



## **ZOOMERMEDIA LIMITED**

**Management's Discussion and Analysis  
For the Three months ended September 30, 2009**

**November 27, 2009**

The following Management's Discussion and Analysis ("MD&A") provides a review of the financial condition and operating performance of ZoomerMedia Limited ("ZoomerMedia" or the "Company") for the three month period ended September 30, 2009 and should be read in conjunction with the audited financial statements and Auditors' report for fiscal year ended June 30, 2009.

### **CAUTIONARY STATEMENT ON FORWARD-LOOKING STATEMENTS**

Certain statements made in this report are 'forward-looking statements' which may include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain the words 'believe', 'anticipate', 'expect', 'estimate', 'project', 'will be', 'will continue', 'will likely result' or similar words or phrases. Forward-looking statements involve risks and uncertainties, which may cause actual results to differ materially from the forward-looking statements. The risks and uncertainties are detailed from time to time in filings by ZoomerMedia Limited with provincial securities commissions. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Such risks, uncertainties and other factors include, but are not limited to, the following:

- 1) the risks inherent in magazine publishing generally;
- 2) the risks inherent in the operation of Internet media properties generally;
- 3) the Company's dependency on a few large customers;
- 4) the competition within the media industry for the baby boom generation's business;
- 5) the risks associated with governmental regulation of the publishing and internet businesses;
- 6) the results of legal claims made by or against the Company;
- 7) the risk of managing the current revenue growth rate;
- 8) the dependence of the business on the continuing operation of its computer systems; and
- 9) the dependence on key personnel.

Given these risks, and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

### **OVERVIEW OF THE BUSINESS**

The principal business activities of the Company are the publication of a magazine, ZOOMER, specifically for adults over 45, the operation of a number of Canadian websites specifically for adults over 45 providing content, commerce and community, the operation of a lifestyle, consumer show that is principally directed to adults over 45 and the exclusive provision of membership and marketing services to CARP, an advocacy association offering a new vision of aging for Canada. The magazine generates revenue from advertising, subscriptions and sundry sources. The website generates revenue from advertising and fees related to advertising and sponsorship exclusivity agreements. The lifestyle, consumer show generates revenue from sponsorships, booth rentals and ticket sales. The provision of membership and marketing services to CARP generates revenue from royalties.

### **REVERSE TAKE-OVER**

On December 28, 2007, Olympus Management Limited ("OML"), a private Ontario corporation controlled by the Company's President and Chief Executive Officer, acquired control of Fifty-Plus.Net International Inc. ("FPN") through a reverse take-over ("RTO"). The details of the transaction are as follows:

- a) OML subscribed for 30 million units issued by FPN from treasury at a price of \$0.10 per unit for aggregate gross proceeds of \$3 million. Each unit consists of one (1) common share and one (1) share purchase warrant exercisable at \$0.10 per share until December 28, 2010, being a period of three years from the date of the RTO's closing.
- b) OML sold to FPN 66.7% of the outstanding shares of Kemur Publishing Co. Ltd. ("Kemur"). Kemur is a private Ontario corporation that publishes CARP Magazine, a magazine targeted at Canada's population of 45 years of age and older. In consideration for the transfer of these shares FPN issued 30 million common shares to OML at a price of \$0.10 per share for an aggregate consideration of \$3 million.

- c) OML transferred to FPN certain marketing rights and licensing revenues (the “royalty stream”) derived from the CARP name which has a term expiring December 31, 2009. However, there will be a deduction of \$720,765 per year payable to Lombard Canada Ltd. (“Lombard”) from these revenues for the first 15 years following the RTO’s closing as well as 50% of certain royalties over the first three years following the RTO’s closing. In addition, \$600,000 per year will be payable to Megadak Enterprises Inc. (“Megadak”) for the first 10 years following the RTO’s closing. In consideration of the transfer of the royalty stream, FPN issued to OML 71 million common shares of FPN at a price \$0.10 per share for an aggregate consideration of \$7.1 million.
- d) Pursuant to a separate agreement, FPN acquired the remaining 33.3% outstanding shares of Kemur from MRHD Holdings Limited (“MRHD”) in exchange for 12.5 million common shares of FPN at a price of \$0.10 per share for an aggregate consideration of \$1.25 million. MRHD and Megadak are under common ownership.

As a result of the RTO, the former shareholders of Kemur (i.e. OML) acquired control of FPN. Under the purchase method of accounting Kemur has been identified as the acquirer, and, accordingly, the entity is considered to be a continuation of Kemur with the net assets of FPN at the date of the RTO deemed to have been acquired by Kemur. Since the RTO is accounted for as a reverse take-over, the comparative figures are those of Kemur. The earnings of Fifty-Plus.Net International Inc. and its wholly owned subsidiary, Fifty-Plus.Net Inc. have been included in the statements of loss and comprehensive loss from the date of acquisition, December 28, 2007. On June 10, 2008, Kemur was continued as a Federal corporation and changed its name to ZoomerMedia Limited (“ZoomerMedia”).

## AMALGAMATION

On July 1, 2008, Fifty-Plus.Net International Inc. and its wholly-owned subsidiaries Fifty-Plus.Net Inc. and ZoomerMedia Limited amalgamated and now carry on business under the name ZoomerMedia Limited.

## OPERATING RESULTS

### 1st Quarter Results

For the three months ended September 30, 2009, the Company had revenue of \$2,266,326 and expenses of \$3,269,691 with a net loss of \$803,365 after reflecting a recovery of future income taxes in the amount of \$200,000. For the three months ended September 30, 2008, the Company had revenue of \$2,539,172 and expenses of \$3,658,245 with a net loss after tax of \$838,479 after reflecting a recovery of future income taxes of \$280,594.

Magazine advertising revenue was \$929,559 versus \$1,067,698 for the comparable period last year a decrease of \$138,139 (12.9%). This decrease is the result of the Company publishing two issues of ZOOMER Magazine during the quarter compared to three issues of the magazine in the previous year. During the first quarter of fiscal 2009 the Company published the final two issues of CARP Magazine and launched the first issue of ZOOMER Magazine. The publication of three issues during the same period last year resulted in higher magazine advertising revenue compared to the current quarter. Magazine advertising revenue on a per issue basis averaged \$464,780 for the three months ended September 30, 2009 compared to an average of \$335,900 per issue in the same period last year.

Royalty revenue was \$716,771 versus \$751,422 for the comparable period last year. This decrease of \$34,651 (4.6%) is attributable to the loss of an affinity partner during the past year. This affinity partner contributed \$56,085 in royalty revenue for the three months ended September 30, 2008. Royalty revenue from the remaining affinity partners was higher than the same period last year.

Subscription revenue was \$341,004 versus \$300,026 for the comparable period last year. This increase of \$40,978 (13.7%) is attributable to an increase in the subscription price of ZOOMER Magazine that was instituted in May 2009.

Website revenue was \$236,511 versus \$354,882 for the comparable period last year. This decrease of \$118,371 (33.4%) is attributable to (i) a general decline in on-line advertising that the Company experienced as the general economic conditions have impacted the advertising market, and; (ii) the ending in October 2008 of exclusivity fees earned as part of an agreement that limited the Company pursuing other advertisers for a particular market. The exclusivity fees earned were \$58,410 for the three months ended September 30, 2008.

The Company experienced a decrease in sundry revenue of \$22,663 for the quarter compared to the same quarter in the last fiscal year. This decrease is a result of the Company not earning interest revenue during the current quarter as its cash balances were lower than the same quarter last year.

Editorial expenses were \$703,450 versus \$802,971 for the comparable period last year, a decrease of \$99,521 (12.4%). Editorial expenses include the costs of creating, acquiring and assembling the magazine and creating and acquiring the content for the websites. The decrease in costs compared to the same period last year is the result of costs saving measures that have been put in place during the last fiscal year. Also the Company invested considerable effort in the creation of the premier issue of ZOOMER magazine. These non-recurring costs were incurred in the first quarter of the previous fiscal year in combination with the launch of ZOOMER magazine.

Production expenses were \$632,328 versus \$813,182 for the comparable period last year, a decrease of \$130,854 (16.1%). Production expenses include the costs of printing and distributing the magazine. The decrease in production expenses is the result of reduced printing and postage costs associated with the publication of two issues of the magazine during the quarter compared to three issues in the same quarter last year.

Royalties paid for the quarter were \$345,072 versus \$372,781 for the same period last year year. The decrease is due to the loss an affinity partner (noted above under royalty revenue) and the reduction in the royalty license fees associated with the affinity partner.

Sales expenses were \$260,333 versus \$351,711 for the same period last year, a decrease of \$91,378 (26.0%). Sales expenses include the costs associated with obtaining advertising revenue for the magazine and the websites. During the previous fiscal year the sales group underwent a number of changes including the departure of a senior sales person and marketing person and a revamping of its sales commission structure. These changes have resulted in lowered costs for the sales group.

Administration expenses were \$234,496 versus \$230,683 for the same period last year, an increase of \$3,813 (1.7%). During the previous fiscal year the Company introduced cost containment measures that are still in place. These savings were offset by the hiring of additional personnel.

Circulation expenses were \$206,578 versus \$157,186 for the same period last year, an increase of \$49,392 (31.4%). With the launch of ZOOMER magazine the Company changed how it maintains and services the magazine's subscriber database as the previous subscriber database system had severe limitations and had become obsolete. The Company engaged an outside firm for this purpose towards the end of the first quarter of last fiscal year. This outside firm specializes in maintaining subscriber lists for magazine publishers including the provision of call centre activities and direct mailings for the acquisition of new subscribers and retention of current subscribers. This change has resulted in increased costs for the current quarter when compared to the same period last year.

Management fees were \$172,178 versus \$185,218 for the same period last year, a decrease of \$13,040 (7.0%). This variance is attributable to cost containment measures that were put in place during the last fiscal year that are still in place.

Website expenses were \$133,562 versus \$134,486 for the same period last year, a decrease of \$924 (0.7%). This expense relates to the ongoing design and maintenance of the Company's suite of websites. There has not been any significant change in resources applied to maintaining the Company's websites over the past year.

Non-cash interest expense was \$87,531 versus \$94,010 for the same period last year. As the principal associated with the liability with Megadak is paid down the interest expense associated with the liability is reduced compared to the same period last year. The non-cash interest expense is related to the establishment of the liability to Megadak for the royalty stream rights described below under, "RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS".

Stock-based compensation was \$56,537 versus \$110,000 for the same period last year, a decrease of \$53,463 (48.6%). During the quarter the company did not issue any stock options but continues to expense previously granted options that have not yet fully vested. For the same period last year there was a greater number of options that were still being vested and expensed that are now fully vested.

Professional fees were \$26,400 versus \$54,635 for last year. This decline in professional fees is the result of lower utilization of outside legal services.

Directors' fees were \$9,000 versus \$8,000 for the same period last year, an increase of \$1,000 (12.5%). This increase reflects the addition of a Director to the Board of the company that took place during the period.

Total amortization expenses were \$352,226 versus \$343,381 for the same period last year. This increase of \$8,845 (2.6%) is the result of the purchase of a website, Goldhawk.com and the addition of fixed assets over the past year resulting in higher equipment depreciation.

The Company has one customer, Lombard Canada Ltd. ("Lombard"), which provided approximately 32.5% of its revenue for the period ended September 30, 2009 (2009 Q1 – 28%). Lombard is part of a group of companies that offer insurance products. Lombard and related entities have committed to the contractual arrangements as described below under, "MATERIAL CONTRACTS".

The Company currently receives government assistance through three programs. First, the Company receives postal subsidies through the Publications Assistance Program administered by the Department of Canadian Heritage. During the three months ended September 30, 2009, these subsidies totalled \$157,323 (2009 Q1 - \$194,948) and are netted against production expense in the statements of loss and comprehensive loss. Second, the Company receives an annual grant administered by the Department of Canadian Heritage to support Canadian editorial content. During the three months ended September 30, 2009, this grant totalled \$Nil (2009 Q1 - \$Nil). Third, the Company receives Interactive Digital Media Tax Credits from the Province of Ontario. During the three months ended September 30, 2009, a net tax credit of \$Nil (2009 Q1 - \$Nil) was approved under this program. The Company anticipates that it will continue to receive postal subsidies through the Publications Assistance Program and an annual editorial grant from the Department of Canadian Heritage. The Company anticipates that it will qualify to receive further subsidies from the Province of Ontario through the Interactive Digital Media Tax Credit when additional qualifying work is completed.

## QUARTERLY RESULTS OF OPERATIONS

The following table sets out selected quarterly results of the Company for the previous eight quarters. The information contained herein is drawn from the interim financial statements of the Company for each of the aforementioned periods.

	2009 Sept. 30 (\$)	2009 June. 30 (\$)	2009 Mar. 31 (\$)	2008 Dec. 31 (\$) Restated	2008 Sept. 30 (\$) Restated	2008 June 30 (\$) Restated	2008 Mar. 31 (\$) Restated	2007 Dec. 31 (\$) Restated
Revenue	2,266,326	2,808,493	2,222,716	2,814,620	2,539,172	2,205,583	2,126,833	1,096,988
Working Capital	(862,439)	64,911	1226,528	1,298,037	1,083,912	1,668,962	2,442,615	2,979,646
Working Capital exclusive of current portion of Deferred Revenue	1,003,560	1,370,037	2,741,849	2,303,797	2,430,167	2,653,861	3,501,110	4,105,536
Total Assets	18,047,740	18,375,647	19,277,217	19,593,761	19,682,363	19,732,661	20,847,543	21,640,299
Expenses	3,069,691	3,996,738	3,366,238	3,459,369	3,377,651	3,043,801	2,574,006	1,099,226
Net loss	(803,365)	(1,188,245)	(1,143,522)	(644,749)	(838,479)	(838,218)	(447,173)	(2,238)
Net loss per share	(0.00)	(0.01)	(0.01)	(0.00)	(0.00)	(0.00)	0.00	0.00

Quarterly results are inconsistent from period to period due to the cyclical nature of the publishing business of the Company. Results vary quarter over quarter as the Company's major source of revenue is advertising and subscription revenues from the publication of ZOOMER magazine. The magazine is published nine times per year which results in certain quarters receiving higher revenues from the publication of three issues and other quarters only receiving revenue from the publication of two issues. As printing and postage are a significant expense with each issue the variation in the number of issues published per quarter also affects the level of expenses.

**RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS**

On December 28, 2007, the Company acquired certain marketing rights and licensing revenues (the “royalty stream rights”). As part of the acquisition, the Company agreed to pay Megadak \$50,000 per month for 115 months following the acquisition. When determining the value of the royalty stream rights, the Company netted the liability to Megadak. Upon further review, the Company has determined that the appropriate treatment would have been to record the liability to Megadak separately. This results in the adjustments below for the three month period ended September 30, 2008:

<b>Restated Statement of Loss and Comprehensive Loss and Deficit</b>			
<b>For the three months ended September 30, 2008</b>			
	<b>As Previously</b>		
	<b>Stated</b>	<b>Adjustments</b>	<b>As Restated</b>
Royalties	\$ 372,781	\$ -	\$ 372,781
Non-cash interest expense	-	94,010	94,010
Amortization - royalty stream rights	166,667	59,618	226,285
Total expenses	3,504,617	153,628	3,658,245
Income taxes - future recovery	(290,595)	10,001	(280,594)
Net loss and comprehensive loss for the period	\$ (674,850)	\$ (163,629)	\$ (838,479)
Retained earnings, end of period	(1,166,305)	(272,033)	(1,438,338)
Net loss per share (basic and diluted)	\$ (0.00)	\$ (0.00)	\$ (0.00)

<b>Restated Statement of Cash Flows</b>			
<b>For the three months ended September 30, 2008</b>			
	<b>As Previously</b>		
	<b>Stated</b>	<b>Adjustments</b>	<b>As Restated</b>
Net loss and comprehensive loss for the period	\$ (674,850)	\$ (163,629)	\$ (838,479)
Amortization - royalty stream rights	166,667	59,618	226,285
Non-cash interest expense	-	94,010	94,010
Future income tax recovery	(290,595)	10,001	(280,594)
Accounts payable and accrued liabilities	474,519	150,000	624,519
Cash flows from operating activities	(516,700)	150,000	(366,700)
Repayment of loans payable	-	(150,000)	(150,000)

**LIQUIDITY, SOLVENCY AND CASH FLOW**

As at September 30, 2009, the Company had cash and short term deposits on hand of \$625,397 (June 30, 2009 - \$1,507,434) and working capital (excluding the current portion of deferred revenue) of \$1,003,560 (June 30, 2009 - \$1,370,037). Management is of the opinion that these cash reserves should be adequate to carry out the business plan for fiscal 2010.

The Company recorded a net loss for the period of \$803,365 and working capital decreased from \$64,911 at the beginning of the period to negative \$862,439 at the end of the period.

The Company will continue to invest in its magazine publishing operations through fiscal 2010 as it continues building and developing ZOOMER magazine. It is anticipated that increased advertising and subscription revenues should begin to exceed the increased editorial and production costs of the new magazine format, on a per issue published basis, in the fourth quarter of the current fiscal year. The Company will also continue to invest in the development of its various websites over the next fiscal year with a view to increasing page views and the resultant increase in website revenues to bring the websites to profitability.

The Company continually reviews its business plan with a careful eye on available cash reserves to sustain operations. The economic downturn has impacted the operations of the Company as the anticipated growth in both advertising revenues and the number of subscribers from the launch of ZOOMER magazine did not materialize as planned. To offset these lower revenue

expectations the Company implemented a cost cutting program in the previous fiscal year including, salary and operating expense reductions. It is anticipated that the economic recovery coupled with the growing familiarity of ZOOMER magazine will bring increased advertising revenue from the magazine and websites in the next fiscal year. These increases in revenue coupled with the cost cutting measure that have been taken will lead to profitability and stem the erosion of working capital.

The Company has also announced an acquisition that as part of the transaction includes the exercise of the 20,000,000 warrants, for gross proceeds of \$2 million and the issuance, through a private placement, of 176 million shares for gross proceeds of \$17.6 million. The majority of the proceeds will be used to finance the planned acquisition and related costs with the remainder of the proceeds used to fund ongoing operations of the Company. This transaction is expected to close during the fourth quarter of the current fiscal year.

## **Financial Instruments**

### *Fair Value Estimation*

The carrying amounts of the Company's cash and short term deposits, accounts receivable and accounts payable and accrued liabilities approximate their fair value due to their short-term nature.

The fair value of the loan payable was determined by discounting future cash liabilities at current market rates of interest available to the Company.

### *Credit Risk*

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of cash and short term deposits, and accounts receivable. Cash and short term deposits consist of deposits with major commercial banks. With respect to accounts receivable, the Company performs periodic credit evaluations of the financial condition of its customers and typically does not require collateral from them. Management assesses the need for allowances for the potential credit losses by considering the credit risk of specific customers, historical trends and other information.

### *Liquidity Risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure. It also manages liquidity risk by monitoring actual and projected cash flows, taking into account the Company's revenues and receipts and matching the maturity profile of financial assets and liabilities. The Board of Directors reviews and approves the Company's annual operating and capital budgets, as well as any material transactions out of the ordinary course of business, including proposals on acquisitions and other major investments.

### *Foreign Currency and Interest Rate Risk*

All of the Company's operations take place within Canada serving the Canadian market. There is limited exposure to foreign currency denominated assets or liabilities.

The Company's short-term and long-term liabilities have fixed interest rates, thereby minimizing the exposure to cash flow interest rate risk.

### *Capital Management*

The Company considers its capital structure to consist of all of the components of shareholders' equity. The Company manages its capital structure and makes adjustments to it in order to have funds available to support the business activities which the Board of Directors intends to pursue in addition to maximizing the return to shareholders. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

In order to carry out current operations and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the three months ended September 30, 2009.

The Company is not subject to externally imposed capital requirements.

### Contractual Obligations

The following table reflects the contractual maturity of the Company's financial liabilities and other commitments as at September 30, 2009:

<u>Financial Liabilities</u>	<u>1 year</u>	<u>2-3 years</u>	<u>4-5 years</u>	<u>Beyond 5 years</u>	<u>Total</u>
Accounts payable and accrued liabilities	\$ 1,879,741	\$ -	\$ -	\$ -	\$ 1,879,741
Royalties payable	841,598	1,441,530	1,441,530	5,645,993	9,370,651
Loan payable	600,000	1,200,000	1,200,000	1,800,000	4,800,000
Operating leases for premises and equipment	124,401	255,541	11,352	-	391,294
Capital leases	30,424	57,186	1,069	-	88,679
	<u>\$ 3,476,164</u>	<u>\$ 2,954,257</u>	<u>\$ 2,653,951</u>	<u>\$ 7,445,993</u>	<u>\$ 16,530,364</u>

Future minimum lease payments under operating leases for premises (excluding the Company's proportionate share of building operating costs) and equipment over the next four fiscal years and in aggregate are as follows:

2010	\$ 93,762
2011	125,536
2012	128,651
2013	43,345
	<u>\$ 391,294</u>

### Capital Leases

The Company has assumed various capital lease obligations with respect to certain computer equipment expiring in 2013. The monthly lease payments consist of principal repayment and interest. The minimum payments under all agreements are:

2010	\$ 22,818
2011	30,424
2012	30,424
2013	5,014
	<u>\$ 88,679</u>
Less: imputed interest	<u>(19,001)</u>
	69,678
Less: current portion	<u>(21,308)</u>
	<u>\$ 48,370</u>

## RELATED PARTY TRANSACTIONS

- a) The Company publishes a magazine called ZOOMER (formerly called “CARP, the magazine”) which is directed to adults 45 years of age and up and whose subscribers are primarily members of CARP. The majority shareholder of the Company is Olympus Management Limited (“OML”). The controlling shareholder of OML is the President and Chief Executive Officer and a director of the Company and is also the President and a director of CARP. During the three months ended September 30, 2009, the Company paid CARP subscriber list maintenance fees (included in circulation expenses) of \$Nil (2009 Q1 - \$28,416), royalties of \$150,000 (2009 Q1 - \$Nil) and received from CARP magazine advertising revenues of \$Nil (2009 Q1 - \$60,750), commissions (included in sundry revenue) of \$Nil (2009 Q1 - \$18,775), computer maintenance services fees (included in sundry revenue) of \$9,600 (2009 Q1 - \$9,900) and accounting services (netted against administration expenses) of \$10,500 (2009 Q1 - \$3,000). Included in accounts receivable is a receivable from CARP as at September 30, 2009 of \$157,671 (June 30, 2009 - \$118,227) and included in accounts payable is a payable to CARP of \$214,631 (June 30, 2009 - \$50,000). These balances are unsecured, non-interest bearing, with no fixed terms of repayment.
- b) During the three months ended September 30, 2009, the Company paid management fees of \$62,500 (2009 Q1 - \$75,000) to Olympus Management Limited (“OML”), the majority shareholder of the Company, for the provision of executive management services. The Company also charged computer maintenance service fees of \$2,700 (2009 Q1 - \$Nil) to OML. Included in accounts receivable is a receivable from OML as at September 30, 2009 of \$12,778 (June 30, 2009 - \$3,602) and included in accounts payable and accrued liabilities is a payable to OML as at September 30, 2009 of \$43,750 (June 30, 2009 - \$83,989). These balances are unsecured, non-interest bearing, with no fixed terms of payment.
- c) The Company has a loan payable to Megadak, a corporation under common ownership as the Company’s minority shareholders, MRHD Holdings Inc. During the three months ended September 30, 2009, the Company paid \$200,000 (2009 Q1 - \$150,000) towards this loan. The undiscounted value of the Company’s loan payable to Megadak as at September 30, 2009 was \$4,800,000 (June 30, 2009 - \$4,950,000).
- d) During the three months ended September 30, 2009, the Company paid management fees of \$109,678 (2009 Q1 - \$110,218) to Zoomer Management Limited, a wholly-owned subsidiary of OML, for the provision of creative, production, communications and financial administration services. The Company received from Zoomer Management Ltd. computer maintenance service fees of \$1,620 (2009 Q1 - \$Nil).
- e) During the three months ended September 30, 2009, the Company paid fees for sales management services (included in sales expenses) of \$9,271 (2009 Q1 - \$7,714) and rent (included in sales expenses) of \$1,190 (2009 Q1 - \$1,190) to MZ Media Inc. (“MZMI”), a corporation controlled by the sole shareholder of OML, who is also the President and Chief Executive Officer and a director of the Company, and received computer maintenance service fees (included in sundry revenue) from MZMI of \$21,060 (2009 Q1 - \$25,380). Included in accounts receivable is a receivable from MZMI as at September 30, 2009 of \$82,846 (June 30, 2009 - \$57,199) and included in accounts payable and accrued liabilities is a payable to MZMI of \$12,000 (June 30, 2009 - \$2,000). The balance is unsecured, non-interest bearing, with no fixed terms of payment.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

## CONTINGENT OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet financial commitments and does not anticipate entering into any contracts of such nature, other than the addition of such operating leases for equipment and premises as may be required in the normal course of business.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

Other than changes in accounting policies noted below, the interim financial statements of the Company follow the same accounting policies and methods of application as the annual audited financial statements. The interim financial statements do not contain all disclosures as required by Canadian generally accepted accounting principles for annual financial statements and accordingly should be read in conjunction with the Company’s annual audited financial statements.

## Use of Estimates and Measurement Uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period.

Items requiring significant estimates and subject to measurement uncertainty include provision for allowance for doubtful accounts receivable, the carrying values of the royalty stream rights, intangible assets, goodwill, loan payable and the valuation of warrants and stock options.

### *Goodwill*

Goodwill has been recorded as a result of the acquisition of Fifty Plus.Net International Inc. Goodwill is tested for impairment annually or more frequently if events and circumstances indicate that the asset might be impaired. Impairment is tested at the business unit level by comparing the business unit's carrying amount, including goodwill to the fair value of the business unit. The fair values of the business units are estimated using a combination of the discounted cash flow and capitalized earnings before interest, taxes, depreciation and amortization approaches. To determine the fair value using the discounted cash flow approach, the Company uses estimates that include: (i) revenue; (ii) expected growth rates; (iii) costs; and (iv) appropriate discount rates. Significant management judgement is required in forecasting future operating results. Should different conditions exist, material impairments of goodwill could occur.

## Going Concern Assumption

The financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of its operations. The Company has incurred operating losses over the past two years and an erosion of its working capital during the current year.

Historically, management has consistently been able to raise sufficient funds to finance its operations, and has raised capital in the amount of \$1,000,000 during the year through the exercise of 10,000,000 warrants by the Company's majority shareholder. The majority shareholder continues to hold an additional 20,000,000 warrants. Also, the Company has announced an acquisition that as part of the transaction includes the exercise of the 20,000,000 warrants, as noted above, for gross proceeds of \$2 million and the issuance, through a private placement, of 176 million shares for gross proceeds of \$17.6 million. The majority of the proceeds will be used to finance the planned acquisition and related costs with the remainder of the proceeds used to fund ongoing operations of the Company. This transaction is expected to close during fourth quarter of the current fiscal year.

## Adoption of New Accounting Policies

### a) Accounting Principles Issued but not yet Implemented:

#### i) Adoption of International Financial Reporting Standards:

In February 2008, the Accounting Standards Board ("AcSB") confirmed that Canadian GAAP for publicly accountable enterprises will be converged with International Financial Reporting Standards ("IFRS") effective in calendar year 2011, with early adoption allowed starting in calendar year 2009. The conversion to IFRS will be required, for the Company, for interim and annual financial statements beginning on July 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. In the period leading up to the conversion, the AcSB will continue to issue accounting standards that are converged with IFRS such as IAS 2 "Inventories" and IAS 38 "Intangible assets", thus mitigating the impact of adopting IFRS at the mandatory transition date. The Company continues to monitor and assess the impact that the adoption of IFRS will have on its financial statements.

#### 1. Components of the Changeover Plan

The Company is in the process of developing its IFRS changeover plan to address the impact of IFRS on its business and allow the Company time to develop and implement those actions necessary to ensure the adoption of IFRS standards for interim and annual financial statements on or after January 1, 2011.

The changeover plan will include a statement of the process that the Company anticipates following in executing the conversion to IFRS on a timely basis, including allocation of responsibilities, deadlines, progress review and communication of progress, both internally and externally.

The plan will incorporate six significant items being: (i) accounting policies, including choices among policies permitted under IFRS, and implementation decisions such as whether certain changes will be applied on a retrospective or a prospective basis; (ii) information technology and data systems; (iii) internal control over financial reporting; (iv) disclosure controls and procedures, including investor relations and external communication plans; (v) financial reporting expertise, including training requirements; and (vi) business activities that may be influenced by Canadian GAAP measures such as debt covenants, capital requirements and compensation arrangements.

## 2. The Conversion Process

The approach to the conversion process is to focus on those areas where the greatest effort is needed, prioritizing the conversion plan according to the time expected to be required to assess and convert the Financial Statements to be compliant with IFRS.

The Company anticipates focusing first on those financial reporting processes that involve gathering different and new data where system changes are necessary and those standards that are the most complex to understand and evaluate. The Company will also focus on the financial reporting that will have the most material impact on the financial statements. The Company is also assessing how to approach those IFRS standards that are currently being revised and when the standard is expected to be applicable to the Company's 2011 reporting.

### ii) Goodwill and Intangible Assets:

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets, replacing Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning July 1, 2009. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company is currently evaluating the impact of the adoption of this new Section.

### iii) Business Combinations

CICA Handbook Section 1582 "Business Combinations", replaces Section 1581 - "Business Combinations" and provides the Canadian equivalent to International Financial Reporting Standards ("IFRS") 3 - Business Combinations. This applies to a transaction in which the acquirer obtains control of one or more businesses. Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be improbable, will be measured at fair value. Any interest in the acquiree owned prior to obtaining control will be remeasured at fair value at the acquisition date, eliminating the need for guidance on step acquisitions. Additionally, a bargain purchase will result in recognition of a gain and acquisition costs must be expensed. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of this new Section.

### iv) Consolidations and Non-controlling Interests

CICA Handbook Sections 1601 "Consolidations" and Section 1602 "Non-Controlling Interests" replace Section 1600 "Consolidated Financial Statements". Section 1602 provides the Canadian equivalent to International Accounting Standard 27 - "Consolidated and Separate Financial Statements", for non-controlling interests. The Company is currently evaluating the impact of the adoption of this new Section.

## MATERIAL CONTRACTS

The Company has the right to implement CARP affinity programs, as well as provide control over certain other rights to license the use of the CARP logo, and to control the use of the CARP name and other intellectual property in certain media as follows:

### a) Agency Agreement

An assignment of the agency agreement dated May 1, 2001, pursuant to which the Company has the right to act as the exclusive representative and agent with regard to contracts, dealings and endeavours of any type by virtue of which CARP could receive certain remuneration. The agreement has terms which continue until December 31, 2099 subject to cancellation by the Company on three years' notice. The rights of the Company under this agreement include the following rights:

- (i) to publish articles, newsletters, tabloids, newspapers, magazines and other periodicals in any form of media featuring, using or exploiting CARP's name and/or any one or more of CARP's tradenames, trademarks or other like intellectual property;
- (ii) to publish books featuring, using or exploiting CARP's name and/or any one or more of CARP's tradenames, trademarks or other like intellectual property;
- (iii) to produce and distribute radio programs, television programs, and programs in any other media using or exploiting CARP's name and/or any one or more of CARP's tradenames, trademarks or other like intellectual property;
- (iv) to produce and distribute motion pictures in film, video and any other media using or exploiting CARP's name and/or any one or more of CARP's tradenames, trademarks or other like intellectual property;
- (v) to affix any one or more of CARP's tradenames, trademarks or other like intellectual property to products, packaging, sales or promotional materials, except those soliciting membership in CARP;
- (vi) to mark products and/or their packaging as having been approved by CARP, or as having been manufactured under license from CARP, or as having been produced for members of CARP;
- (vii) to hold out products or services as having been approved by CARP or as having been designed or formulated for members of CARP, including without limitation offering products or services at prices which purportedly for members of CARP afford a discount from the regular prices thereof;
- (viii) to promote and market goods and services to the members of CARP, including, but without limiting the generality of the foregoing, newspapers; publications other than newspapers; residences; nursing care facilities; medical facilities; communication equipment and services; appliances; vehicles (rental, lease and sale); transportation facilities and services; vacations; travel accommodation and services; financial services; insurance services, policies and programs; educations services; and entertainment;
- (ix) to establish and maintain any one or more remotely accessible information or communication sites (including but without limitation any one or more sites on the worldwide web) which are targeted to members of CARP, under any contractual format or regime which is contemplated to generate revenues; and
- (x) to use CARP's membership list subject to and in compliance with applicable legislation.

The Company is entitled to utilize such rights at its own discretion and to remunerate CARP as it may determine at its own discretion. Subject to certain terms and conditions including the obligation to ensure that no published material is obscene, lewd or lascivious, or promotes or could incite hatred or intolerance of, or discrimination against, any persons because of their race, colour, religion or national origin, sex, sexual orientation, handicap or family status.

The royalty revenues earned under the agency agreement will be offset by certain deferred payment obligations to Megadak and Lombard which were incurred in order to acquire the royalty rights. These deferred payment obligations may be summarized as follows:

	<u>Payment to Megadak</u>	<u>Payment to Lombard</u>	<u>Total</u>
1 Year	\$ 600,000	\$ 841,598	\$ 1,441,598
2 Years	600,000	720,765	1,320,765
3 Years	600,000	720,765	1,320,765
4 Years	600,000	720,765	1,320,765
5 years	600,000	720,765	1,320,765
Beyond 5 years	<u>1,800,000</u>	<u>5,645,993</u>	<u>7,445,993</u>
<b>Total</b>	<b><u>\$ 4,800,000</u></b>	<b><u>\$ 9,370,651</u></b>	<b><u>\$ 14,170,651</u></b>

b) Publishing Contract

An assignment of a publishing contract dated May 1, 2001, pursuant to which the Company has been given the sole and exclusive right, license and authority to publish magazines, newspapers, newsletters, tabloids and other periodicals, as well as books, pamphlets, catalogues and other publications, intended principally for members of CARP, in any form of media now known or which hereafter comes into existence (including without limitation, in print form or in any electronic form, which expression includes the worldwide web) under, featuring, using or exploiting any one or more of CARP's tradenames, trademarks and other intellectual property.

c) Lombard Canada Ltd. Royalty Agreement

An assignment of a royalty agreement dated August 1, 2007 pursuant to which Lombard has agreed to pay the Company a royalty calculated on the amount of direct premiums for insurance coverage payable until August 1, 2022 under policies of insurance insuring any members of CARP and issued or placed by Lombard or its affiliates. The royalty payment agreement permits an annual discount of \$720,765 which totals \$10,811,475 over the term of the agreement. In addition, during the first three years of the royalty agreement, Lombard receives certain credits for licensing revenues associated with financial products and services which are estimated to total \$417,000 (2008 - \$127,000; 2009 - \$145,000; 2010 - \$145,000). Pursuant to this agreement, Lombard is required to spend a minimum of \$250,000 in advertising with ZOOMER magazine, increased annually by the Consumer Price Index for a period of 15 years, except that for every 10% reduction in the subscription levels for ZOOMER magazine during a contract year from a threshold level of 90% of the paid subscribers as at August 1, 2007 (approximately 190,000 paid subscribers), such minimum advertising commitment may be reduced by 10%. Lombard may elect to cease making advertising expenditures where the ZOOMER magazine subscription level falls to less than 60% of such threshold and there is a failure to raise the ZOOMER magazine subscription level to greater than 60% of such threshold upon 60 days' notice.

**LEGAL PROCEEDINGS**

The Company is not engaged in any legal proceedings.

**PROPOSED ACQUISITION**

On June 15, 2009 the Company announced that it entered into an agreement with VisionTV: Canada's Faith Network ("VTV") to purchase:

- a) the assets and undertakings of the business of VTV used exclusively and predominantly in connection with VTV's ownership and operation of the Canadian specialty television programming service known as and operating under the name "VisionTV";
- b) all of the issued and outstanding shares in the capital of Christian Channel Inc. ("CCI") owned by VTV, with the primary assets with the primary assets owned by CCI being the CRTC licenses for the television programming undertakings of CHNU-TV Fraser Valley and CIIT-TV Winnipeg, also know respectively as "Joytv 10" and "Joytv 11"; and
- c) all of the issued and outstanding shares in the capital of Vision TV Digital Inc. ("VTVDI") owned by VTV, with the primary asset owned by VTVDI being its 47.22% ownership interest in ONE: The Body, Mind and Spirit Channel Inc., being holder of the CRTC license for an English language Category 1 specialty television service known as ONE: The Body Mind and Spirit Channel ("ONE")

The Company has agreed to purchase the assets of Vision TV: Canada's Faith Network ("VTV") for a purchase price of \$25million. The purchase price will be paid at the time of closing through the payment to VTV of \$14million in cash and \$11million by way of a promissory note payable over 10 years at an interest rate of 7% per month in blended monthly payments.

The Company also announced that it has entered into an agreement with Fairfax Financial Holdings Limited ("Fairfax") whereby Fairfax has agreed to subscribe for and the Company has agreed to issue to Fairfax, on a private placement basis, 44,025,901 common shares and 131,974,099 non-voting Series 1 Class A preference shares of the Company all issued at a price of \$0.10 per share.

The investment of Fairfax is conditioned on the successful acquisition of VTV and the acquisition of several media and real estate assets ("MZ Assets") owned directly or indirectly by the Company's President and Chief Executive Officer and majority shareholder, Moses Znaimer. The MZ Assets include:

- a) all of the issued and outstanding shares in the capital of MZMedia Inc. ("MZMI"), with the primary assets of MZMI being the CRTC licenses for the radio undertakings of CFMZ-FM, the New Classical 96.3FM and 103.1FM and CFZM, Zoomer Radio AM740;
- b) all of the issued and outstanding shares in the capital of MZTF Production and Distribution Inc. (MZTV P&D"), with the primary assets of MZTV P&D being a television production and distribution business;
- c) all of the issued and outstanding shares in the capital of Zoomer Management Limited ("ZML"), with the primary assets of ZML being the management services operation providing creative, production, communications and financial administration services to a variety of companies;
- d) all of the assets and undertakings of the business used exclusively and predominantly in connection with the operation of the annual Canadian conference known as and operating under the name "ideaCity"; and
- e) an office building situated on 2.6 acres of commercial property in downtown Toronto, known municipally as 64 Jefferson Avenue, Toronto, Ontario.

The proposed terms for the acquisition of all of the MZ Assets include the issuance to OML and Moses Znaimer, of 4,094,970 common shares and 255,905,030 non-voting Series 2 Class A preference shares of the Company all issued at a price of \$0.10 per share and cash consideration of \$4 million. At the time of closing, OML will also exercise warrants to acquire 20 million common shares of the Company at a price of \$0.10 per share. This warrant exercise is also a condition of the Fairfax financing.

The completion of the acquisition of the assets from VTV and the acquisition of MZMI are subject to CRTC approval. The completion of all of the transactions described above is subject to shareholder approval, TSX Venture Exchange approval and to the extent any of the transactions are considered related party transactions, minority shareholder approval. Assuming all requisite approvals are secured, all of the foregoing transactions are expected to close in spring of 2010. If the Company does not proceed with the acquisition after receiving CRTC approval, the Company will pay a termination fee of \$250,000.

To September 30, 2009, the Company has incurred legal costs of \$86,021 relating to the proposed acquisition.

#### **DISCLOSURE OF OUTSTANDING SHARE DATA**

ZoomerMedia Limited common shares trade on the TSX Venture Exchange under the symbol "ZUM". The Company is authorized to issue an unlimited number of preference shares in one or more series and an unlimited number of common shares without par value. As at November 27, 2009, there were 181,086,025 common shares issued and outstanding, 14,429,743 stock options outstanding with a weighted average exercise price of \$0.13 expiring between 2011 and 2014 and 20,000,000 common share purchase warrants outstanding with a weighted average exercise price of \$0.10 expiring in 2010.

#### **ADDITIONAL INFORMATION**

Additional information relating to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com).