



Score Media and Gaming Inc.
Q1 – 2020
Condensed Consolidated Interim Financial Statements
For the Three Months Ended
November 30, 2019 and 2018
(Unaudited)

Score Media and Gaming Inc.

Condensed Consolidated Interim Statements of Financial Position

(in thousands of Canadian dollars)

(unaudited)

	As at	
	November 30, 2019	August 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents (note 8)	\$ 32,087	\$ 4,035
Restricted cash related to customer deposits (note 8)	847	11
Accounts receivable	9,801	7,956
Prepaid expenses, deposits, and other assets	1,980	1,261
	<u>44,715</u>	<u>13,263</u>
Non-current assets:		
Restricted cash related to customer deposits (note 8)	664	668
Property and equipment (note 3)	3,532	1,373
Intangible and other assets (note 4)	21,465	21,760
Tax credits recoverable (note 6)	1,616	1,616
	<u>27,277</u>	<u>25,417</u>
Total assets	<u>\$ 71,992</u>	<u>\$ 38,680</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 7,217	\$ 7,147
Current portion of deferred lease obligation	-	184
Current portion of lease liability	872	-
Current portion of convertible debenture (note 13)	1,167	-
Other current financial liabilities (note 15)	27	-
	<u>9,283</u>	<u>7,331</u>
Non-current liabilities:		
Deferred lease obligation	-	112
Lease liability	1,727	-
Convertible debenture (note 13)	24,971	-
	<u>26,698</u>	<u>112</u>
Shareholders' equity	36,011	31,237
Commitments (note 9)		
Total liabilities and shareholders' equity	<u>\$ 71,992</u>	<u>\$ 38,680</u>

See accompanying notes to condensed consolidated interim financial statements.

Score Media and Gaming Inc.

Condensed Consolidated Interim Statements of Comprehensive Income (Loss)
(in thousands of Canadian dollars, except per share amounts)
(unaudited)

	Three months ended November 30,	
	2019	2018
Revenue (note 11)	\$ 9,219	\$ 9,475
Operating expenses (note 14):		
Product development and content	2,582	2,273
Sales and marketing	5,491	2,453
Technology and operations	3,158	1,261
General and administration	2,820	2,524
Depreciation and amortization	1,213	828
	<u>15,264</u>	<u>9,339</u>
Operating income (loss)	(6,045)	136
Finance income (expense), net (note 16)	<u>(1,172)</u>	<u>27</u>
Income (loss) before income tax expense (recovery)	(7,217)	163
Deferred income tax expense (recovery) (note 17)	<u>(3,107)</u>	<u>-</u>
Net income (loss)	<u>\$ (4,110)</u>	<u>\$ 163</u>
Other comprehensive income (loss)		
Foreign currency translation differences from foreign operations	16	-
Total comprehensive income (loss) for the period	<u>\$ (4,094)</u>	<u>163</u>
Income (loss) per share - basic and diluted (note 12)	<u>\$ (0.01)</u>	<u>\$0.00</u>

See accompanying notes to condensed consolidated interim financial statements

Score Media and Gaming Inc.

Consolidated Interim Statements of Changes in Shareholders' Equity

Three months ended November 30, 2019 and 2018

(in thousands of Canadian dollars, except share amounts)

(unaudited)

	Special Voting Shares		Class A Subordinate Voting Shares		Contributed Surplus	Accumulated OCI	Equity component of convertible debenture	Deficit	Total Shareholders' Equity
	Amount	Number of Shares	Amount	Number of Shares					
Balance August 31, 2018	\$ 15	5,566	\$ 68,923	297,055,284	\$ 4,777	\$ -	\$ -	\$ (55,433)	\$ 18,282
Net and comprehensive income	-	-	-	-	-	-	-	163	163
Stock based compensation expense (note 11)	-	-	-	-	119	-	-	-	119
Shares issued on exercise of stock options	-	-	75	331,668	(24)	-	-	-	51
Shares issued on completion of private placement November 2018	-	-	8,500	36,956,522	-	-	-	-	8,500
Balance November 30, 2018	\$ 15	5,566	\$ 77,498	334,343,474	\$ 4,872	\$ -	\$ -	\$ (55,271)	\$ 27,115
Balance August 31, 2019	\$ 15	5,566	\$ 90,784	356,829,447	\$ 5,280	\$ 4	\$ -	\$ (64,846)	\$ 31,237
Adjustments pertaining to IFRS 16 adoption (note 2)	-	-	-	-	-	-	-	(225)	(225)
Net loss	-	-	-	-	-	-	-	(4,110)	(4,110)
Stock based compensation expense (note 10)	-	-	-	-	153	-	-	-	153
Shares issued on exercise of stock options (note 10)	-	-	74	227,333	(25)	-	-	-	49
Convertible debenture, net of tax (note 13)	-	-	-	-	-	-	8,891	-	8,891
Foreign currency translation differences from foreign operations	-	-	-	-	-	16	-	-	16
Balance November 30, 2019	\$ 15	5,566	\$ 90,858	357,056,780	\$ 5,408	\$ 20	\$ 8,891	\$ (69,181)	\$ 36,011

See accompanying notes to condensed consolidated interim financial statements

Score Media and Gaming Inc.

Condensed Consolidated Interim Statements of Cash Flows

(in thousands of Canadian dollars)

(unaudited)

	Three months ended November 30,	
	2019	2018
Cash flows from (used) in operating activities		
Net income (loss) for the period	\$ (4,110)	\$ 163
Adjustments for:		
Depreciation and amortization	1,213	828
Stock based compensation (note 10)	153	119
Interest accretion on lease liabilities	37	-
Interest accretion on convertible debenture (note 13)	1,167	-
Revaluation of foreign currency balances (note 16)	84	-
Income tax recovery (note 17)	(3,107)	-
	<u>(4,563)</u>	<u>1,110</u>
Change in non-cash operating assets and liabilities:		
Accounts receivable	(1,845)	(3,501)
Restricted cash related to customer deposits	(832)	-
Prepaid expenses, deposits, and other assets	(719)	(304)
Accounts payable and accrued liabilities	70	401
Deferred lease obligation (note 2)	-	(20)
Other financial liabilities (note 15)	27	-
	<u>(3,299)</u>	<u>(3,404)</u>
Net cash used in operating activities	<u>(7,862)</u>	<u>(2,294)</u>
Cash flows from financing activities		
Exercise of stock options	49	51
Payment of lease liabilities (note 2)	(249)	-
Issuance of convertible debenture, net of transaction costs (note 13)	37,274	-
Issuance of shares, net of transaction costs	-	8,500
Net cash from financing activities	<u>37,074</u>	<u>8,551</u>
Cash flows used in investing activities		
Additions to property and equipment (note 3)	(166)	(41)
Additions to intangible and other assets, net (note 4)	(1,010)	(807)
Net cash used in investing activities	<u>(1,176)</u>	<u>(848)</u>
Increase in cash and cash equivalents	28,036	5,389
Net effect of exchange rate fluctuations on cash	16	-
Cash and cash equivalents, beginning of period	4,035	6,347
Cash and cash equivalents, end of period	<u>\$ 32,087</u>	<u>\$ 11,736</u>

See accompanying notes to condensed consolidated interim financial statements

Score Media and Gaming Inc.

Notes to Condensed Consolidated Interim Financial Statements
(In thousands of Canadian dollars, unless otherwise stated)

Three months ended November 30, 2019 and November 30, 2018 (unaudited)

1. Nature of operations:

Business:

Score Media and Gaming Inc. (“theScore” or the “Company”) empowers millions of sports fans through its digital media and sports betting products. Its media app ‘theScore’ is one of the most popular in North America, delivering fans highly-personalized live scores, news, stats, and betting information from their favorite teams, leagues, and players. The Company’s sports betting app ‘theScore Bet’ delivers an immersive and holistic mobile sports betting experience. Natively built for iOS and Android devices, theScore Bet is deeply integrated with theScore’s media app and is currently available to place bets in New Jersey. Publicly traded on the TSX Venture Exchange (SCR), theScore also creates and distributes innovative digital content through its web, social and esports platforms. The Company is organized and operates as one operating segment for the purpose of making operating decisions and assessing performance.

2. Significant accounting policies:

Basis of presentation and statement of compliance:

These interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) using International Accounting Standard 34, Interim Financial Reporting and using the same accounting policies and methods of computation theScore applied in its consolidated financial statements as at and for the year ended August 31, 2019, except as disclosed below. These accounting policies are disclosed in note 2 of theScore’s annual consolidated financial statements for the year ended August 31, 2019 as well as in note 2 (a) and (b) below.

The notes presented in these interim financial statements include only significant changes and transactions occurring since August 31, 2019, and do not include all disclosures required by IFRS for annual financial statements. These interim financial statements should be read in conjunction with the consolidated financial statements of the Company for the year ended August 31, 2019.

These interim financial statements are presented in Canadian dollars, which is theScore’s functional currency, and have been prepared primarily using the historical cost basis.

This is the first set of the Company’s financial statements in which IFRS 16, Leases (“IFRS 16”) has been applied. Changes to significant policies related to leases are described in Note 2(a).

Score Media and Gaming Inc.

Notes to Condensed Consolidated Interim Financial Statements
(In thousands of Canadian dollars, unless otherwise stated)

Three months ended November 30, 2019 and November 30, 2018 (unaudited)

2. Significant accounting policies (continued):

These interim financial statements were approved by the Board of Directors of theScore on January 22, 2020.

Recent standards effective September 1, 2019:

(a) IFRS 16, Leases ("IFRS 16"):

Effective September 1, 2019, the Company adopted IFRS 16 which specifies the methodology to recognize, measure, present and disclose leases. The standard introduces a single, on-balance sheet lessee accounting model, requiring lessees to recognize right-of-use assets and lease liabilities representing its obligation to make lease payments, unless the underlying leased asset has a low value or is considered short term.

The Company leases office premises and equipment. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

The Company presents right-of-use assets in "property and equipment," whereas lease liabilities are separately presented in the statement of financial position.

The Company recognizes a right-of-use asset and a lease liability at lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain re-measurements of the lease liability.

The Company adopted IFRS 16 using a modified retrospective approach. Accordingly, comparative information presented for the year ended August 31, 2019 has not been restated. On transition to IFRS 16, the Company elected to apply the practical expedient approach to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17, Leases and IFRIC 4, Determining whether an Arrangement contains a Lease were not reassessed. The Company's leases primarily consist of leases for office premises with terms ranging from 2 to 4 years. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option.

Score Media and Gaming Inc.

Notes to Condensed Consolidated Interim Financial Statements
(In thousands of Canadian dollars, unless otherwise stated)

Three months ended November 30, 2019 and November 30, 2018 (unaudited)

2. Significant accounting policies (continued):

At transition on September 1, 2019, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of lease payments at inception, discounted at the Company's incremental borrowing rate. Right-of-use assets are measured at an amount equal to the lease liabilities, adjusted for any prepaid or accrued lease payments relating to that lease.

The Company has elected to use the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
- excluded initial direct costs from the measurement of the right-of-use assets at the date of initial application; and
- relied upon the Company's assessment of whether leases are onerous under the requirements of IAS 37, Provisions, contingent liabilities and contingent assets as at August 31, 2019 as an alternative to reviewing our right-of-use assets for impairment.

The Company has elected not to separate non-lease components and will instead account for the lease and non-lease component as a single lease component. In addition, the Company has elected not to recognize right-of-use assets and lease liabilities for some leases of low value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

The impact on transition to IFRS 16 is summarized below:

	September 1, 2019
Right-of-use assets	\$ 2,288
Current portion of lease liabilities	\$ 860
Lease liabilities	\$ 1,950

When measuring lease liabilities for leases that were classified as operating leases under IAS 17, the Company discounted lease payments using its incremental borrowing rate at September 1, 2019. The weighted average rate applied is 5.44%.

Score Media and Gaming Inc.

Notes to Condensed Consolidated Interim Financial Statements
(In thousands of Canadian dollars, unless otherwise stated)

Three months ended November 30, 2019 and November 30, 2018 (unaudited)

2. Significant accounting policies (continued):

	September 1, 2019
Operating lease commitment at August 31, 2019 as disclosed in the Company's 2019 consolidated financial statements	\$ 2,999
Discounted using the incremental borrowing rate at September 1, 2019	\$ 2,756
Adjustment for discounted amount of additional lease recorded	54
Lease liabilities recognized at September 1, 2019	\$ 2,810

IFRS 16 replaces the straight-line operating lease expense recorded under IAS 17 with a depreciation charge for right-of-use assets and interest expense on lease liabilities, which resulted in a decrease in operating expenses, an increase in depreciation expense and an increase in finance costs.

The Company has applied judgment to determine the lease term for some lease contracts that include renewal options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Company recognized \$2,288 of right-of-use assets and \$2,810 of lease liabilities as at September 1, 2019. During the three months ended November 30, 2019, the Company recognized depreciation of right-of-use assets of \$186 (2018 – nil), and finance cost of \$37.

The Company also made judgements in determining the incremental borrowing rate used in measuring the lease liabilities, reflecting the rate that the Company would have to pay for a loan of similar term, with similar security, to obtain asset of similar value.

Right-of-use assets and Lease liabilities

At inception of a contract, the Company assesses whether a contract is or contains a lease based on whether the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

Score Media and Gaming Inc.

Notes to Condensed Consolidated Interim Financial Statements
(In thousands of Canadian dollars, unless otherwise stated)

Three months ended November 30, 2019 and November 30, 2018 (unaudited)

2. Significant accounting policies (continued):

The Company recognizes right-of-use assets and lease liabilities at the lease commencement date. After the initial adoption date, the right-of-use asset is initially measured at cost, which comprises:

- The amount of the initial measurement of the lease liability;
- Any lease payments made at or before the commencement date, less any lease incentives received;
- Any initial direct costs incurred; and
- An estimate of costs to dismantle or remove the underlying asset, or restore the asset to the condition required by the terms and conditions of the lease.

Subsequent to initial measurement, right-of-use assets are measured at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. The right-of-use assets are depreciated on a straight-line basis over the term of the lease, or the estimated useful life of the right-of-use assets if the Company expects to obtain the ownership of the leased asset at the end of the lease. The lease term includes the non-cancellable period of the lease and optional renewable periods that the Company is reasonably certain to extend.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

After initial recognition, the lease liability is measured at amortized cost using the effective interest method. The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase option, extension option or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset.

The lease liability is also remeasured when the underlying lease contract is amended. When there is a decrease in contract scope, the lease liability and right-of-use asset will decrease relative to this change with the difference recorded in net income prior to the remeasurement of lease liability.

Score Media and Gaming Inc.

Notes to Condensed Consolidated Interim Financial Statements
(In thousands of Canadian dollars, unless otherwise stated)

Three months ended November 30, 2019 and November 30, 2018 (unaudited)

2. Significant accounting policies (continued):

As a result of the launch of theScore Bet, the Company has adopted the following policy for gaming revenue recognition:

(b) Gaming Revenue Recognition

In transactions where the Company generates a net gain or loss on a bet which is determined by an uncertain future event, the transaction is within the scope of IFRS 9 ("Financial Instruments"). Revenue is recorded as the gain or loss on betting transactions settled during the period less, free bets, promotional costs, bonuses and fair value adjustments on open bets. The Company recognizes the gain or loss on a betting transaction as revenue when a bet is settled.. The gain or loss is calculated as the total of sums bet less amounts paid out in respect of such bets when such bets are settled with the customer. Any open bets are accounted for as a derivative financial instrument carried at fair value with gains and losses on the open bets recognized in revenue.

3. Property and equipment:

	Computer equipment	Office equipment	Leasehold improvements	Right of use lease	Total
Cost					
Balance, August 31, 2019	\$ 2,108	\$ 969	\$ 1,996	\$ -	\$ 5,073
Adjustments pertaining to IFRS 16 adoption (note 2)	-	-	-	2,288	2,288
Additions	127	1	38	-	166
Balance, November 30, 2019	\$ 2,235	\$ 970	\$ 2,034	\$ 2,288	\$ 7,527
Accumulated depreciation					
Balance, August 31, 2019	\$ 1,576	\$ 668	\$ 1,456	\$ -	\$ 3,700
Depreciation	46	15	48	186	295
Balance, November 30, 2019	\$ 1,622	\$ 683	\$ 1,504	\$ 186	\$ 3,995
Carrying amounts					
Balance, August 31, 2019	\$ 532	\$ 301	\$ 540	\$ -	\$ 1,373
Balance, November 30, 2019	\$ 613	\$ 287	\$ 530	\$ 2,102	\$ 3,532

Right-of-Use lease:

theScore's current lease agreement is for a 30,881 square foot space at its head office in Toronto, Ontario, and runs until September 30, 2022.

Score Media and Gaming Inc.

Notes to Condensed Consolidated Interim Financial Statements
(In thousands of Canadian dollars, unless otherwise stated)

Three months ended November 30, 2019 and November 30, 2018 (unaudited)

4. Intangible and other assets:

	Product development & software	Trademarks & domain names	Other Assets	Total
Cost				
Balance, August 31, 2019	\$ 25,666	\$ 358	\$ 14,649	\$ 40,673
Additions	\$ 977	\$ -	\$ 33	\$ 1,010
Revaluations of foreign currency balances	\$ -	\$ -	\$ (83)	\$ (83)
Disposals and reclassifications	\$ (2,459)	\$ -	\$ (303)	\$ (2,762)
Balance, November 30, 2019	\$ 24,184	\$ 358	\$ 14,296	\$ 38,838
Accumulated amortization				
Balance, August 31, 2019	\$ 18,678	\$ 224	\$ 11	\$ 18,913
Amortization	\$ 698	\$ 9	\$ 212	\$ 919
Disposals	\$ (2,459)	\$ -	\$ -	\$ (2,459)
Balance, November 30, 2019	\$ 16,917	\$ 233	\$ 223	\$ 17,373
Carrying amounts				
Balance, August 31, 2019	\$ 6,988	\$ 134	\$ 14,638	\$ 21,760
Balance, November 30, 2019	\$ 7,267	\$ 125	\$ 14,073	\$ 21,465

During the three months ended November 30, 2019, the Company capitalized internal product development costs of approximately \$977 (2018 - \$807). The significant development projects for the three month period ended November 30, 2019 consisted of new features in theScore's betting app, significant enhancements to live betting and sports data, and significant new enhancements to its core technology infrastructure.

5. Related party transactions:

In fiscal 2013, theScore entered into a lease for a property partially owned by the Chairman and Chief Executive Officer of the Company. The aggregate rent paid during the three months ended November 30, 2019 amounted to \$10 (2018 - \$10). The payable balances as at November 30, 2019 were \$281 (2018 – nil) including transactions whereby the related party is to be reimbursed for operational costs on behalf of theScore. These transactions are recorded at the exchange amount, being the amount agreed upon between the parties, and shall be repayable within 12 months.

Score Media and Gaming Inc.

Notes to Condensed Consolidated Interim Financial Statements
(In thousands of Canadian dollars, unless otherwise stated)

Three months ended November 30, 2019 and November 30, 2018 (unaudited)

6. Tax credits:

As at November 30, 2019, tax credits recoverable of \$1,616 are included in tax credits recoverable, non-current, in the consolidated statements of financial position (August 31, 2019 – \$1,616). Tax credits recoverable reflect management's best estimate of credits for which realization is reasonably assured based on consideration of both certificates of eligibility received from the Ontario Media Development Corporation ("OMDC") for specific claims and the OMDC's historical acceptance of expenditures of a similar nature for refundable credit. No tax credits were accrued during the three month periods ended November 30, 2019 and 2018.

7. Capital risk management:

theScore's objectives in managing capital are to maintain its liquidity to fund current and future development and growth of the business. The capital structure consists of shareholders' equity and cash.

theScore manages and adjusts its capital structure in consideration of changes in economic conditions and the risk characteristics of the underlying assets.

8. Financial risk management:

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

(a) Credit risk:

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

As at November 30, 2019 and August 31, 2019, theScore had a loss allowance for trade receivables of \$10 and \$54, respectively.

Score Media and Gaming Inc.

Notes to Condensed Consolidated Interim Financial Statements
(In thousands of Canadian dollars, unless otherwise stated)

Three months ended November 30, 2019 and November 30, 2018 (unaudited)

8. Financial risk management (continued):

At November 30, 2019 and August 31, 2019, \$1,090 and \$1,093, respectively, of accounts receivable were considered past due, which is defined as amounts outstanding beyond normal credit terms and conditions for respective customers that can extend up to 150 days from the date of initial invoicing. theScore believes that its allowance for doubtful accounts sufficiently reflects the related credit risk based on the nature of theScore's customers and consideration of past performance.

theScore has customer concentration risk as one customer, a programmatic network, represented 13% of revenue for the three months ended November 30, 2019 (November 30, 2018 – two customers, both programmatic networks, represented 13% and 14% revenue).

As at November 30, 2019 one customer, a media agency, represented 12% of the accounts receivable balance (August 31, 2019 – one customer, a media agency, represented 19% of accounts receivable balance).

(b) Liquidity risk:

Liquidity risk is the risk that theScore will not be able to meet its financial obligations as they fall due. As at November 30, 2019, theScore had cash and cash equivalents of \$32,087 (August 31, 2019 - \$4,035), restricted cash related to customer deposits on the betting platform of \$1,511 (August 31, 2019 - \$679), accounts receivable of \$9,801 (August 31, 2019 - \$7,956), non-current tax credits recoverable of \$1,616 (August 31, 2019 - \$1,616) and accounts payable and accrued liabilities to third parties of \$7,217 (August 31, 2019 - \$7,147). Accounts payable and accrued liabilities have contracted maturities of less than twelve months.

Management prepares budgets and cash flow forecasts to assist in managing liquidity risk. theScore has a history of operating losses, and can be expected to generate continued operating losses and negative cash flows in the future while it carries out its current business plan to further develop and expand its digital media business.

The Company also has access to a \$5,000 demand credit facility with a Canadian chartered bank. The credit facility is available for working capital purposes and the amount available is based on a percentage of the Company's accounts receivable and those of certain of its subsidiaries. The facility is secured by substantially all of the assets of the Company and certain of its subsidiaries.

Score Media and Gaming Inc.

Notes to Condensed Consolidated Interim Financial Statements
(In thousands of Canadian dollars, unless otherwise stated)

Three months ended November 30, 2019 and November 30, 2018 (unaudited)

8. Financial risk management (continued):

The credit facility bears an interest rate at the lenders Prime rate plus 1.00% per annum. The credit facility is repayable on demand and is subject to certain financial covenants.

While theScore can utilize its cash, cash equivalents and demand credit facility to fund its operating and development expenditures, it does not have access to other committed sources of funding, and depending upon the level of expenditures and whether profitable operations can be achieved, may be required to seek additional funding in the future.

(c) Market risk:

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

The Company does not engage in risk management practices, such as hedging or use of derivative instruments.

theScore's head office is located in Toronto, Canada. Some of theScore's customers and suppliers are based in Canada and, therefore, transact in Canadian dollars. Certain customers and suppliers are based outside of Canada and the associated financial assets and liabilities originate in U.S. dollars, Euros or Pounds Sterling, thereby exposing theScore to foreign exchange risk. theScore's exposure to foreign exchange risk is deemed to be low. Total U.S. dollar denominated receivables as at November 30, 2019 and August 31, 2019 were \$4,101 and \$3,219, respectively. The Score's foreign exchange gain (loss) is included in finance income (expense) in the condensed consolidated interim statement of comprehensive income (loss), and for the three months ended November 30, 2019 was (\$84) (November 30, 2018 – \$27).

Score Media and Gaming Inc.

Notes to Condensed Consolidated Interim Financial Statements
(In thousands of Canadian dollars, unless otherwise stated)

Three months ended November 30, 2019 and November 30, 2018 (unaudited)

8. Financial risk management (continued):

(d) Fair values:

The Company provides disclosure of the three-level hierarchy that reflects the significance of the inputs used in making the fair value measurement. The three levels of fair value hierarchy based on the reliability of inputs are as follows:

- Level 1 - inputs are quoted prices in active markets for identical assets and liabilities;
- Level 2 - inputs are based on observable market data, either directly or indirectly other than quoted prices; and
- Level 3 - inputs are not based on observable market data.

The fair values of theScore's financial assets and liabilities, including cash and cash equivalents, restricted cash, accounts receivable and accounts payable and accrued liabilities were deemed to approximate their carrying amounts due to the relative short-term nature of these financial instruments. The fair value of the convertible debenture was deemed to approximate the carrying amount due to the short passage of time between issuance date and the date of these interim financial statements and the risk factors for the Company remaining consistent within this period.

Score Media and Gaming Inc.

Notes to Condensed Consolidated Interim Financial Statements
(In thousands of Canadian dollars, unless otherwise stated)

Three months ended November 30, 2019 and November 30, 2018 (unaudited)

8. Financial risk management (continued):

(e) Cash and cash equivalents:

	November 30, 2019	August 31, 2019
Cash	\$ 10,070	\$ 4,035
Cash equivalents:		
Government treasury bills and Guaranteed Investment Certificates	\$ 22,018	\$ -
Total cash and cash equivalents	\$ 32,087	\$ 4,035
Current restricted cash related to customer deposits	\$ 847	\$ 11
Non-current restricted cash related to customer deposits	\$ 664	\$ 668

9. Commitments:

The Company has no debt guarantees, off-balance sheet arrangements or long-term obligations other than the agreements noted below.

theScore has the following firm commitments under agreements:

	Not later than one year	Later than one year and not later than five years	Later than five years
Contractual commitments	6,312	12,855	-

The Company has entered into several new agreements relating to its sports betting business which has increased future contractual commitments.

Score Media and Gaming Inc.

Notes to Condensed Consolidated Interim Financial Statements
(In thousands of Canadian dollars, unless otherwise stated)

Three months ended November 30, 2019 and November 30, 2018 (unaudited)

10. Stock based compensation:

(a) Stock Option Plan:

theScore has a stock option plan (the "Plan") under which the Board of Directors, or a committee appointed for such purpose, may, from time to time, grant to directors, officers and full-time employees of, or consultants to, theScore options to acquire Class A Subordinate Voting shares. Under the Plan, the exercise price of an option is based on the closing trading price on the day prior to the grant. An option's maximum term is 10 years and options generally vest in six month tranches over a period of three to five years. Certain of theScore's employees and consultants participate in the Plan in exchange for services provided to theScore.

The following table summarizes the status of options granted to employees of theScore under the Plan:

	Number	Exercise price	Weighted average exercise price
Outstanding options, August 31, 2019	28,301,249	\$ 0.13 - 0.385	\$ 0.23
Granted	2,000,000	0.60	0.60
Cancelled	(153,500)	0.145 - 0.30	0.25
Exercised	(227,333)	0.145 - 0.31	0.21
Outstanding options, November 30, 2019	29,920,416	\$ 0.13 - 0.60	\$ 0.26
Options exercisable, November 30, 2019	18,939,033	\$ 0.13 - 0.385	\$ 0.23

The following table summarizes the range of exercise prices and the weighted average prices of outstanding and exercisable options as at November 30, 2019.

Score Media and Gaming Inc.

Notes to Condensed Consolidated Interim Financial Statements
(In thousands of Canadian dollars, unless otherwise stated)

Three months ended November 30, 2019 and November 30, 2018 (unaudited)

10. Stock based compensation (continued):

Exercise price	Options outstanding	Options exercisable	Weighted average exercise
\$ 0.13	2,615,000	2,615,000	\$ 0.13
0.145	6,520,000	2,366,532	0.145
0.18	2,676,665	2,676,665	0.18
0.21	2,679,584	2,679,584	0.21
0.29	3,103,333	3,103,333	0.29
0.30	5,319,167	891,252	0.30
0.31	4,406,667	4,406,667	0.31
0.345	400,000	-	0.345
0.385	200,000	200,000	0.385
0.60	2,000,000	-	0.60
	29,920,416	18,939,033	\$ 0.23

As at November 30, 2019, the weighted average remaining contractual life of the options exercisable and outstanding is estimated to be 1.98 and 2.36 years, respectively.

The estimated fair value of options granted during the three months ended November 30, 2019 was determined on the date of grant using the Black-Scholes option pricing model with the following assumptions

	Three Months Ended, November 30, 2019
Fair value of each option	\$0.28
Exercise price	\$0.60
Risk-free interest rate	1.65%
Dividend yield	—
Volatility factor of the future expected market price of shares	83%
Weighted average expected life of the options	3 - 10 years

During the three months ended November 30, 2019, share-based compensation recorded in connection with stock options issued by theScore was \$153 (2018 - \$119).

Score Media and Gaming Inc.

Notes to Condensed Consolidated Interim Financial Statements
(In thousands of Canadian dollars, unless otherwise stated)

Three months ended November 30, 2019 and November 30, 2018 (unaudited)

10. Stock based compensation (continued):

(b) Share Purchase Plan:

The Company has a share purchase plan (the "SPP") in order to facilitate the acquisition and the retention of Class A Subordinate Voting shares by eligible participants. The SPP allows eligible participants to voluntarily join in a share purchase program. Under the terms of the SPP, eligible participants can have up to 5% of their compensation deducted from their pay to contribute towards the purchase of Class A Subordinate Voting shares of the Company. The Company makes a contribution equal to the amount of the compensation contributed by each participant. The Class A Subordinate Voting shares are purchased by an independent broker through the facilities of the TSX Venture Exchange and are held by a custodian on behalf of the SPP participants. During the three months ended November 30, 2019, theScore recorded an expense of \$209, as part of personnel expenses, relating to its participating employees in the SPP (2018 - \$131).

11. Revenue:

Revenue from media activities for the three months ended November 30, 2019 was \$9,219 (2018 - \$9,475).

The Company generated \$8,778 of handle¹ and \$242 (2018 - nil) of gross gaming revenue² for the three months ended November 30, 2019. After taking into account promotional costs and fair value adjustments of unsettled bets, the Company generated negative net gaming revenue³ of \$26 (2018 – nil) for the period.

Revenue from Canadian sources for the three months ended November 30, 2019 was \$3,542 (2018 - \$3,555), while revenue from non-Canadian sources (predominantly USA) for the same period was \$5,677 (2018 - \$5,920). Revenue from non-Canadian sources includes both media and gaming related amounts.

¹ Handle is calculated as the total amount of money bet by customers in respect of bets that have settled in the applicable period. Handle does not include free bets or other promotional incentives, nor money bet by customers in respect of bets that are open at period end.

² Gross gaming revenue is calculated as dollar amounts bet by customers, less the dollar amounts paid out to customers in respect of such bets which have settled in the applicable period.

³ Net gaming revenue is measured as gross gaming revenue, less free bets, promotional costs, bonuses and fair value adjustments on unsettled bets. Refer to Note 15 for more details on unsettled bets.

Score Media and Gaming Inc.

Notes to Condensed Consolidated Interim Financial Statements
(In thousands of Canadian dollars, unless otherwise stated)

Three months ended November 30, 2019 and November 30, 2018 (unaudited)

12. Basic and diluted income (loss) per share:

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

	Three months ended November 30,	
	2019	2018
Net income (loss) attributable to shareholders - basic and diluted	\$ (4,110)	\$ 163
Weighted average shares outstanding – basic and diluted	357,005,888	306,958,987
Income (Loss) per share - basic and diluted	\$ (0.01)	\$ 0.00

During the three months ended November 30, 2019 and 2018 there were no outstanding stock options or warrants included in the computation of diluted loss per share as the impact would have been anti-dilutive.

13. Convertible Debenture:

On September 5, 2019, the Company completed a non-brokered financing of \$40,000 by way of issuance of convertible debentures (“convertible debenture”). The debentures carry an interest rate of 8.0%, payable in arrears, in equal semi-annual payments on the last day of February and August in each year commencing on February 29, 2020, with a maturity date of August 31, 2024, or the earlier date of redemption, repayment or conversion.

At the holder’s option, the debenture may be converted into Class A subordinate voting shares of the Company (“Class A Shares”) at any time prior to the close of business on the earlier of the business day immediately preceding the maturity date and the business day immediately preceding the date fixed for redemption of the debenture. The conversion price will be \$0.75 for each Class A Share, being a conversion rate of 1,333.3333 Class A Shares issuable for each one thousand dollars principal amount of the debenture, subject to adjustment in certain circumstances.

Subject to specified conditions, the debenture may be redeemed at the Company’s option at par plus accrued and unpaid interest at any time after August 31, 2023 if the volume weighted average trading price of the Class A Shares during the 20 trading days ending on the fifth trading day preceding the date on which notice of the redemption is given is not less than 125% of the conversion price, or if the principal sum of the debenture outstanding is \$4,000 or less.

Score Media and Gaming Inc.

Notes to Condensed Consolidated Interim Financial Statements
(In thousands of Canadian dollars, unless otherwise stated)

Three months ended November 30, 2019 and November 30, 2018 (unaudited)

13. Convertible Debenture (continued):

Upon the occurrence of a change of control of the Company or the sale by the Company of its core assets, the Company will be required to make an offer to purchase the debenture at a price equal to 105% of the principal amount plus accrued and unpaid interest.

Transaction costs of \$3,031, were incurred and have been recorded pro rata against the liability and equity components.

Interest and accretion expense for the three months ended November 30, 2019 was \$1,167.

On inception, the Company recorded the following amounts related to the convertible debenture:

Liability component	\$	27,018
Transaction costs		(2,047)
	\$	<u>24,971</u>
Equity component (conversion feature)	\$	12,982
Transaction costs		(984)
Income tax impact of convertible debenture		(3,107)
	\$	<u>8,891</u>

For accounting purposes, the debentures are separated into their liability and equity components by first valuing the liability component. The fair value of the liability component at the time of issue was calculated as the discounted cash flows for the debentures assuming a 19% discount rate, which was the estimated rate for a similar debenture without a conversion feature. The fair value of the equity component (conversion feature) was determined at the time of issue as the difference between the face value of the debentures and the fair value of the liability component, less a deferred income tax adjustment to reflect the book to tax difference in value of the debentures at the time of issuance.

Score Media and Gaming Inc.

Notes to Condensed Consolidated Interim Financial Statements
(In thousands of Canadian dollars, unless otherwise stated)

Three months ended November 30, 2019 and November 30, 2018 (unaudited)

14. Reclassification of Expense Groupings

Effective September 1, 2019, the Company has updated expense groupings to reflect a modified internal structure and areas of expenditure. The prior period comparatives have been reclassified to conform to the current period presentation and total expenses have not changed.

The following are expense groupings for the periods ended November 30, 2018 and November 30, 2019 shown both with prior and updated expense groupings.

Previous Groupings

	Three months ended November 30,	
	2019	2018
Operating expenses:		
Personnel	\$ 5,551	\$ 4,674
Content	625	500
Technology	986	712
Facilities, administrative and other	3,703	1,971
Marketing	3,033	535
Depreciation of property and equipment	294	93
Amortization of intangible assets	919	735
Stock based compensation	153	119
	<u>\$ 15,264</u>	<u>\$ 9,339</u>

Updated Groupings

	Three months ended November 30,	
	2019	2018
Operating expenses:		
Product development and content	\$ 2,582	\$ 2,273
Sales and marketing	5,491	2,453
Technology and operations	3,158	1,261
General and administration	2,820	2,524
Depreciation and amortization	1,213	828
	<u>\$ 15,264</u>	<u>\$ 9,339</u>

Score Media and Gaming Inc.

Notes to Condensed Consolidated Interim Financial Statements
(In thousands of Canadian dollars, unless otherwise stated)

Three months ended November 30, 2019 and November 30, 2018 (unaudited)

15. Other financial liabilities

Other financial liabilities consist of open betting positions (unsettled bets) at period end. Unsettled bets are accounted for as derivative financial instruments and are carried at fair value. Gains and losses from these positions are recognised in revenue.

	Three months ended November 30,	
	2019	2018
Open bets (unsettled bets) - at fair value	\$ (27)	\$ -

16. Finance income (expense)

	Three months ended November 30,	
	2019	2018
Interest expense	\$ (1,205)	\$ -
Interest income	117	9
Revaluation of foreign currency balances	(84)	18
Net finance income (expense)	\$ (1,172)	\$ 27

17. Income Taxes

As a result of the income tax impact related to the convertible debenture and the recording of the deferred tax liability of \$3,107 (note 13), during the three months ended November 30, 2019, the Company recorded a deferred tax recovery of \$3,107 related to operating loss carryforwards through the statement of operations, resulting in a net deferred tax asset/liability of nil at November 30, 2019.