(2,083,943)	-52%
	(610,618)	(2,050,782)	-70%
Net and comprehensive loss for the year	(11,637,260)	(4,515,759)	158%

Revenue

Services Revenue

Services revenue includes revenue from subscribers, eCommerce and technology services. Services revenue increased from \$1.3 million for the year ended December 31, 2007 to \$9.5 million for the year ended December 31, 2008. The increase is a combination of the organic growth in services revenue and the effect of the Merger on October 20, 2008. The organic growth in our services revenue was \$4.9 million. The Acquired Business comprised \$3.3 million of total services revenue for the year.

Subscriber revenue increased from \$0.6 million for the year ended December 31, 2007 to \$7.0 million for the year ended December 31, 2008. The increase is a combination of the growth in subscribers and the effect of the Merger on October 20, 2008. The organic growth in our subscriber revenue was \$4.4 million. The Acquired Business comprised \$2.0 million of total subscriber revenue for the year.

eCommerce revenue increased from zero for the year ended December 31, 2007 to \$0.9 million for the year ended December 31, 2008. The Acquired Business comprised all of eCommerce revenue for the year.

Technology services revenue increased from \$0.7 million for the year ended December 31, 2007 to \$1.6 million for the year ended December 31, 2008. The increase is a combination of the growth in technology services revenue and the effect of the Merger on October 20, 2008. The organic growth in our technology services revenue was \$0.5 million. As new customers begin streaming video or develop their user interface, we earn technology services revenue. This revenue is recognized over the life of the contractual relationship. The Acquired Business comprised \$0.4 million of total technology services revenue for the year.

Equipment revenue

Equipment revenue decreased from \$6.5 million for the year ended December 31, 2007 to \$3.9 million for the year ended December 31, 2008. In 2007, two customers purchased significant quantities of STBs (\$6.4 million) as they began operations in anticipation of initial demand in their customer base. While both of these customers continued to purchase STBs in 2008, one of the customers reduced its purchases as it consumed its inventory.

Cost of Sales

Cost of Services Revenue

Cost of sales for services revenue increased from \$0.3 million for the year ended December 31, 2007 to \$4.5 million for the year ended December 31, 2008. This increase was a combination of the costs associated with increased revenue and the effect of the Merger on October 20, 2008. As a result of the Merger, the Acquired Business comprised \$2.0 million of total costs of services revenue for the year.

Gross margin on services increased from \$1.0 million or 75% for the year ended December 31, 2007 to \$5.0 million or 53% for the year ended December 31, 2008. The increase in gross margin of \$4.0 million is attributable to increased revenue (\$2.8 million) and the Acquired Business (\$1.2 million).

Cost of Equipment revenue

Cost of sales for equipment revenue decreased from \$5.2 million for the year ended December 31, 2007 to \$3.1 million for the year ended December 31, 2008 on lower revenue. Cost of equipment revenue is directly variable with changes in revenue. Gross margin decreased from 21% for the year ended December 31, 2007 to 20% for the year ended December 31, 2008. Gross margin on equipment revenue is expected to be consistent at 20% for the next year.

Selling, General and Administrative Costs

Selling, general and administrative costs increased from \$4.2 million for the year ended December 31, 2007 to \$14.2 million for the year ended December 31, 2008. As a result of the Merger on October 20, 2008, the Acquired Business increased by \$3.4 million the total selling, general and administrative costs for the year. The individual variances are due to the following:

- Wages and benefits increased from \$3.9 million for the year ended December 31, 2007 to \$8.8 million for the year ended December 31, 2008. As a result of the Merger on October 20, 2008, the Acquired Business increased by \$2.1 million the total wages and benefits for the year. The organic increase of \$2.8 million was primarily related to the increase in employees to support the increased revenue and the Merger with the Acquired Business. In conjunction with the Merger, the Company added senior management and provided market level compensation for the CEO in the fourth quarter of 2008.
- Stock-based compensation expense increased from nil for the year ended December 31, 2007 to \$1.8 million for the year ended December 31, 2008. This increase was due to the Company granting, under the terms of the agreement relating to the Merger, 5,000,000 incentive warrants that vested immediately to

employees of NeuLion who became employees of JumpTV in the Merger. There was no granting of Convertible Securities in the corresponding prior year. As a result of the immediate vesting the full value of the warrants is recorded as an expense. The fair value of these warrants was \$1.7 million.

As a result of the Merger on October 20, 2008, all previously issued Convertible Securities of the Acquired Business were fair valued. The fair value of all Convertible Instruments which had vested was included in the purchase price allocation and the fair value of any Convertible Securities with future vesting will be expensed over the remaining vesting period.

Finally, there were additional Convertible Securities issued following the acquisition which are being expensed over the vesting period of the Convertible Securities.

- Marketing increased from \$0.1 million for the year ended December 31, 2007 to \$0.4 million for the year ended December 31, 2008. As a result of the Merger on October 20, 2008, the Acquired Business increased by \$0.2 million the marketing expenses for the year. The Acquired Business is more of a business-to-consumer focused business and incurs higher marketing expenses in search engine marketing and search engine optimization on the Internet.
- Professional fees increased from a nominal amount for the year ended December 31, 2007 to \$1.2 million for the year ended December 31, 2008. As a result of the Merger on October 20, 2008, the Acquired Business increased by \$0.2 million the professional fees for the year. The organic increase of \$1.0 million was primarily related to the audit fees for the fiscal years 2005 to 2007, which was a condition of the Merger on October 20, 2008, and the audit fees for the current year. Professional fees related to the Merger have been included in the acquisition costs and accounted for in the purchase price accounting.
- Other SG&A expenses increased from \$0.2 million for the year ended December 31, 2007 to \$2.0 million for the year ended December 31, 2008. As a result of the Merger on October 20, 2008, the Acquired Business increased by \$0.9 million the other SG&A expenses for the year. The organic increase of \$0.9 million was primarily related to increased travel incurred during the Merger due diligence and general office expenses.

Equity Losses of Affiliate

Equity losses of affiliate decreased from \$2.1 million for the year ended December 31, 2007 to \$1.0 million for the year ended December 31, 2008. The decrease is as a result of the cumulative losses exceeding the full value of the Company's investment. Due to KyLinTV's accumulated losses, the investment has been reduced to zero. The Company still owns its equity position in the affiliate, however the Company is not required to fund any additional losses, and as such no further charges will be incurred.

Depreciation and Amortization

Depreciation and amortization increased from \$0.6 million for the year ended December 31, 2007 to \$1.6 million for the year ended December 31, 2008. The increase was due to amortization on assets acquired on the Merger with the Acquired Business (\$0.6 million) and the increased capital assets required to support the increased revenue.

Impairment of Long-Lived Assets

Long-lived assets must be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. For JumpTV, long-lived assets include intangible and capital assets. As at December 31, 2008, the Company's market capitalization decreased below the carrying value of the Company. As well, ongoing negative developments in the general economic climate would be considered an event that would be a possible indicator of impairment. Management considered these events to be an indicator of impairment. 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 fair value of the intangible assets acquired in the Merger was determined on October 20, 2008; therefore, management believes the fair value of the assets acquired in the Merger is consistent with the carrying amount at December 31, 2008. The Company

therefore tested the fair value of the non-Merger long lived assets. The Company has determined that the carrying value of capital assets exceed their fair value by \$1.0 million. Accordingly the Company recorded a non-cash impairment charge of \$1.0 million during the year.

SELECTED UNAUDITED QUARTERLY FINANCIAL INFORMATION AND REVIEW OF FOURTH QUARTER PERFORMANCE

The following tables set out selected consolidated unaudited financial information for each of the last eight quarters with the last one being the most recent quarter ended December 31, 2008. In the opinion of management, this information has been prepared on the same basis as the audited consolidated financial statements as filed on www.sedar.com, and all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly the unaudited quarterly results when read in conjunction with the audited consolidated financial statements and the notes to those statements. The operating results for any quarter should not be relied upon as any indication of any future period.

Included in Note 17 of the financial statements is the reconciliation between our consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles and Canadian generally accepted accounting principles.

	3 months ending,							
	2008				2007			
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
	\$	\$	\$	\$	\$	\$	\$	\$
Consolidated Statement of Operations Data:								
Revenue	5,807,550	2,699,041	2,987,128	1,949,620	5,284,485	1,280,839	1,110,945	134,442
Cost of sales	3,205,272	1,534,807	1,753,689	1,145,381	3,822,315	845,732	814,545	21,662
Net loss for the period	(7,223,468)	(1,377,667)	(1,549,979)	(1,486,146)	(164,690)	(1,263,525)	(1,478,863)	(1,608,681)
Basic and diluted loss per share ¹	(0.13)	(0.03)	(0.04)	(0.03)	(0.00)	(0.03)	(0.03)	(0.04)

¹ Rounded to the nearest cent

Three months ended December 31, 2008 compared to the Three months ended December 31, 2007

Revenue

Services Revenue

Services revenue includes revenue from subscribers, eCommerce and technology services. Services revenue increased from \$0.7 million for the three months ended December 31, 2007 to \$5.6 million for the three months ended December 31, 2008. This increase is a combination of the cumulative effect of our services revenue where net subscription revenue increases on a month to month basis as new subscribers are added, new client relationships and the effect of the Merger on October 20, 2008. The organic increase in services revenue was \$1.6 million. The Acquired Business comprised \$3.3 million of total services revenue for the quarter. Finally, three customers represented 66% of the services revenue (excluding the Acquired Business) for the three months ended December 31, 2008.

Subscriber revenue increased from \$0.5 million for the three months ended December 31, 2007 to \$3.9 million for the three months ended December 31, 2008. The increase is a combination of the growth in number of subscribers and the effect of the Merger on October 20, 2008. The organic growth in our subscriber revenue was \$1.4 million. The Acquired Business comprised \$2.0 million of total subscriber revenue for the three months.

eCommerce revenue increased from nil for the three months ended December 31, 2007 to \$0.9 million for the three months ended December 31, 2008. The Acquired Business comprised all of eCommerce revenue for the three months.

Technology services revenue increased from \$0.2 million for the three months ended December 31, 2007 to \$0.8 million for the three months ended December 31, 2008. The increase is a combination of the growth in technology services revenue and the effect of the Merger on October 20, 2008. The organic growth in our

technology services revenue was \$0.2 million. As new customers begin streaming video or develop their user interface, we earn technology services revenue. This revenue is recognized over the life of the contractual relationship. The Acquired Business comprised \$0.4 million of total services revenue for the quarter.

Equipment revenue

Equipment revenue decreased from \$4.6 million for the three months ended December 31, 2007 to \$0.2 million for the three months ended December 31, 2008. In the three months ended December 31, 2007 there were purchases of STBs by two customers as they initiated their relationship with the Company. These sales (\$4.6 million) provided the customers with an inventory of STBs to send to their customers during fiscal 2008. There were no comparable orders in the three months ended December 31, 2008.

Cost of Sales

Cost of Services Revenue

Cost of services revenue increased from \$0.2 million for the three months ended December 31, 2007 to \$3.1 million for the three months ended December 31, 2008. The increase was a combination of the costs associated with increased services revenue and the effect of the Merger. The Acquired Business comprised \$2.0 million of total cost of services revenue for the quarter and has a gross margin of 38%. The organic growth in costs was \$0.9 million, while revenue increased \$1.6 million and a gross margin on the organic revenue growth of 44%. Overall gross margin was 45% for the three months ended December 31, 2008 compared to 67% for the three months ended December 31, 2007.

Cost of Equipment Revenue

Cost of equipment revenue decreased from \$3.6 million for the three months ended December 31, 2007 to \$0.2 million for the three months ended December 31, 2008. Cost of equipment revenue is directly variable with equipment revenue. Gross margin for equipment revenue was 22% for the three months ended December 31, 2007 compared to a nominal amount for the three months ended December 31, 2008. The decrease in gross margin was due to the low revenues and additional costs for shipping and STB parts which are at cost.

Selling, General and Administrative Costs

Selling, general and administrative costs increased from \$1.0 million for the three months ended December 31, 2007 to \$8.2 million for the three months ended December 31, 2008. As a result of the Merger the Acquired Business comprised \$3.4 million of total selling, general and administrative costs for the quarter. The variance, excluding the Acquired Business, was due to the following:

- Wages and benefits increased from \$1.0 million for the three months ended December 31, 2007 to \$2.2 million, excluding the Acquired Business, for the three months ended December 31, 2008. The increase was primarily related to the increase in employees to support the increased revenue and the Merger with the Acquired Business. In conjunction with the Merger, the Company added senior management and provided market level compensation for the CEO. Total wages and benefits were \$4.3 million for the three months ended December 31, 2008.
- Stock-based compensation expense increased from nil for the three months ended December 31, 2007 to \$1.8 million for the three months ended December 31, 2008. This increase was primarily due to the Company granting, under the terms of the agreement relating to the Merger, 5,000,000 incentive warrants that vested immediately to employees of NeuLion who became employees of JumpTV in the Merger. The fair value of these warrants was \$1.7 million, which was expensed in the quarter.
- Professional fees increased from a nominal amount for the three months ended December 31, 2007 to \$0.4 million, excluding the Acquired Business, for the three months ended December 31, 2008. The increase was primarily related to the annual audit fees as a result of the Merger with the Acquired Business. Total professional fees were \$0.6 million for the three months ended December 31, 2008.
- Marketing increased from a nominal amount for the three months ended December 31, 2007 to \$0.1 million, excluding the Acquired Business, for the three months ended December 31, 2008. Marketing

expenses are typically seasonal. Total marketing expenses were \$0.3 million for the three months ended December 31, 2008.

- Other SG&A expenses increased from a nominal amount for the three months ended December 31, 2007 to \$0.4 million, excluding the Acquired Business, for the three months ended December 31, 2008. This increase was primarily related to travel and general office expenses.

Equity Losses of Affiliate

Equity losses of affiliate decreased from \$0.5 million for the three months ended December 31, 2007 to zero for the three months ended December 31, 2008. Prior to October 1, 2008, the cumulative losses were equal to the total value of the equity investment and no further losses have been recorded as the Company has no obligation to fund these losses.

Amortization

Amortization increased from \$0.1 million for the three months ended December 31, 2007 to \$0.9 million for the three months ended December 31, 2008. The increase was primarily due to amortization on assets acquired on the Merger with the Acquired Business.

Impairment of Long-Lived Assets

As described above, the Company recorded a non-cash long-lived asset impairment charge of \$1.0 million during the three months ended December 31, 2008. There were no such comparable amounts for the prior year period.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2008, our principal sources of liquidity include cash and cash equivalents of \$27.3 million and trade accounts receivable of \$2.4 million. We do not have a line of credit facility.

At December 31, 2008, approximately 72% of our cash and cash equivalents are held in a money market funds and another 15% of our cash and cash equivalents are held in bank accounts with two of the top five Canadian commercial banks. The Company believes these financial institutions to be secure in the current global economy. We believe that we will be able to access the remaining balance of bank deposits outside of Canada as these deposits are with large reputable banks. We have and will continue to make a series of short-term investments in term deposits and commercial paper. Our investment policy is to invest in low risk short-term investments which are highly graded commercial paper and term deposits. We have not had a history of any defaults on this commercial paper, nor do we expect any in the future given the grade and short term to maturity of these investments. All commercial paper on hand at December 31, 2008 have been repaid, and subsequently reinvested.

As we enter fiscal 2009, based on our current business plan, internal forecasts and considering the risks that are present in the current global economy, we believe that cash on hand will be sufficient to meet our working capital and operating cash requirements for the next fiscal year. The Company is still in the early stage of business. From JumpTV's inception it has incurred substantial net losses. The Company continues to review its operating structure to reduce costs. Cash from operations could be affected by various risks and uncertainties, including, but not limited to, the risks detailed in or incorporated by reference to our AIF in the section titled "Risk Factors".

In fiscal 2008, the Company generated an increase in cash of \$26.7 million. The primary changes in cash were from the following items: \$22.9 million in cash was acquired through the Merger; \$9.2 million was raised through the Private Placement described above; and \$2.6 million was received from a capital contribution by the founder and CEO prior to the Merger. The Company used \$5.6 million to fund operations and working capital, \$2.0 million in transaction and share issue costs and \$1.5 million to purchase fixed assets. These changes, plus other miscellaneous items, increased our cash and cash equivalents to \$27.3 million at December 31, 2008.

Working Capital Requirements

The net working capital at December 31, 2008 was \$18.1 million, an increase of \$17.9 million from the December 31, 2007 net working capital of \$0.2 million. The increased working capital is primarily due to the Merger, which contributed \$15.5 million.

Current assets at December 31, 2008 were \$33.3 million, an increase of \$29.6 million from the December 31, 2007 balance of \$3.7 million. The change is due to an increase in our cash and cash equivalents of \$26.7 million, an increase in prepaid expenses and deposits of \$1.3 million and an increase in our taxes receivable of \$1.0 million. The increase in our cash position was attributable to the Merger. The increase in the prepaid expenses and deposits and taxes receivable is due to the Merger.

Current liabilities at December 31, 2008 were \$15.2 million, an increase of \$11.8 million from the December 31, 2007 balance of \$3.4 million. The increase primarily resulted from the increase in accounts payable of \$4.4 million, an increase in accrued liabilities of \$6.8 million and an increase in deferred revenue of \$2.6 million, offset by a decrease in due to related parties of \$2.0 million. The increases in the accounts payable, accrued liabilities and deferred revenue were balances acquired on October 20, 2008 as a result of the Merger of \$4.6 million, \$5.2 million and \$2.5 million, respectively. The additional \$1.6 million of accrued liabilities were primarily due to increased payables related to expenses of the Merger. The reduction in the amounts due to related parties was caused by payments to bring these balances to a current position.

Cash Flows

JumpTV's business is still in the early stages, with only a few years of operating history. As at December 31, 2008, the Company had cash and cash equivalent balances of \$27.3 million. From JumpTV's inception, it has incurred net losses and has an accumulated deficit of \$26.0 million; management expects these losses to continue in the short term. JumpTV will require expenditures of significant funds for marketing, building its subscriber management systems, programming and website development, maintaining adequate video streaming and database software, pursuing and maintaining channel distribution agreements with its channel partners, fees relating to acquiring and maintaining Internet streaming rights to its content and the construction and maintenance of the JumpTV delivery infrastructure and office facilities. There is no guarantee that JumpTV will ultimately be able to generate sufficient revenue or reduce its costs in the anticipated time frame to become profitable and have sustainable cash flows.

Summary Balance Sheet Data:

	December 31,	
	2008	2007
	\$	\$
Current Assets		
Cash and cash equivalents	27,323,021	608,464
Accounts receivable, net	2,284,242	2,017,137
Taxes receivable	983,253	
Other receivable	227,711	
Inventory	347,600	323,500
Prepaid expenses and deposits	1,830,260	525,637
Due from related parties	324,059	188,855
Total current assets	33,320,146	3,663,593
Current Liabilities		
Accounts payable	4,465,388	67,295
Accrued liabilities	7,595,116	830,371
Deferred revenues	3,091,993	429,246
Due to related parties	56,826	2,093,907
Total current liabilities	15,209,323	3,420,819
Working capital ratio	2.19	1.07

Comparative Summarized Cash Flows

	Year ended, December 31,	
	2008	2007
	\$	\$
Cash flows used in operating activities	(5,614,501)	(85,006)
Cash flows provided by (used in) investing activities	20,294,983	(1,628,411)
Cash flows provided by financing activities	12,034,075	670,000

Operating Activities

Cash used in operating activities for the year ended December 31, 2008 was \$5.6 million. Changes in net cash used in operating activities reflect the following:

- net loss of \$11.6 million for the year then ended; less
- non-cash items adjusted to net loss in the amount of \$5.5 million, which relates to stock-based compensation, impairment of long lived assets, equity losses of affiliate, depreciation and amortization; and
- changes in working capital of \$0.5 million.

Investing Activities

Cash provided by investing activities for the year ended December 31, 2008 was \$20.3 million. These funds primarily came from cash in the amount of \$22.9 million acquired in the Merger with the Acquired Business, offset by transaction and share issue costs of \$1.2 million and purchase of fixed assets of \$1.4 million.

A summary of JumpTV's equipment, including delivery infrastructure equipment (at original cost), is as follows:

Property, plant and equipment	December 31,	
	2008	2007
	\$	\$
Computer hardware	5,655,658	1,933,047
Computer software	3,812,944	1,123,053
Furniture and fixtures	184,062	71,557
Leasehold improvements	6,471	775
	9,659,135	3,128,432

Financing Activities

Cash provided by financing activities was \$12.0 million for the year ended December 31, 2008. This primarily reflects net proceeds received from the Private Placement in the amount of \$9.3 million and, prior to the Merger, capital contributions of \$2.6 million by the CEO and founder of NeuLion to the Company.

In the near future, JumpTV expects that it will continue to use its cash resources to fund working capital requirements. The Company believes existing cash, cash equivalents and short-term investments will be sufficient to satisfy normal working capital needs and capital expenditures for at least the next twelve months. However, the Company may sell additional equity securities to further enhance its liquidity position, and the sale of additional equity securities could result in dilution to its shareholders.

Off-Balance Sheet Arrangements

The Company did not have any off-balance sheet arrangements as of December 31, 2008.

Contractual Obligations and Commitments

The following table summarizes the Company's contractual commitments as at December 31, 2008, and the effect those commitments are expected to have on liquidity and cash flow in future periods:

	Total	2009	2010	2011	2012	2013	Thereafter
	\$	\$	\$	\$	\$	\$	\$
Operating leases	9,527,819	2,646,362	1,355,787	1,026,495	1,008,980	1,043,190	2,447,005
Operating lease recovery ⁽¹⁾	(5,057,672)	(533,313)	(575,672)	(575,672)	(588,909)	(607,441)	(2,176,665)
Minimum guarantees ⁽²⁾	6,734,783	2,637,392	1,824,152	908,239	835,000	530,000	-
Capital lease obligations	287,601	180,841	98,469	8,292	-	-	-
Long-term liabilities	876,271	-	282,137	129,235	69,414	74,274	321,211
	<u>12,368,802</u>	<u>4,931,281</u>	<u>2,984,872</u>	<u>1,496,589</u>	<u>1,324,485</u>	<u>1,040,023</u>	<u>591,552</u>

Financial Instruments

The Company's financial instruments are comprised of cash and cash equivalents, accounts receivable, other receivables, taxes receivable, other receivables, deposits, accounts payable, accrued liabilities, amounts due to/from related parties, and deferred revenue.

Fair value of financial instruments

Fair value of a financial instrument is defined as the amount for which the instrument could be exchanged in a current transaction between willing parties. The estimated fair value of our financial instruments approximates their carrying value due to the short maturity term of these financial instruments.

Risks associated with financial instruments

[i] Currency risk

The Company's activities that result in exposure to fluctuations in foreign exchange rates consist of its customer billings being in U.S. dollars and the majority of expenses being paid in foreign currencies. The Company does not use derivative financial instruments to reduce its currency risk.

[ii] 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 bank's 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.

[iii] 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 the sale of STBs, for which 50% of monies are received in advance of shipment.

RELATED PARTY TRANSACTIONS

Certain Relationships and Related Transactions

The Company has entered into the following transactions and agreements in the normal course of operations.

New York Islanders Hockey Club, L.P. (“New York Islanders”)

The Company provides IT-related professional services to the New York Islanders, a professional hockey club owned by Mr. Wang.

Plainview Properties, LLC (“Plainview Properties”)

The Company formerly leased its office premises in Plainview, N.Y., from Plainview Properties, a real estate company that was 100%-owned through January 2007 and 50%-owned from late January 2007 through March 2008 by Mr. Wang. The property and the lease were acquired by an unrelated third party in March 2008.

Renaissance Property Associates, LLC (“Renaissance”)

The Company provides IT-related professional services to Renaissance, a real estate management company owned by Mr. Wang.

The Smile Train, Inc. (“Smile Train”)

The Company provides IT-related professional services to Smile Train, a public charity whose co-founder and significant benefactor is Mr. Wang.

Hawaii IPTV, LLC (“Hawaii IPTV”)

Hawaii IPTV is an IPTV customer of the Company whose principals are family members of Mr. Wang.

TransVideo

The Company purchases a substantial portion of its goods for sale from TransVideo, an entity controlled by Mr. Wang. STB 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

KyLinTV is an IPTV service provider that is controlled by the Chairman of the Company.

G. Scott Paterson and Charles B. Wang

In October 2008, Mr. Paterson and Mr. Wang purchased securities from the Company, as described on page 3.

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	—
	<u>1,514,578</u>	<u>512,070</u>

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)
	<u>267,233</u>	<u>(1,905,052)</u>

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.

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 (deficiency)	3,338,746	2,629,045

The Company is accounting for its pro-rata share of the above based on its equity interest in KyLinTV, which was 20.2% from July 1, 2006 to September 31, 2007 and 17.1% from October 1, 2007 to December 31, 2008. 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 JumpTV 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'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 these losses.

CRITICAL ACCOUNTING ESTIMATES

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States consistently applied throughout all periods. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to inventory allowances, bad debts, long-lived assets, goodwill, income taxes, contingencies and litigation, the determination of the useful lives of long-lived assets, allocation of the purchase price for acquisitions and the assumptions used in determining the fair value of stock options and warrants. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements:

Business Combinations

We account for acquisitions of businesses in accordance with Statement of Financial Accounting Standards No. 141, *Business Combinations* ("FAS 141"). We allocate the purchase price to tangible assets, intangible assets, and liabilities based on fair values, with the excess of purchase price being allocated to goodwill.

In 2008, our acquisition of the Acquired Business resulted in the allocation of a portion of the purchase price to goodwill and acquired intangible assets. In order to determine the fair value of these intangible assets, we make estimates and judgments based on assumptions about the future income producing capabilities of these assets and related future expected cash flows. We also make estimates about the useful life of those acquired intangible assets. Should different conditions prevail, we could record write-downs of intangible assets or changes in the estimate of useful life of those intangible assets, which would result in changes to amortization expense.

Acquired definite lived intangible assets are initially recorded at fair value based on the present value of the estimated net future income-producing capabilities of the assets acquired. A significant change to the initial value assigned to the definite lived intangible assets could result if different assumptions are used in determining the present value of the estimated net future income producing capabilities of the asset. Acquired definite lived intangible assets are amortized over the future income producing period, which we consider to be the useful life, on a straight-line basis, which are amortized over the pattern in which we expect to generate economic benefits from the asset.

For business combinations made subsequent to or on January 1, 2009, we will follow the guidelines of Statement of Financial Accounting Standards No. 141(R), *Share-Based Payment*.

Goodwill

In accordance with Statement of Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, goodwill is subject to annual impairment tests or on a more frequent basis if events or conditions indicate that goodwill may be impaired. Goodwill is tested for impairment at the beginning of the fourth quarter of each fiscal year. We also test for impairment more frequently if indicators of impairment are noted. JumpTV as a whole is considered one reporting unit. We estimate the fair value of reporting unit based on estimated cash flows, market capitalization and other factors. If we determine that our carrying value exceeds our fair value, we would conduct the second step of the goodwill impairment test. The second step compares the implied fair value of the goodwill (determined as the excess fair value over the fair value assigned to our other assets and liabilities) to the carrying amount of goodwill. If the carrying value of the goodwill were to exceed the implied fair value of goodwill, an impairment loss would be recognized.

At December 31, 2008, given the current disruption and uncertainty in the global economy and the decrease in our stock price over the last fiscal quarter, we determined that certain indicators had been noted to perform an impairment test beyond the annual goodwill impairment test. Our fair value exceeded the carrying value of the reporting unit, including goodwill. We therefore determined that there had been no impairment of goodwill.

Long-Lived Assets

We amortize our long-lived assets over the estimated useful life of the asset. We evaluate all of our long-lived assets, excluding goodwill, periodically for impairment in accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long Lived Assets* ("FAS 144"). FAS 144 requires that long-lived assets be evaluated for impairment when events or changes in facts and circumstances indicate that their carrying value may not be recoverable. Events or changes in factor circumstances can include a significant adverse change in the business climate, strategic change in business direction, decline or discontinuance of a product line or service, a reduction in our customer base or a restructuring. If one of these events or circumstances indicates that the carrying value of an asset may not be recoverable, or that our estimated amortization period was not appropriate, we would record and impairment charge against our long lived assets. The amount of impairment would be measured as the difference between the carrying value and the fair value of the impaired asset as calculated using a net realizable value methodology. An impairment charge would be recorded as an operating expense in the period of the impairment and as a reduction in the carrying value of that asset.

At December 31, 2008, given the current disruption and uncertainty in the global economy, we determined that the indicators of impairment had been noted to perform an impairment test on our long-lived assets. Our definite lived intangible assets are client relationships, software and trademarks purchased with the Acquired Business. The definite lived intangibles from this acquisition have net book values, as at December 31, 2008 of \$5.7 million, \$1.9

million and \$0.1 million, respectively. Due to the short period between the acquisition date of October 20, 2008 (for which all assets of the Acquired Business were recorded at fair value) and December 31, 2008 (the impairment measurement date), the Company determined that there was no impairment of these assets. The Company then tested the recoverable value and the fair value of the non-Merger related long-lived assets. The Company has determined that the carrying value of the capital assets exceed their fair value by \$1.0 million and recorded a non-cash impairment charge at December 31, 2008.

Stock-based compensation and other stock-based payments

In accordance with Statement of Financial Accounting Standards No. 123(R), *Share Based Payment* (“FAS 123(R)”), we estimate the fair value of our options, warrants, restricted share units and stock appreciation rights (“Convertible Securities”) for financial accounting purposes using the Black-Scholes Merton model, which requires a number of subjective assumptions, including the expected life of the Convertible Securities, risk-free interest rate, dividend rate, forfeiture rate, future volatility of the price of our Shares and vesting period. The use of subjective assumptions could materially affect the fair value estimate.

For a period of time prior to our initial public offering (“IPO”), there was no active market for our Shares. Since we have been public for less than the vesting period of our Convertible Instruments, we do not consider the volatility of our share price to be representative of the estimated future volatility when computing the fair value of options granted. Accordingly, until such time that a representative volatility can be determined based on our share price, we will use a blended rate of our own share price volatility for the period we have been public and the average of three similar companies for the pre-IPO period. We estimate the risk-free interest rate based on Bank of Canada interest rates with an average yield of five years. Since we do not have a sufficient history relating to options granted and exercised subsequent to our IPO, we base our estimate of the expected life of the Convertible Instrument using the simplified method based on the period for which our Convertible Instruments vest or 4 years. Our Convertible Instruments vest on a monthly basis; therefore we have estimated our forfeiture rate at zero.

The fair values of the Convertible Instruments issued are being recognized as compensation expense over the applicable vesting period, which for the majority of Convertible Instruments is four years.

We determine the fair value of our restricted share units based on our share price on the date the units are granted. The restricted share units have no characteristics which would require classification as a liability, and as such they are not revalued in subsequent periods. 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 accrued based on the market value of the shares when the shares are issued, which generally coincides with the vesting period of these awards.

Stock appreciation rights give the holder the right to elect either to 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 all vested stock appreciation rights on each reporting date. The liability is included in accrued liabilities and 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.

Based on equity awards outstanding as of December 31, 2008, we had unrecognized stock-based compensation totaling \$2.7 million and we expect to record approximately \$0.9 million in stock-based compensation in our fiscal year ending December 31, 2009. To the extent we continue to grant equity awards in the future, the amounts of stock-based compensation recorded in future periods may be greater than these expectations.

Stock-based compensation expense is reported in our Consolidated Statements of Operations and Comprehensive Loss as a separate line item.

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.

Inventory

Inventory consists of STBs 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 had inventory reserves of \$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.

Amortization Policies and Useful Lives

The Company amortizes the cost of property, plant and equipment and intangible assets over the estimated useful service lives of these items. The determinations of estimated useful lives of these long-lived assets involve considerable judgment. In determining these estimates, the Company takes into account industry trends and company specific factors including changing technologies and expectations for the in-service period of these assets. On an annual basis, the Company reassesses its existing estimates of useful lives to ensure they match the anticipated life of the technology from a revenue producing perspective. If technological change happens more quickly than anticipated, the Company might have to shorten its estimate of the useful life of certain equipment which could result in higher amortization expense in future periods or an impairment charge to write down the value of this equipment.

Taxes

We have tax loss carryforwards available to offset future taxable income of 78.1 million as of December 31, 2008 that expire between the tax years 2009 and 2028, which have not been fully audited by relevant authorities. We have not recorded a financial statement benefit for these attributes as we have no history of profitability. To the extent we use tax loss carryforwards subsequent to 2008, we expect to record the benefit first as a reduction of goodwill to the extent that the loss was from the Acquired Business and then as a reduction in income tax expense.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In December 2007, the FASB issued SFAS No. 141 (revised 2007) *Business Combinations* ("SFAS No. 141(R)"). SFAS No. 141(R) retains the fundamental requirements of the original pronouncement requiring that the purchase method be used for all business combinations. SFAS No. 141(R) defines the acquirer as the entity that obtains control of one or more businesses in the business combination, establishes the acquisition date as the date that the acquirer achieves control and requires the acquirer to recognize the assets acquired, liabilities assumed and any noncontrolling interest at their fair values as of the acquisition date. SFAS No. 141(R) also requires that acquisition-related costs be recognized separately from the acquisition. SFAS No. 141(R) is effective for fiscal years beginning on or after December 15, 2008, which for us is the fiscal year beginning January 1, 2009.

In May 2008, the FASB issued FASB Staff Position (FSP) Financial Accounting Standard (FAS) 142-3, *Determination of the Useful Life of Intangible Assets*, which is effective for fiscal years beginning after December 15, 2008 and for interim periods within those years, which for us is the fiscal year beginning January 1, 2009. FSP FAS 142-3 provides guidance on the renewal or extension assumptions used in the determination of the useful life of

a recognized intangible asset. The intent of FSP FAS 142-3 is to better match the useful life of the recognized intangible asset to the period of the expected cash flows used to measure its fair value. We do not expect FSP FAS 142-3 to have a material effect on our consolidated financial statements.

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. As the Company is in the process of filing a US registration statement to become an SEC issuer, the Company expects to continue to use US GAAP until the implementation date in the United States – currently estimated as no sooner than 2014.

OUTSTANDING SHARE DATA

The Company has total Shares outstanding as at March 15, 2009 of 113,775,068. In addition, the Company has 28,470,431 outstanding options, SARs, restricted share units, warrants and retention warrants, which are each exchangeable for one Share upon exercise.

CERTIFICATION OF DISCLOSURE IN ANNUAL FILINGS

In contrast to the usual certificate required for non-venture issuers under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* (NI 52-109), the Company is filing a certificate under Form 52-109F1 – IPO/RTO which does not include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in NI 52-109. In particular, the certifying officers filing this certificate are not making any representations relating to the establishment and maintenance of

- i. controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- ii. a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate.

Investors should be aware that inherent limitations on the ability of certifying officers of an issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 in the first financial period following a reverse takeover may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.