

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

On June 4, 2009, the company then known as NeuLion, Inc. changed its name to NeuLion USA, Inc. ("NeuLion USA"). On July 13, 2009, JumpTV Inc. changed its name to NeuLion, Inc. (the "Company" or "NeuLion"). In conjunction with the name change, NeuLion's stock symbol on the Toronto Stock Exchange was changed from "JTV" to "NLN". This Item 7 reflects these name changes.

The following Management's Discussion & Analysis ("MD&A") of NeuLion's financial condition and results of operations, prepared as of March 16, 2010, should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes for the years ended December 31, 2009 and 2008, which have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP"). All dollar amounts are in U.S. dollars ("US\$" or "\$") unless stated otherwise. As at March 10, 2010, the Bank of Canada noon rate for conversion of United States dollar to Canadian dollars was US\$1 to CDN\$1.0243.

Effective October 20, 2008, NeuLion completed a merger (the "Merger") with NeuLion USA, a Delaware corporation, that was accounted for as a reverse takeover. NeuLion USA is an Internet Protocol television company that provides a comprehensive suite of technology and services to content owners and aggregators. As a result of the Merger, NeuLion USA became the legal subsidiary of NeuLion, and NeuLion was required to register its common shares in the United States under Section 12 of the Securities Exchange Act of 1934, as amended. On June 8, 2009, NeuLion's Registration Statement on Form 10 became effective. The common shares of NeuLion are referred to herein as "Shares," or each individually as a "Share."

Effective October 31, 2009, NeuLion consummated the acquisition of 100% of the outstanding securities of Interactive Netcasting Systems Inc. ("INSINC"), a corporation organized under the federal laws of Canada that is a provider of sports, government and entertainment webcasting services. Under the terms of the acquisition, shareholders of INSINC received consideration consisting of 6,000,012 Shares of the Company, CDN\$2.5 million in cash, 1 million Share purchase warrants to acquire Shares at US\$1.35 per Share and 500,000 Share purchase warrants to acquire Shares at US\$1.80 per Share. Both series of warrants are exercisable for a period of 2 years.

Our MD&A is intended to enable readers to gain an understanding of NeuLion'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 year. 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 NeuLion's annual report on Form 10-K (the "10-K"), and below in the section titled "Cautions Regarding Forward-Looking Statements", and could have a material impact on future prospects. Readers are cautioned that actual results could vary from those forecasted in this MD&A.

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 performance; 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 herein and in the "Risk Factors" section of the 10-K.

MERGER AND REVERSE TAKE-OVER

On October 20, 2008, the Company completed the Merger with NeuLion USA. Under the terms of the Merger, NeuLion issued 49,577,427 Shares directly, as well as 1,840,097 Shares subject to a performance escrow relating to a prior acquisition, which represented approximately the entire issued and outstanding Shares of NeuLion prior to closing, to the securityholders of NeuLion USA in exchange for their NeuLion USA securities. The escrow Shares were subsequently cancelled in September 2009. Pursuant to the Merger, the Company also issued 5,000,000 warrants to purchase Shares, fully vested and exercisable for two years at US\$0.63 per Share, and 2,700,000 employee stock options to purchase Shares, vesting in equal monthly amounts over 48 months and exercisable for five years at US\$0.60 per Share, to employees of NeuLion USA who became employees of the Company.

On October 20, 2008, AvantaLion LLC, an entity controlled by Charles B. Wang, the Chairman of the Board of Directors of the Company and the spouse of Nancy Li, our CEO and the founder and CEO of NeuLion USA, purchased 10,000,000 units from NeuLion's treasury at a price of CDN\$1.00 per unit. Each unit (a "Unit") consists of one Share, one-half of one Series A Share purchase warrant and one-half of one Series B Share purchase warrant. Each whole Series A Share purchase warrant is exercisable at CDN\$1.25, and each whole Series B Share purchase warrant is exercisable at CDN\$1.50, in each case for a period of two years from the date of grant. G. Scott Paterson, our Vice Chairman, also purchased 1,000,000 Units on the same terms. The aggregate gross proceeds from the sale of Units were Cdn\$11.0 million or US\$9.2 million.

In accordance with Accounting Standards Codification Topic 805 ("ASC 805"), "Business Combinations" the Company has determined that NeuLion USA 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, 2009 and 2008 reflect the assets, liabilities and results of operations of NeuLion USA, the accounting acquirer, and only include the assets, liabilities and results of operations of NeuLion, the legal acquirer, subsequent to the reverse takeover on October 20, 2008 (the "Acquired Business"). This MD&A is issued under the name of the legal acquirer (NeuLion), but is deemed to be a continuation of the accounting acquirer (NeuLion USA).

ACQUISITION OF INSINC

Effective October 31, 2009, the Company completed the acquisition of INSINC. INSINC is based in Burnaby, British Columbia, Canada, and has 20 employees. INSINC offers a range of software tools for streaming video content over the Internet. Its largest clients are in the area of sports, including the Western Hockey League ("WHL"), Ontario Hockey League ("OHL"), Central Hockey League ("CHL"), British Columbia Hockey League ("BCHL"), Central Canadian Hockey League ("CCHL"), Alberta Junior Hockey League ("AJHL"), the Central Junior Hockey League ("CJHL") and the Canadian Football League ("CFL").

INSINC also provides services within the government and entertainment broadcasting sectors with clients including Business News Network ("BNN"), CTV News Channel, Rogers Sportsnet, TVG Networks, The Canadian Press, the Canadian Ministry of Justice, the BC Ministry of Education, and the Legislative Assemblies of British Columbia and Newfoundland and Labrador, among others.

Under the terms of the acquisition, shareholders of INSINC received consideration consisting of 6,000,012 Shares of the Company, CDN \$2.5 million in cash, 1 million Share purchase warrants to acquire Shares at USD \$1.35 per Share and 500,000 Share purchase warrants to acquire Shares at USD \$1.80 per Share. Both series of warrants are exercisable for a period of 2 years.

The aggregate purchase price of \$6,694,293 represents the fair value of 6,000,012 Shares issued of \$4,035,043 (determined using the market price of the Shares at the time of issuance), cash in the amount of \$2,320,500 and the fair value of the Share purchase warrants in the amount of \$338,750 (determined using the Black-Scholes-Merton model).

The preliminary fair values of the assets acquired are as follows:

Balance Sheet Data:	October 31, 2009
	\$
Cash	344,371
Accounts receivable	306,551
Prepaid expenses and deposits	92,351
Other receivables	338,504
Fixed assets	739,690
Accounts payable and accrued liabilities	(1,171,884)
Long-term liabilities	(120,000)
Deferred revenue	(125,815)
Intangible assets - contractual agreements	5,180,000
Intangible assets - tradename	95,000
Goodwill	1,015,525
Total	6,694,293

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.

INSINC recorded revenues of CDN \$5.6 million, EBITDA of CDN\$0.4 million and net income of CDN\$0.3 million for the year ended December 31, 2008.

The results of operations for INSINC for fiscal 2009 have been included in the Company's consolidated statements of operations from the October 31, 2009 effective date of the acquisition to December 31, 2009 and are summarized below.

Income Statement Data:	Year ended 31-Dec-09
	\$
Total revenue	575,347
Total cost of revenue	(238,309)
Total selling, general and administrative costs	(264,816)
Depreciation and amortization	(8,965)
Loss on foreign exchange	(6,169)
Net income	57,088

OVERVIEW

The Company is a leading Internet Protocol (“IP”) television company, providing end-to-end IPTV services. “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. We build and manage private networks for content owners and aggregators (our content partners) that are used to stream content to multiple platforms through browser-based devices. That content includes live and on-demand sports and international and variety programming, which we then deliver to subscribers and pay-per-view customers for viewing on Internet-connected browser-based devices such as personal computers, laptops and mobile devices and on standard television sets through Internet-connected set top boxes (“STBs”). NeuLion’s main business objective is to enter into agreements with companies seeking their own private networks to reach target audiences and to provide complete IPTV services to these companies. We also acquire the rights to certain sports and international content from television broadcasters (our channel partners), which we then stream to end users through our own private networks.

Our business model has evolved from a professional IT services and international programming provider to an end-to-end provider of the following IPTV services. By “end-to-end provider of IPTV services,” we mean that we provide the following 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 and payment processing;
- delivery - delivering streamed audio, video and other multimedia content anywhere, anytime through the Company’s IPTV service and infrastructure; and
- advertising insertion.

On January 7, 2010, the Company announced that it had signed a multi-year partnership to distribute certain DISH Network L.L.C. (“DISH Network”) international channels using NeuLion’s IPTV platform. The partnership with NeuLion enhances DISH Network’s international programming offerings by providing consumers without access to satellite TV the ability to enjoy select DISH Network international channels through IPTV.

Customer Relationships

We have two types of relationships: business-to-business (“B2B”) and business-to-consumer (“B2C”).

B2B relationships have been our primary focus 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 its content, by way of an IPTV platform built for that customer, to its end users. B2B customers typically aggregate the content, negotiate the licensing rights and directly market 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 college sports properties and in our agreements with international and broad-based content providers.

Our B2C relationships are individual consumer oriented. We have signed distribution agreements with our channel partners and content providers in exchange for revenue share or royalty payments to such providers. We then market the content on one (or more) of the proprietary targeted websites that we have developed which are focused on a specific diaspora community, as well as on the general Company website for purchase by an end user. We often aggregate the content into bundles or packages of similar interest (e.g. Talfazat for the Middle East community; TV-Desi for the South Asian community). We incur marketing expenses in promoting the availability of such content.

The United States and Canada are the principal markets in which our sales occur.

Products and Services

Sports programming

Through our comprehensive end-to-end IPTV solution, we provide our sports programming content partners with the ability to deliver live and on-demand content. We maintain distribution and technology services agreements with leading professional and collegiate sports properties as well as with the sports network ESPN. Amongst professional sports leagues, NeuLion counts the National Football League (NFL), the National Hockey League (NHL) and the American Hockey League (AHL). Through our recent acquisition of Interactive Netcasting Systems Inc. ("INSINC"), a provider of sports, government and entertainment webcasting services, we expanded our portfolio of sports content partners to include the Western Hockey League (WHL), the Ontario Hockey League (OHL), the Central Hockey League (CHL), the British Columbia Hockey League (BCHL), the Central Canadian Hockey League (CCHL), the Alberta Junior Hockey League (AJHL), the Central Junior Hockey League (CJHL) and the Canadian Football League (CFL).

We also operate our own portfolio of sports-oriented websites, including Cycling.tv, CollegeSportsDirect.com and selected World Cup soccer properties. On the collegiate level, we are 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

The Company also offers what is referred to in the industry as "ethnic television," which the Company defines as programming directed at a specific diaspora community, as determined by a shared nationality, language or culture, and generally excluding communities for which English is the primary language. We have license agreements directly with channel partners representing approximately 185 channels in 55 countries that give NeuLion rights to stream, predominantly on an exclusive world-wide basis, the channel partners' live linear television feeds over the public Internet using our proprietary private networks such as Talfazat and TV-Desi.

Our subsidiary, INSINC, also distributes government and entertainment content. Its clients in those industries include Business News Network (BNN), CTV News Channel, Rogers Sportsnet, TVG Networks, The Canadian Press, the Canadian Ministry of Justice, the BC Ministry of Education, and the Legislative Assemblies of British Columbia and Newfoundland and Labrador, among others.

We also have relationships with other specialty programming customers such as Sky Angel U.S. LLC, which streams faith-based programming.

Services

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.

Distribution Methods

We distribute content through two primary methods:

- Internet-connected browser-based devices such as personal computers, laptops and mobile devices; and
- standard television sets through use of our Internet-connected STBs.

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

Revenue

We earn revenue in two broad categories: services revenue and equipment revenue. Services revenue includes subscriber revenue, eCommerce revenue and technology services revenue. Equipment revenue includes the sale and shipping of STBs. Our revenue streams are described in detail in Item 7- Management's Discussion & Analysis under the caption "OPERATIONS".

Competition

New technologies and entrants could have a material adverse effect on the demand for NeuLion's IPTV offerings. For example, fixed line telecommunications and mobile telephony companies who offer or plan to offer video services may be competitors of NeuLion. Together with other industry observers, we have witnessed and expect to continue 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. 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.

We also face competition from other online content providers who 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.

We may also be placed at a competitive disadvantage to the extent that other video providers are able to offer programming of higher technical quality than we can. While we expect to continue to improve the technical quality of our products and services and offer our video content at increasingly higher streaming speeds, we cannot assure you that we will be able to compete effectively with 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, discussed above, is directed at the entire spectrum of content aggregation and delivery. Many companies 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.

Overall Performance - Overview

The Company uses the term “organic” to refer to the period-over-period changes in its revenues and expenses, excluding the revenues and expenses of the Acquired Business and INSINC. This permits readers to better compare current year and prior year revenues and expenses, and to understand changes that have occurred, without regard to the effect of the Merger or the acquisition of INSINC.

Year ended December 31, 2009

Revenue for fiscal 2009 was \$28.1 million, up 110% from \$13.4 million in fiscal 2008. The revenue growth of \$14.7 million was due to an increase in services revenue of \$16.9 million, offset by a decrease in our equipment revenue of \$2.2 million. The revenue growth was due to the following:

- organic growth of \$3.3 million;
- increase in revenue from the Acquired Business of \$10.8 million (2008 revenue was from the date of the Merger on October 20, 2008 to December 31, 2008); and
- revenue from INSINC of \$0.6 million (revenue included in 2009 was from the October 31, 2009 effective date of the acquisition to December 31, 2009).

The organic increase 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 quarter over quarter 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 placing an order to receipt of goods. The purchase by customers of STBs is a leading indicator of future subscriptions.

Our net loss for fiscal 2009 was \$19.6 million, or a loss of \$0.18 per basic and diluted Share, compared with a net loss of \$11.6 million, or a loss of \$0.21 per basic and diluted Share, in fiscal 2008. The increase in net loss of \$8.0 million was due to the following:

- Increase in organic loss of \$2.6 million (excluding non-operating expenses);
- Increase in loss in the Acquired Business of \$4.8 million, excluding non-operating expenses (2008 loss was from the date of the Merger on October 20, 2008 to December 31, 2008); and
- Increase in non-operating expenses of \$0.6 million (detailed below in the Net Loss to EBITDA reconciliation).

On a pro forma basis (excluding INSINC), as if the Merger had occurred on January 1, 2008, revenue increased from \$25.7 million to \$27.5 million. Our net loss for fiscal 2008 (excluding INSINC) was \$92.5 million or a loss of \$0.90 per basic and diluted Share. The improvement in net loss of \$72.9 million on a pro forma basis was due to the following:

- Increase in organic loss of \$2.6 million (excluding non-operating expenses);
- Reduction in net loss in the Acquired Business of \$20.4 million due to cost reductions in most areas of the business (excluding non-operating expenses); and
- Reduction in non-operating expenses of \$55.1 million (detailed below in the Net Loss to EBITDA reconciliation).

Our non-GAAP Adjusted EBITDA loss was \$13.9 million in fiscal 2009 compared with a non-GAAP Adjusted EBITDA loss of \$6.6 million in fiscal 2008. The increase in non-GAAP Adjusted EBITDA loss is due to the cash impact of the items noted above. On a pro forma basis, our non-GAAP Adjusted EBITDA loss decreased from a loss of \$31.6 million in fiscal 2008 to a loss of \$13.9 million in fiscal 2009. This decrease is due to cost reductions in most areas of the Acquired Business offset by the increased organic costs.

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, unrealized loss on derivatives, equity in loss of affiliate, investment income and foreign exchange gain. This measure does not have any standardized meaning prescribed by generally accepted accounting principles (“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.

The reconciliation from net loss to non-GAAP Adjusted EBITDA loss is as follows:

	Years ended,		Pro forma
	2009	2008	2008
			(excl. INSINC)
	\$	\$	\$
Net loss	(19,640,921)	(11,637,260)	(92,459,364)
Add back:			
Impairment of goodwill	-	-	47,882,317
Impairment of long-lived assets	-	1,036,993	5,982,030
Depreciation and amortization	4,141,117	1,572,492	3,602,169
Stock-based compensation	1,167,789	1,848,906	3,374,767
Unrealized loss on derivative	801,350	-	-
Equity in loss of affiliate	-	1,006,386	1,006,386
Investment income and foreign exchange gain	(362,070)	(395,768)	(998,753)
Non-GAAP Adjusted EBITDA loss	<u>(13,892,735)</u>	<u>(6,568,251)</u>	<u>(31,610,448)</u>

OPERATIONS

Revenue

The Company earns revenue in two broad categories:

(i) *Services revenue*, which includes:

- Subscriber revenue, which is recognized over the period of service or usage;
- eCommerce revenue, which is recognized as the service is performed; and
- Technology revenue, which consists of the set up and transcoder revenue and is recognized over the life of the contract.

(ii) *Equipment revenue*, which is recognized when title of the STB passes to the customer.

While our revenues have increased due to the organic growth in our existing business, the Merger and the acquisition of INSINC, we are currently uncertain as to the long-term impact of the downturn in the global economy on our business.

Cost and Expenses

Cost of services revenue

Cost of services revenue primarily consists of:

- Cost of subscriber revenue, which consists of :
 - royalty payments
 - network operating costs
 - bandwidth usage fees
 - colocation fees
- Cost of eCommerce revenue, which 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, which consists of:
 - third party transcoder software purchased
 - maintenance costs for transcoders

Cost of equipment revenue

Equipment revenue consists of the sale of STBs to content partners and/or end users to enable the end user to receive the content over the Internet and display the signal on a television. Cost of equipment revenue primarily consists of purchases from TransVideo International, Ltd. (“Transvideo”) and Tatum Technology Incorporation 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, including stock-based compensation

Selling, general and administrative (“SG&A”) costs, including stock-based compensation, 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;
- *Stock-based compensation* – we estimate the fair value of our options, warrants 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 and future volatility of the price of our Shares. 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;
- *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, accounting and recruiting fees; and
- *Other SG&A expenses* – represents travel expenses, rent, office supplies, corporate IT services, credit card processing fees and other general operating expenses.

Equity in loss of affiliate

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

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

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

SELECTED ANNUAL INFORMATION

The selected consolidated financial information set out below for the three years ended December 31, 2009, 2008 and 2007 and as at December 31, 2009, 2008 and 2007 has been derived from the Company's audited consolidated financial statements and accompanying notes posted on www.sedar.com and at www.sec.gov. Readers should read the following information in conjunction with those statements and related notes.

	December 31, 2009	Years ended, December 31, 2008	December 31, 2007
	\$	\$	\$
Consolidated Statement of Operations Data:			
Revenue	28,093,677	13,443,339	7,810,711
Cost of sales	(14,387,152)	(7,639,149)	(5,504,254)
Selling, general and administrative expenses, including stock based compensation	(28,767,049)	(14,221,347)	(4,210,357)
Net loss for the year	(19,640,921)	(11,637,260)	(4,515,759)
Basic and diluted loss per share	(0.18)	(0.21)	(0.11)

	December 31, 2009	As at, December 31, 2008	December 31, 2007
	\$	\$	\$
Consolidated Balance Sheet Data:			
Cash and cash equivalents	12,957,679	27,323,021	608,464
Total assets	40,269,163	53,737,682	7,211,951
Non-current liabilities	1,197,521	1,514,781	544,199
Total liabilities	17,998,829	16,724,104	3,965,018
Share capital	11,260,415	6,762,097	68,871
Total shareholders' equity	22,270,334	37,013,578	3,246,933

The Company's business model has evolved from a professional IT services and international programming provider to fiscal 2007, where it began to pursue the objective of being an end-to-end provider of IPTV services. 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 strategies. These two customers accounted for 85% of total revenue. Cost of sales increased by \$5.0 million, primarily for cost of equipment revenue, which is a lower margin component of the Company's business. The increase in loss was due to expanding operations and continued investment in research and development. Losses were funded by our CEO.

Fiscal 2008 included the acquisition of the Acquired Business, described above. 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 operating as 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 (for example, the Company experienced increased wages due to the increased headcount and increased travel expenses due to having multiple offices). 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 in 2008 of \$2.6 million by our CEO. 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.

In fiscal 2009 revenue increased to \$28.1 million, which included \$26.5 million in services revenue and \$1.6 million in equipment revenue. Of the total revenue growth of \$14.7 million, the Acquired Business contributed \$10.8 million in revenue, while INSINC contributed \$0.6 million in revenue. The balance of the organic growth occurred in services revenue, offset by a decline in equipment revenue. Net loss increased from \$11.6 million in 2008 to \$19.4 million in 2009, primarily due to the inclusion of the Acquired Business for 12 months in 2009 as opposed to 2 months in 2008. The Company is currently reviewing its operating structure to maximize revenue opportunities, further reduce costs and achieve profitability.

RESULTS OF OPERATIONS**Comparison of Fiscal Year Ended December 31, 2009 to Fiscal Year Ended December 31, 2008**

Our consolidated financial statements for our fiscal years ended December 31, 2009 and 2008 have been prepared in accordance with U.S. GAAP. Included in note 17 of the financial statements is the reconciliation between our consolidated financial statements prepared in accordance with U.S. GAAP and Canadian GAAP.

	2009 \$	2008 \$	Change %
Revenue			
Services revenue	26,464,400	9,542,689	177%
Equipment revenue	1,629,277	3,900,650	-58%
Total Revenue	28,093,677	13,443,339	109%
Costs and expenses			
Cost of services revenue, exclusive of depreciation and amortization shown separately below	12,850,002	4,519,062	184%
Cost of equipment revenue	1,537,150	3,120,087	-51%
Selling, general and administrative, including stock-based compensation	28,767,049	14,221,347	102%
Depreciation and amortization	4,141,117	1,572,492	163%
Impairment of long-lived assets	-	1,036,993	-
	47,295,318	24,469,981	93%
Operating loss	(19,201,641)	(11,026,642)	74%
Other income (expense)			
Unrealized loss on derivative	(801,350)	-	-
Gain on foreign exchange	68,245	265,720	-74%
Investment income	293,825	130,048	126%
Equity in loss of affiliate	-	(1,006,386)	-
	(439,280)	(610,618)	-28%
Net and comprehensive loss for the year	(19,640,921)	(11,637,260)	69%

Revenue*Services revenue*

Services revenue includes revenue from subscribers, eCommerce and technology services. Services revenue increased from \$9.5 million for the year ended December 31, 2008 to \$26.5 million for the year ended December 31, 2009. The increase was due to the organic growth in services revenue, the effect of the Merger on October 20, 2008 and the acquisition of INSINC effective October 31, 2009. The organic growth in our services revenue was \$5.6 million. The growth in the Acquired Business comprised \$10.8 million, and INSINC comprised \$0.6 million, of total services revenue.

Subscriber revenue increased from \$7.0 million for the year ended December 31, 2008 to \$18.5 million for the year ended December 31, 2009. The increase was due to the growth in subscribers, the effect of the Merger on October 20, 2008 and the acquisition of INSINC effective October 31, 2009. The organic growth in our subscriber revenue was \$4.5 million resulting from \$4.0 million in revenue growth from our existing customers coupled with \$0.5 million in revenue generated from 15 new customers. The growth in the Acquired Business was \$6.7 million and INSINC comprised \$0.3 million of total subscriber revenue for the year.

eCommerce revenue increased from \$0.9 million for the year ended December 31, 2008 to \$3.9 million for the year ended December 31, 2009. The Acquired Business comprised all of eCommerce revenue for the year.

Technology services revenue increased from \$1.6 million for the year ended December 31, 2008 to \$4.1 million for the year ended December 31, 2009. The increase was due to organic growth in technology services revenue, the effect of the Merger on October 20, 2008, and the October 31, 2009 effective date of the acquisition of INSINC. 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 organic growth in our technology services revenue was \$1.0 million. The growth in the Acquired Business was \$1.2 million. INSINC comprised \$0.3 million of total technology services revenue for the year.

Equipment revenue

Equipment revenue decreased from \$3.9 million for the year ended December 31, 2008 to \$1.6 million for the year ended December 31, 2009. The decrease in equipment revenue is a result of the uneven nature of the revenue stream; customers often place large single orders 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 timing of specific orders is not consistent period over period. We sell our STBs to customers, who in turn sell or give them to new users, and we sell directly to users. The demand for STBs is driven by new subscribers and the level of inventory carried by our customers. Our customers do not have the right of return on purchased STBs. Initial orders by new customers and new users will impact the trend of STB revenues. The Company expects STB revenue to have a much slower growth rate than services revenue. Services revenue is recurring revenue whereas STB revenue is earned on new customers and/or new subscribers.

Costs and Expenses

Cost of services revenue

Cost of services revenue increased from \$4.5 million, or 47%, of services revenue for the year ended December 31, 2008 to \$12.8 million or 49% of services revenue for the year ended December 31, 2009. This increase was due to the costs associated with increased revenue, the effect of the Merger on October 20, 2008 and the acquisition of INSINC effective October 31, 2009. Cost of services revenue for the Acquired Business increased by \$5.9 million. INSINC comprised \$0.3 million of total costs of services revenue for the year.

Organic cost of services revenue increased from \$2.5 million or 39.7% of services revenue for the year ended December 31, 2008 to \$4.6 million or 39.0% of services revenue for the year ended December 31, 2009. The \$2.1 million increase was a result of additional costs relating to co-location and network fees in support of increased revenue. The 0.7% improvement (as a percentage of services revenue) primarily relates to negotiated lower rates on bandwidth costs.

Cost of equipment revenue

Cost of equipment revenue decreased from \$3.1 million for the year ended December 31, 2008 to \$1.5 million for the year ended December 31, 2009 on lower revenue. Cost of equipment revenue is directly variable with changes in equipment revenue. Cost of equipment revenue as a percentage of equipment revenue increased from 80% for the year ended December 31, 2008 to 94% for the year ended December 31, 2009 due to increased shipping costs related to TV-Desi and Talfazat rental STBs that generate no equipment revenue.

Selling, general and administrative, including stock-based compensation

Selling, general and administrative, including stock-based compensation, increased from \$14.2 million for the year ended December 31, 2008 to \$28.8 million for the year ended December 31, 2009. The Acquired Business accounted for \$9.1 million of the total increase, INSINC accounted for \$0.3 million and the remaining increase of \$5.2 million relates to the organic increase. The individual variances are due to the following:

- Wages and benefits increased from \$8.8 million for the year ended December 31, 2008 to \$20.0 million for the year ended December 31, 2009. The Acquired Business accounted for \$6.5 million of the total increase of \$11.2 million in wages and benefits for the year. The organic increase of \$4.5 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. INSINC comprised \$0.2 million of total wages and benefits for the year.
- Stock-based compensation expense decreased from \$1.8 million for the year ended December 31, 2008 to \$1.2 million for the year ended December 31, 2009. This decrease was the result of 5 million fully vested warrants being issued in the prior year.
- Marketing expenses increased from a \$0.4 million for the year ended December 31, 2008 to \$1.1 million for the year ended December 31, 2009. The Acquired Business accounted for \$0.5 million of the total increase of \$0.7 million in marketing expenses for the year. The Acquired Business is more of a business-to-consumer focused business and incurs higher marketing expenses including search engine marketing and search engine optimization on the Internet.
- Professional fees increased from \$1.2 million for the year ended December 31, 2008 to \$1.7 million for the year ended December 31, 2009. The increase was primarily related to professional fees incurred in connection with the acquisition of INSINC.
- Other SG&A expenses increased from \$2.0 million for the year ended December 31, 2008 to \$4.8 million for the year ended December 31, 2009. The Acquired Business accounted for \$2.3 million of the total increase of \$2.8 million for the year. The organic increase of \$0.5 million was primarily related to increases in bank and processing fees and corporate systems costs of \$0.4 million.

Equity in loss of affiliate

Equity in loss of our affiliate, KyLinTV, decreased from \$1.0 million for the year ended December 31, 2008 to zero for the year ended December 31, 2009. The decrease is as a result of the cumulative losses exceeding the full value of the Company's investment in 2008. Due to KyLinTV's accumulated losses, the investment had been reduced to zero at December 31, 2008. 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 \$1.5 million for the year ended December 31, 2008 to \$4.1 million for the year ended December 31, 2009. The increase was due to amortization on assets acquired in the Merger (\$1.9 million) and amortization of the intangible assets acquired in the acquisition of INSINC.

Unrealized loss on derivative

Unrealized loss on derivative increased from zero for the year ended December 31, 2008 to \$0.8 million for the year ended December 31, 2009. The increase was due to the adoption of ASC 815-40, effective January 1, 2009, which required the Company to record at fair value all convertible securities denominated in a currency other than the Company's functional currency. On January 1, 2009, the grant date fair value of warrants denominated in Canadian dollars of \$2.5 million was reallocated from additional paid-in capital and a derivative liability was recorded in the amount of \$0.6 million with an adjustment to opening accumulated deficit of \$1.9 million. The difference between the fair value at January 1, 2009 of \$0.6 million and the fair value at December 31, 2009 of \$1.4 million resulted in an unrealized loss on derivative of \$0.8 million.

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

Impairment of long-lived assets

Long-lived assets must be tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. For the Company, long-lived assets include intangible and capital assets. Ongoing negative developments in the general economic climate would be considered an event that would be a possible 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 believed the fair value of the assets acquired in the Merger is consistent with the carrying amount at December 31, 2008. The Company tested the fair value of the non-Merger long-lived assets as at December 31, 2008 and determined that the carrying value of such capital assets exceeded their fair value by \$1.0 million. Accordingly, the Company recorded a non-cash impairment charge of \$1.0 million during 2008. No such charges were recorded in 2009.

**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, 2009. 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 www.sec.gov, 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. GAAP and Canadian GAAP.

	2009				2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	\$	\$	\$	\$	\$	\$	\$	\$
Income Statement Data:								
Revenue	8,995,911	6,061,302	6,462,438	6,574,026	5,807,550	2,699,041	2,987,128	1,949,620
Cost of revenue	4,024,35	3,224,838	3,293,481	3,844,483	3,205,272	1,534,807	1,753,689	1,145,381
Net loss for the period	(1,454,962)	(7,463,951)	(4,928,130)	(5,793,878)	(7,223,468)	(1,377,667)	(1,549,979)	(1,486,146)
Basic and diluted loss per share	(0.01)	(0.07)	(0.04)	(0.05)	(0.13)	(0.03)	(0.04)	(0.03)

Comparison of Three Months Ended December 31, 2009 to Three Months Ended December 31, 2008

Revenue

Services revenue

Services revenue includes revenue from subscribers, eCommerce and technology services. Services revenue increased from \$5.6 million for the three months ended December 31, 2008 to \$8.7 million for the three months ended December 31, 2009. 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 \$1.5 million. The growth in the Acquired Business was \$1.0 million. INSINC comprised \$0.6 million of total services revenue for the period.

Subscriber revenue increased from \$4.0 million for the three months ended December 31, 2008 to \$6.0 million for the three months ended December 31, 2009. The increase is a combination of the growth in subscribers, the effect of the Merger on October 20, 2008 and the acquisition of INSINC effective October 31, 2009. The organic growth in our subscriber revenue was \$1.4 million resulting from \$1.2 in revenue from existing customers and \$0.2 million in revenue generated from 14 new customers. The growth in the Acquired Business was \$0.3 million. INSINC comprised \$0.3 million of total subscriber revenue for the period.

eCommerce revenue increased from \$0.8 million for the three months ended December 31, 2008 to \$1.4 million for the three months ended December 31, 2009. The Acquired Business comprised all of eCommerce revenue for the period.

Technology services revenue increased from \$0.8 million for the three months ended December 31, 2008 to \$1.3 million for the three months ended December 31, 2009. The increase is a combination of the organic growth in technology services revenue, the effect of the Merger on October 20, 2008 and the effect of the acquisition of INSINC effective October 31, 2009. 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 organic growth in our technology services revenue was \$0.1 million. The growth in the Acquired Business was \$0.1 million. INSINC comprised \$0.3 million of total technology services revenue for the period.

Equipment revenue

Equipment revenue increased from \$0.2 million for the three months ended December 31, 2008 to \$0.3 million for the three months ended December 31, 2009. The increase in equipment revenue is a result of the uneven nature of the revenue stream.

Costs and Expenses

Cost of services revenue

Cost of services revenue increased from \$3.0 million or 54% of services revenue for the three months ended December 31, 2008 to \$3.7 million or 43% of services revenue for the three months ended December 31, 2009. This increase was a combination of the costs associated with increased revenue and the acquisition of INSINC effective October 31, 2009. INSINC comprised \$0.3 million of the total cost of services revenue for the period.

Organic cost of services revenue increased from \$1.0 million or 42% for the three months ended December 31, 2008 to \$1.4 million or 36% for the three months ended December 31, 2009. The \$0.4 million increase was a result of additional costs relating to colocation and network fees in support of increased revenue. The 6% improvement (as a percentage of services revenue) primarily relates to negotiated lower rates on bandwidth costs.

Cost of equipment revenue

Cost of equipment revenue increased from \$0.2 million for the three months ended December 31, 2008 to \$0.3 million for the three months ended December 31, 2009 on increased revenue. Cost of equipment revenue is directly variable with changes in equipment revenue.

Selling, general and administrative, including stock-based compensation

Selling, general and administrative, including stock-based compensation, decreased from \$8.3 million for the three months ended December 31, 2008 to \$7.6 million for the three months ended December 31, 2009. The individual variances are due to the following:

- Wages and benefits increased from \$4.3 million for the three months ended December 31, 2008 to \$5.3 million for the three months ended December 31, 2009. The organic increase of \$0.8 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. INSINC comprised \$0.2 million of total wages and benefits for the period.
- Stock-based compensation expense decreased from \$1.8 million for the three months ended December 31, 2008 to \$0.2 million for the three months ended December 31, 2009. This decrease was the result of 5 million fully vested warrants being issued in the prior period.
- Marketing expenses were \$0.3 million for the three months ended December 31, 2008 and 2009.
- Professional fees decreased from \$0.6 million for the three months ended December 31, 2008 to \$0.5 million for the three months ended December 31, 2009.
- Other SG&A expenses were \$1.3 million for the three months ended December 31, 2008 and 2009.

Depreciation and amortization

Depreciation and amortization increased from \$0.9 million for the three months ended December 31, 2008 to \$1.1 million for the three months ended December 31, 2009. The increase was due to amortization of the intangible assets acquired in the acquisition of INSINC.

Unrealized gain on derivative

Unrealized gain on derivative increased from zero for the three months ended December 31, 2008 to \$2.2 million for the three months ended December 31, 2009. The increase was due to the adoption of ASC 815-40. The difference between the fair value at September 30, 2009 of \$3.6 million and the fair value at December 31, 2009 of \$1.4 million resulted in an unrealized gain on derivative of \$2.2 million.

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 recorded in the current period.

LIQUIDITY AND CAPITAL RESOURCES

During the year ended December 31, 2009, the Company's cash position decreased by \$14.4 million. The Company used \$11.7 million to fund operations, which included working capital changes of \$1.8 million, \$1.2 million to purchase fixed assets and \$1.6 million to acquire INSINC.

As of December 31, 2009, our principal sources of liquidity included cash and cash equivalents of \$13.0 million and trade accounts receivable of \$1.8 million. We do not have a credit facility.

At December 31, 2009, approximately 79% of our cash and cash equivalents were held in interest bearing bank accounts with a U.S. bank that received an A- rating by Standard and Poors and an A2 rating by Moody's and 7% of our cash and cash equivalents were held in bank accounts with two of the top five Canadian commercial banks. The Company believes that these U.S. and Canadian financial institutions are secure notwithstanding the current global economy and that we will be able to access the remaining balance of bank deposits as these deposits are with large reputable banks. Our investment policy is to invest in low-risk short-term investments which are primarily term deposits. We have not had a history of any defaults on these term deposits, nor do we expect any in the future given the short term to maturity of these investments.

The Company's business is still in the early stages, with only a few years of operating history. From the Company's inception, it has incurred substantial net losses and has an accumulated deficit of \$43.8 million; management expects these losses to continue in the short term. The Company continues to review its operating structure to maximize revenue opportunity, further reduce costs and achieve profitability. Based on our current business plan and internal forecasts, and considering the risks that are present in the current global economy, we believe that our cash on hand will be sufficient to meet our working capital and operating cash requirements for the next twelve months, which will include 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 Company's delivery infrastructure and office facilities. Cash from operations could be affected by various risks and uncertainties, including, but not limited to, the risks detailed herein or incorporated by reference in our 10-K in the section titled "Risk Factors." If our actual cash needs are greater than forecasted and if cash on hand is insufficient to meet our working capital and cash requirements for the next twelve months, we will require outside capital in addition to cash flow from operations in order to fund our business. Our short operating history, our current lack of profitability and the prolonged upheaval in the capital markets could each or all be factors that might negatively impact our ability to obtain outside capital on reasonable terms, or at all. If we were ever unable to obtain needed capital, we would reevaluate and reprioritize our planned capital expenditures and operating activities. We cannot assure you, however, that we will ultimately be able to generate sufficient revenue or reduce our costs in the anticipated time frame to become profitable and have sustainable cash flows.

Working Capital Requirements

The net working capital at December 31, 2009 was \$1.3 million, a decrease of \$16.8 million from the December 31, 2008 net working capital of \$18.1 million. The decreased working capital is primarily due to funding operations of \$11.7 million and the fair value of the derivative liability of \$1.4 million on December 31, 2009 (which is a non-cash liability).

Current assets at December 31, 2009 were \$17.8 million, a decrease of \$15.5 million from the December 31, 2008 balance of \$33.3 million. The change is primarily due to a decrease in our cash and cash equivalents of \$14.4 million.

Current liabilities at December 31, 2009 were \$16.8 million, an increase of \$1.6 million from the December 31, 2008 balance of \$15.2 million. The change is primarily due to the fair value of the derivative liability of \$1.4 million (which is a non-cash liability).

Cash Flows**Summary Balance Sheet Data:**

	December 31,	
	2009	2008
	\$	\$
Current Assets		
Cash and cash equivalents	12,957,679	27,323,021
Accounts receivable, net	1,809,147	2,284,242
Taxes receivable	35,334	983,253
Other receivables	821,834	227,711
Inventory	928,592	347,600
Prepaid expenses and deposits	966,101	1,830,260
Due from related parties	246,992	324,059
Total current assets	17,765,679	33,320,146
Current Liabilities		
Accounts payable	5,383,518	4,465,388
Accrued liabilities	5,822,385	7,595,116
Derivative liability	1,389,300	-
Due to related parties	298,595	56,826
Deferred revenue	3,907,510	3,091,993
Total current liabilities	16,801,308	15,209,323
Working capital ratio	1.06	2.19

Comparative Summarized Cash Flows

	Year Ended	
	December 31,	
	2009	2008
	\$	\$
Cash used in operating activities	(11,692,709)	(5,614,501)
Cash (used in) provided by investing activities	(2,760,337)	20,294,983
Cash provided by financing activities	87,704	12,034,075

Operating activities

Cash used in operating activities for the year ended December 31, 2009 was \$11.7 million. Changes in net cash used in operating activities reflect the net loss of \$19.6 million for the year, less:

- non-cash items in the amount of \$6.1 million, which relates to stock-based compensation, depreciation and amortization and unrealized loss on derivative; and
- changes in operating assets and liabilities of \$1.8 million.

Investing activities

Cash used in investing activities for the year ended December 31, 2009 was \$2.8 million. These funds were used to acquire INSINC (\$1.6 million) and to purchase fixed assets (\$1.2 million).

Financing activities

Cash provided by financing activities was \$0.1 million for the year ended December 31, 2009. The funds were received from stock option and retention warrant exercises.

Off-Balance Sheet Arrangements

The Company did not have any off-balance sheet arrangements as of December 31, 2009.

Contractual Obligations and Commitments

The following table summarizes the Company's contractual commitments as at December 31, 2009, and the effect those commitments are expected to have on liquidity and cash flow in future periods:

	Total	2010	2011	2012	2013	2014	Thereafter
	\$	\$	\$	\$	\$	\$	\$
Operating leases	8,004,585	1,702,605	1,190,740	1,151,882	1,128,252	790,076	2,041,030
Operating lease recovery (1)	(5,243,520)	(667,177)	(667,177)	(682,518)	(703,996)	(703,996)	(1,818,656)
Minimum guarantees (2)	4,042,389	1,911,913	910,476	835,000	385,000	0	0
Capital lease obligations	125,989	116,408	9,581	0	0	0	0
Long-term liabilities	244,739	122,194	63,292	0	0	0	59,253
	<u>7,174,182</u>	<u>3,185,943</u>	<u>1,506,912</u>	<u>1,304,364</u>	<u>809,256</u>	<u>86,080</u>	<u>281,627</u>

(1) The Company has signed a sublease for its Toronto office which offsets the operating lease commitment.

(2) Minimum guarantees of payments to content providers for licensing of content and/or minimum performance payments.

Financial Instruments

The Company's financial instruments are comprised of cash and cash equivalents, accounts receivable, other receivables, taxes receivable, 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] Foreign exchange risk**

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

[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 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.

RELATED PARTY TRANSACTIONS

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

TransVideo

TransVideo is a company that is controlled by the Chairman of the Board of Directors of the Company that designs and sells equipment and technology for IPTV content delivery. STB purchases amounted to \$1,029,136 and \$2,745,000 and transcoder licensing fees amounted to \$8,000 and \$125,000 for the years ended December 31, 2009 and 2008, respectively. Included in cost of equipment revenue is the cost of STBs sold of \$937,204 and \$2,816,490 for the years ended December 31, 2009 and 2008, respectively.

KyLinTV

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

New York Islanders Hockey Club, L.P. ("New York Islanders")

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

Renaissance Property Associates, LLC ("Renaissance")

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

Patstar, Inc. ("Patstar")

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

Hawaii IPTV, LLC (“Hawaii”)

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

The Smile Train, Inc. (“Smile Train”)

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

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

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

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

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

Investment in Affiliate – KyLinTV

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

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

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

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

	Year ended, December 31, 2009 \$	Year ended, December 31, 2008 \$
Condensed income statement information:		
Net sales	8,127,760	6,568,101
Net loss	(5,604,118)	(8,148,974)

	December 31, 2009 \$	December 31, 2008 \$
Condensed balance sheet information:		
Current assets	1,924,891	927,427
Non-current assets	913,977	2,411,319
Total assets	2,838,868	3,338,746
Current liabilities	15,168,149	10,063,909
Non-current liabilities	—	—
Equity (deficiency)	(12,329,281)	(6,725,163)
Total liabilities and equity	2,838,868	3,338,746

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

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 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 2009, our acquisition of INSINC resulted in the allocation of a portion of the purchase price to 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 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 cash flows of the assets acquired and are amortized over the future income producing period, which we consider to be the useful life, on a straight-line basis, which approximates the pattern in which we expect to generate economic benefits from the asset.

Goodwill

Goodwill is subject to an annual impairment test or on a more frequent basis if necessary. Goodwill is tested for impairment at the beginning of the fourth quarter of each fiscal year. We also test for impairment more frequently if events or circumstances warrant. The Company as a whole is considered one reporting unit. If we determine that our carrying value exceeds our fair value, we compare 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 goodwill were to exceed the implied fair value of goodwill, an impairment loss would be recognized.

At October 1, 2009, we determined that there had been no impairment of goodwill. At December 31, 2009 we determined that no event existed between October 1, 2009 and December 31, 2009 such that goodwill needed to be tested further.

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 when events or changes in facts and circumstances indicate that their carrying value may not be recoverable. Events or changes in facts and 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 an 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, 2009, we determined that no events or changes in facts existed such that a further analysis for impairment was required.

Stock-based Compensation and Other Stock-Based Payments

We estimate the fair value of our options, warrants, restricted share units and stock appreciation rights 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") in August 2006, there was no active market for our Shares. Since we have been public for less than the vesting period of our Convertible Securities, 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 the Federal Reserve Rate. 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 Security using the simplified method based on the period for which our Convertible Securities vest or four years. Our Convertible Securities vest on a monthly basis; therefore we have estimated our forfeiture rate at zero, as actual forfeitures are known and recorded on a timely basis.

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

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

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, 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.

Stock-based compensation expense is reported in our Consolidated Statements of Operations and Comprehensive Loss within Selling, General and Administrative Expenses.

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.

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 \$93.4 million as of December 31, 2009 that expire between the tax years 2010 and 2029, and 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 2009, we expect to record the benefit as a reduction in income tax expense.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

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

Effective January 1, 2009, the Company adopted ASC Topic 815-40, “Derivatives and Hedging” (“ASC 815-40”). One of the conclusions reached under ASC 815-40 was that an equity-linked financial instrument would not be considered indexed to the entity’s own stock if the strike price is denominated in a currency other than the issuer’s functional currency. The conclusion reached under ASC 815-40 clarified the accounting treatment for these and certain other financial instruments. ASC 815-40 specifies that a contract would not be treated as a derivative if it met the following conditions: (a) indexed to the Company’s own stock; and (b) classified in shareholders’ equity in the Company’s statement of financial position. The Company’s outstanding warrants denominated in Canadian dollars as detailed in note 17 are not considered to be indexed to its own stock because the exercise price is denominated in Canadian dollars and the Company’s functional currency is United States dollars. Therefore, these warrants have been treated as derivative financial instruments and recorded at their fair value as a liability. All other outstanding convertible securities are considered to be indexed to the Company’s stock, because their exercise price is denominated in the same currency as the Company’s functional currency, and are included in shareholders’ equity.

In February 2008, the Canadian Institute of Chartered Accountants (“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 were effective for fiscal years beginning on or after October 1, 2008, with earlier adoption permitted, and have been adopted by the Company effective January 1, 2009. The objectives of the changes are to reinforce a principles-based approach to the recognition of costs as assets and to clarify the application of the concept of matching revenues and expenses in Section 1000. Collectively, these changes bring Canadian practice closer to International Financial Reporting Standards (“IFRS”) by eliminating the practice of recognizing as assets a variety of start-up, pre-production and similar costs that do not meet the definition and recognition criteria of an asset. There was no material effect on the Company’s consolidated financial statements as a result of adopting CICA Handbook Section 3064.

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

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

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

OUTSTANDING SHARE DATA

The Company had total Shares outstanding as at March 10, 2010 of 116,744,404. In addition, as at such date the Company had 28,617,125 outstanding options, SARs, restricted share units, warrants and retention warrants, which are each exchangeable for one Share upon exercise.

DISCLOSURE CONTROLS AND CONTROLS OVER FINANCIAL REPORTING

Evaluation of Disclosure Controls and Procedures:

The Company maintains appropriate disclosure controls and procedures and internal controls over financial reporting (each as defined in National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109") of the Canadian Securities Administrators) to ensure that information disclosed externally is complete, reliable and timely. The Company's Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their direct supervision of, the design and operating effectiveness of the Company's disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR") as at December 31, 2009, and have concluded that such DC&P and ICFR were appropriately designed and were operating effectively, except as outlined below. See "Limitation on scope of design" below.

Limitation on Scope of Design:

We have limited the scope of design of our internal controls and procedures and internal controls over financial reporting to exclude controls, policies and procedures of INSINC, which was acquired effective October 31, 2009. The chart below presents the summary financial information of INSINC.

Balance Sheet Data:

**December 31
2009**

	\$
Current assets	503,564
Long-term assets	186,133
Current liabilities	653,657
Long-term liabilities	120,000

Income Statement Data:

**Year ended
31-Dec-09**

	\$
Total revenue	575,347
Total cost of revenue	238,309
Net income for the year	57,088

The scope limitation is in accordance with section 3.3(1)(b) of NI 52-109 to which this MD&A relates, which allows an issuer to limit its design of DC&P and ICFR to exclude controls, policies and procedures of a business that the issuer acquired not more than 365 days prior to the end of the fiscal period.