DHX Media Ltd.

Consolidated Financial Statements
June 30, 2011 and June 30, 2010
(expressed in thousands of Canadian dollars, except for shares and amounts per share)

September 16, 2011

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of **DHX Media Ltd.** have been prepared by the Company's management. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and contain estimates based on management's judgment. Internal control systems are maintained by management to provide reasonable assurances that assets are safeguarded and financial information is reliable.

The Board of Directors of the Company is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements and the accompanying management discussion and analysis. The Board carries out this responsibility through its Audit Committee.

The Audit Committee is appointed by the Board and all of its members are independent directors. It meets with the Company's management and auditors and reviews internal control and financial reporting matters to ensure that management is properly discharging its responsibilities before submitting the financial statements to the Board of Directors for approval.

PricewaterhouseCoopers LLP, appointed as the Company's auditors by the shareholders, has examined these consolidated financial statements and their report follows.

(signed) "*Michael Donovan*"
Chief Executive Officer
Halifax, Nova Scotia

(signed) "*Dana Landry*"
Chief Financial Officer
Halifax, Nova Scotia

PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.
Chartered Accountants
Summit Place
1601 Lower Water Street, Suite 400
Halifax, Nova Scotia
Canada B3J 3P6
Telephone +1 (902) 491 7400
Facsimile +1 (902) 422 1166

September 16, 2011

Independent Auditor's Report

To the Shareholders
of DHX Media Ltd.

We have audited the accompanying consolidated financial statements of **DHX Media Ltd.** and its subsidiaries, which comprise the consolidated balance sheets as at June 30, 2011 and June 30, 2010 and the consolidated statements of income (loss) and comprehensive income (loss) and deficit and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of DHX Media Ltd. and its subsidiaries as at June 30, 2011 and June 30, 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) *"PricewaterhouseCoopers LLP"*

Chartered Accountants

DHX Media Ltd.

Consolidated Balance Sheets

As at June 30, 2011 and June 30, 2010

(expressed in thousands of Canadian dollars, except for shares and amounts per share)

	2011 **$**	**2010** **$**
Assets		
Current assets		
Cash	18,662	15,920
Short-term investments (note 4)	6,060	6,098
Amounts receivable (note 5)	53,533	54,332
Prepaid expenses and deposits	1,191	622
Current portion of investment in film and television programs (note 6)	13,297	10,952
	92,743	87,924
Investment in film and television programs (note 6)	26,299	18,940
Investment in production companies and other equity investment (note 7)	2,682	3,409
Property, plant and equipment (note 8)	9,807	7,545
Long-term investment (note 3(b))	330	330
Intangible assets (note 9)	3,552	4,068
Goodwill (note 9)	11,088	11,088
	146,501	133,304
Liabilities		
Current liabilities		
Bank indebtedness (note 10)	5,200	250
Accounts payable and accrued liabilities	16,390	12,481
Deferred revenue	9,397	3,901
Interim production financing (note 11)	29,319	32,815
Current portion of long-term debt and obligations under capital leases (note 12)	1,017	541
	61,323	49,988
Long-term debt and obligations under capital leases (note 12)	2,893	2,623
Future income taxes (note 15)	226	514
	64,442	53,125
Shareholders' Equity		
Share capital and contributed surplus (note 13)	82,334	82,167
Deficit	(275)	(1,988)
	82,059	80,179
	146,501	133,304

Commitments and contingencies (note 17)

The accompanying notes form an integral part of these financial statements.

Approved by the Board of Directors

(signed) "*Donald Wright*", Director

(signed) "*Sir Graham Day*", Director

DHX Media Ltd.

Consolidated Statements of Income (loss) and Comprehensive Income (loss) and Deficit
For the years ended June 30, 2011 and June 30, 2010

(expressed in thousands of Canadian dollars, except for shares and amounts per share)

	2011 $	2010 $
Revenues (note 21)	54,676	40,471
Direct costs and amortization of film and television produced	32,409	24,062
	22,267	16,409
Operating expenses		
Amortization of acquired library	611	897
Impairment in value of certain investment in film and television programs	450	557
Development expenses and other	875	449
Selling, general and administrative	15,449	12,984
	17,385	14,887
Income before the following	4,882	1,522
Amortization of property, plant and equipment and intangibles	2,133	2,274
Equity loss (note 7)	553	40
Foreign exchange loss (gain)	(54)	587
Gain on restructuring of investment (note 3(b))	–	(348)
Interest expense	235	291
Interest income	(183)	(68)
Loss from strategic investments	28	47
Loss from non-controlling interest	–	3
Income (loss) before income taxes	2,170	(1,304)
Provision for (recovery of) income taxes (note 15)		
Large corporation taxes	60	60
Current income taxes	918	(154)
Future income taxes	(521)	(397)
	457	(491)
Net income (loss) and comprehensive income (loss) for the years	1,713	(813)
Deficit – Beginning of years	(1,988)	(1,175)
Deficit – End of years	(275)	(1,988)
Basic earnings (loss) per common share (note 19)	0.03	(0.02)
Diluted earnings (loss) per common share (note 19)	0.03	(0.02)

The accompanying notes form an integral part of these financial statements.

DHX Media Ltd.

Consolidated Statements of Cash Flows

For the years ended June 30, 2011 and June 30, 2010

(expressed in thousands of Canadian dollars, except for shares and amounts per share)

	2011 $	2010 $
Cash provided by (used in)		
Operating activities		
Net income (loss) and comprehensive income (loss) for the years	1,713	(813)
Charges (credits) to income not involving cash		
Amortization of film and television programs	13,099	17,867
Amortization of acquired library	611	897
Amortization of property, plant and equipment	1,184	1,198
Amortization of intangible assets	949	1,076
Unrealized foreign exchange loss (gain)	(315)	436
Equity loss	553	40
Impairment in value of certain investment in film and television programs	450	557
Unrealized (loss) gain on short-term investments	45	(12)
Loss (gain) on disposal of short-term investments	(17)	44
Gain on restructuring of investment	–	(348)
Stock-based compensation	528	731
Interest on promissory notes	5	9
Loss from non-controlling interest	–	3
Recovery of future income taxes	(521)	(397)
	18,284	21,288
Net investment in film and television programs	(17,248)	(13,386)
Net change in non-cash working capital balances related to operations (note 20)	10,854	8,481
Cash provided by operating activities – continuing operations	11,890	16,383
Cash used in operating activities – discontinued operations	–	(13)
Cash provided by operating activities	11,890	16,370
Financing activities		
Proceeds from issuance of common shares and warrants, net of issuance costs	(120)	18,921
Proceeds from issuance of common shares related to employee share purchase plan and options	28	–
Proceeds from repayment of employee share purchase loan	2	2
Common shares repurchased and cancelled	(43)	(116)
Proceeds from (repayment of) bank indebtedness	4,950	(2,500)
Repayment of interim production financing	(3,496)	(20,978)
Repayment of long-term debt	(544)	(635)
Repayment of other liabilities	–	(675)
Cash provided by (used in) financing activities	777	(5,981)
Investing activities		
Business acquisitions, net of cash acquired (note 3(a))	(8,175)	–
Acquisitions of short-term investments	(4,010)	(6,086)
Proceeds on disposal of short-term investments	4,030	228
Acquisition of property, plant and equipment	(1,944)	(500)
Net cash advances from investees	174	1,083
Cash used in investing activities	(9,925)	(5,275)
Net change in cash during the years	2,742	5,114
Cash – Beginning of years	15,920	10,806
Cash – End of years	18,662	15,920

The accompanying notes form an integral part of these financial statements.

(expressed in thousands of Canadian dollars, except for shares and amounts per share)

1 Nature of the business and significant accounting policies

DHX Media Ltd. (the "Company") is a public company whose common shares are traded on the Toronto Stock Exchange (TSX), admitted on May 19, 2006 (symbol DHX). The Company, incorporated on February 12, 2004 under the laws of the Province of Nova Scotia, Canada, and continued on April 25, 2006 under the Canada Business Corporation Act, develops, produces and distributes films and television programs for the domestic and international markets. The address of the Company's head office is 1478 Queen Street, Halifax, Nova Scotia, Canada, B3J 2H7.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Principles of consolidation

The consolidated financial statements include the accounts of DHX Media Ltd. and all of its subsidiaries and all variable interest entities for which it is the primary beneficiary with provision for minority interests, and its proportionate share of assets, liabilities, revenues and expenses for jointly controlled operations. Investments in entities over which the Company has significant influence are accounted for using the equity method. Intercompany accounts and transactions among consolidated companies have been eliminated upon consolidation.

Revenue recognition

Revenue from the licensing of film and television programs is recognized when:

(a) the Company has persuasive evidence of a contractual arrangement;
(b) the production has been completed;
(c) the contractual delivery arrangements have been satisfied;
(d) the licensing period has commenced;
(e) the fee is fixed or determinable; and
(f) collectability of proceeds is reasonably assured.

Cash payments received or advances currently due pursuant to a broadcast license or distribution arrangement are recorded as deferred revenue until all of the foregoing conditions of revenue recognition have been met. Revenue from production services for third parties is recognized on a percentage-of-completion basis. Percentage-of-completion is based upon the proportion of costs incurred in the current period to total expected costs. A provision is made for the entire amount of future estimated losses, if any, on production-in-progress. In the case of Yo-Gabba-Gabba! Live Tour ("YGG Tour"), the revenue is recorded in the period in which the show is performed and other revenue recognition criteria are met. Royalty revenue is accrued for royalty streams the Company has a history of receiving revenue on and is recognized in periods in accordance with statements received from third party agents and/or based on historical experience.

(expressed in thousands of Canadian dollars, except for shares and amounts per share)

1 Nature of the business and significant accounting policies (continued)

Investment in film and television programs

Investment in film and television programs represents the unamortized costs of film and television programs which have been produced by the Company or for which the Company has acquired distribution rights and the Company's right to participate in certain future cash flows of film and television programs produced and distributed by other unrelated parties ("Acquired Participation Rights"). Investment in film and television programs also includes acquired film and television libraries or properties that are in production.

Costs of acquiring and producing film and television programs are capitalized, net of federal and provincial program contributions earned, and amortized using the individual film forecast method, whereby capitalized costs are amortized and ultimate participation costs are accrued in the proportion that current revenue bears to management's estimate of ultimate revenue expected to be recognized from the exploitation, exhibition or licensing of the film or television program. For film and television programs produced by the Company, capitalized costs include all direct production and financing costs incurred during production that are expected to benefit future periods. Financing costs are capitalized to the costs of a film or television program until the film or television program is complete. Capitalized production costs do not include administrative and general expenses, or charges for losses on properties sold or abandoned. For episodic television series, until estimates of secondary market revenue can be established, capitalized costs for each episode produced are limited to the amount of revenue contracted for each episode. Costs in excess of this limitation are expensed as incurred on an episode-by-episode basis. Production financing provided by third parties that acquire equity participation is recorded as a reduction of the cost of the production. Acquired Participation Rights are recognized initially at the amounts paid or the fair value of amounts due to the counterparty.

For films other than episodic television series and acquired libraries, ultimate revenue includes estimates over a period not to exceed ten years following the date of initial release. For episodic television series, ultimate revenue includes estimates of revenue over a period not to exceed ten years from the date of delivery of the first episode or, if still in production, five years from the date of delivery of the most recent episode, if later. For acquired film and television libraries previously released, ultimate revenue includes estimates of revenue over a period not to exceed twenty years from the date of acquisition.

Ultimate revenue estimates are prepared on a title-by-title basis and are reviewed periodically based on current market conditions. For film, ultimate revenue estimates include box office receipts, sale of videocassettes, and DVDs, licensing of television broadcast rights and licensing of other ancillary film rights to third parties. For television programs, ultimate revenue estimates include licensed rights to broadcast television programs in development and rights to renew licenses for episodic television programs in subsequent seasons. Ultimate revenue includes estimates of secondary market revenue for produced episodes only when the Company can demonstrate through its experience or industry norms that the number of episodes already produced, plus those for which a firm commitment exists and the Company expects to deliver, can be licensed successfully in the secondary market. Ultimate estimates of future revenue involve measurement uncertainty and it is therefore possible that reductions in the carrying value of investment in film and television programs may be required as a consequence of changes in management's future revenue estimates.

(expressed in thousands of Canadian dollars, except for shares and amounts per share)

1 Nature of the business and significant accounting policies (continued)

Investment in film and television programs (continued)

The valuation of investment in film and television programs (including Acquired Participation Rights), is reviewed on a title-by-title basis when an event or change in circumstances indicates that the net realizable value of a film or television program or the acquired participation right is less than its unamortized cost. The net realizable value of the film or television program is determined using management's estimates of future revenues and costs under a discounted cash flow approach. A write-down is recorded equivalent to the amount by which the unamortized costs exceed the estimated net realizable value of the film or television program or acquired participation right.

Development costs

Development costs include costs of acquiring film rights to books, stage plays or original screenplays and costs to adapt such projects. Such costs are capitalized and, upon commencement of production, are added to investment in film and television programs or film and television programs in progress. Advances or contributions received from third parties to assist in development are deducted from these costs. Projects in development are written off as development expenses at the earlier of the date determined not to be recoverable or when projects under development are abandoned, or three years from the date of the initial investment, if there have been no active developments within the last year.

Property, plant and equipment

Property, plant and equipment are carried at cost, including capitalized interest on major projects, less accumulated amortization. Amortization is provided, commencing when the asset is placed into service, over the estimated useful life of the asset, using the following annual rates and methods:

Building	4% by declining balance
Furniture, fixtures and other equipment	20% by declining balance
Computer equipment	30% by declining balance and 3 years straight line
Post-production equipment	30% by declining balance
Computer software	2 to 5 years straight-line
Website design	2 years straight-line
Leasehold improvements	3 - 5 years straight-line and straight-line over term of lease

Intangible assets

Intangible assets are carried at cost, including amounts of purchase price allocations upon acquisitions. Amortization is provided over the estimated useful life of the assets, using the following annual rates and methods:

Production backlog	2 to 3 years straight-line
Broadcaster relationships	7 to 10 years straight-line
Customer distributor and franchise relationships	10 years straight-line
Non-compete contracts and brand	3 to 9 years straight-line
Production software	5 years straight-line

(expressed in thousands of Canadian dollars, except for shares and amounts per share)

1 Nature of the business and significant accounting policies (continued)

Government financing and assistance

The Company has access to several government programs, including tax credits that are designed to assist film and television production and distribution in Canada. Amounts received or receivable from the government in respect of production assistance are recorded as a reduction of the production costs of the applicable production. Government assistance towards current expenses is recorded as a reduction of the applicable expense item.

Impairment of long-lived assets

Long-lived assets are tested for impairment whenever circumstances indicate that the carrying value may not be recoverable. When events or circumstances indicate that the carrying amount of long-lived assets, other than indefinite life intangibles, are not recoverable, the long-lived assets are tested for impairment by comparing the estimate of future expected cash flows to the carrying amount of the assets or groups of assets. If the carrying value is not recoverable from future expected cash flows, any loss is measured as the amount by which the asset's carrying value exceeds fair value and recorded in the period. Recoverability is assessed relative to undiscounted cash flows from the direct use and disposition of the asset or group of assets.

Indefinite life assets are subject to annual impairment tests under GAAP, or when events or circumstances indicate a potential impairment. Any impairment would be recognized as an expense in the period of impairment.

Income taxes

Future income taxes are provided for using the liability method whereby future income taxes are recognized for the expected future income tax consequences of all significant temporary differences between the tax and financial statement bases of assets and liabilities.

Future income tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of the enactment or substantive enactment.

Foreign currency

Monetary assets and liabilities denominated in currencies other than Canadian dollars are translated at exchange rates in effect at the balance sheet date. Revenue and expense items are translated at average rates of exchange for the year. Translation gains or losses are included in the determination of earnings.

Earnings (loss) per share

Earnings (loss) per share basic and fully diluted are computed based on the weighted average number of common shares outstanding during the year. Diluted loss per share does not include the potential exercise of the employee stock options, the put options and warrants where to do so would be anti-dilutive for the periods presented.

(expressed in thousands of Canadian dollars, except for shares and amounts per share)

1 Nature of the business and significant accounting policies (continued)

Goodwill

Goodwill represents the cost of acquired businesses in excess of the fair value of net identifiable assets acquired. Goodwill is not subject to amortization and is tested for impairment annually or more frequently if events or circumstances indicate that the asset might be impaired. Impairment is tested by comparing the fair value of goodwill assigned to a particular reporting unit to its carrying value.

Management estimates

The presentation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those reported.

Stock-based compensation

The estimated fair value of all stock options granted to employees and consultants are recorded in operations or production costs, as applicable over their vesting periods. The fair value of options is estimated using the Black-Scholes option pricing model that takes into account, as of the grant date, the exercise price, the expected life of the option, the current price of the underlying stock and its expected volatility, expected dividends on the stock, and the risk-free interest rate over the expected life of the option. The resulting estimated fair value of the options is expensed on a straight-line basis over their vesting periods. Cash consideration received from employees when options are exercised and the value of options accumulated in contributed surplus are credited to share capital. Stock-based compensation also includes awards of common shares to certain employees of the company related to the achievement of certain financial benchmarks.

Financial instruments

Financial instruments, including derivatives, are recorded at fair value on initial recognition except for certain related party transactions. Subsequent measurement depends on the classification of the instrument and is either at fair value or, in limited circumstances when fair value may not be considered most relevant, at cost or amortized cost. The Company has the following classification for financial assets and financial liabilities:

- Cash, short-term investments and derivatives are classified as held-for-trading and recorded at fair market value. Changes in fair market value for the year are recorded in net earnings.
- Bank indebtedness, interim production financing, accounts payable and accrued liabilities, long-term debt, and obligations under capital lease and other liability are classified as other financial liabilities. After their initial fair market value measurement, they are measured at amortized cost using the effective interest method.
- Amounts receivable are classified as loans and receivables. After their initial fair market value measurement, they are measured at amortized cost using the effective interest method.
- Long-term investment is classified as available-for-sale. As there is no active market for this investment, it is measured at cost. The Company has elected to include transaction costs in the determination of cost for available-for-sale asset.

(expressed in thousands of Canadian dollars, except for shares and amounts per share)

1 Nature of the business and significant accounting policies (continued)

Comprehensive income

The Company records in other comprehensive income ("OCI") temporary unrealized gains and losses resulting from changes in fair value of certain financial instruments outside the net income.

Variable interest entities

A variable interest entity (''VIE'') is an entity that either does not have sufficient equity at risk to finance its activities without subordinated financial support or wherein the equity investors lack the characteristic of a controlling financial interest. In the normal course of business, the Company enters into production arrangements with third party production, distribution companies and broadcasters related to the production of television series or feature films. VIEs are subject to consolidation by the Company if the Company is deemed the primary beneficiary of the VIE. The primary beneficiary is the party that is either exposed to a majority of the expected losses from the VIE's activities or is entitled to receive a majority of the VIE's residual returns or both. The Company has variable interests in certain entities but in certain companies, it is not exposed to the majority of the expected losses and, therefore, does not consolidate these companies. The Company accounts for these entities using the equity method (note 7).

2 Changes in accounting policies and future accounting standard changes

Convergence with International Financial Reporting Standards ("IFRS")

The Company will cease to prepare its financial statements in accordance with Canadian GAAP as set out in Part V of the Canadian Institute of Chartered Accountants ("CICA") Handbook – Accounting for the periods beginning on or after July 1, 2011, when it will start to apply as its primary basis of accounting IFRS as published by the International Accounting Standards Board and set out in Part I of the CICA Handbook – Accounting. Consequently, future accounting changes to Canadian GAAP that are effective on or after July 1, 2011, are not discussed in these financial statements as they will never be applied by the Company.

(expressed in thousands of Canadian dollars, except for shares and amounts per share)

3 Acquisitions and long-term investment

During the year ended June 30, 2011, the following acquisition occurred:

(a) On September 14, 2010 ("Wildbrain Effective Date"), the Company acquired all the outstanding shares in W!LDBRAIN Entertainment Inc. ("Wildbrain"), for consideration as follows:

- Cash consideration (including bank indebtedness incurred) and estimated transaction costs of $8,450, ($8,291, and $159 respectively) on the Wildbrain Effective Date; and
- An earnout in US$ calculated as 50% of cash receipts over $10,500 – $11,500 from the Yo-Gabba-Gabba! property over the 36 month period from Wildbrain Effective Date ("Earnout Period"). The ultimate threshold amount within the range of $10,500 – $11,500 of cash receipts will be determined based on a minimum of $10,000 in cash receipts plus, once achieved, $500 per year in operating expenses for the remaining life of the Earnout Period.

The acquisition was accounted for using the purchase method. As such, the results of operations reflect revenue and expenses of the assets of Wildbrain from the Wildbrain Effective Date. All variable interest entities have been identified and will be accounted for in accordance with the principles of consolidation disclosed in the Company's financial statements for the year ended June 30, 2011.

The purchase price has been allocated to the assets acquired and liabilities assumed based on their fair value as follows:

	$
Assets acquired	
Cash	275
Short-term investments	10
Accounts receivable	1,144
Prepaid expenses and deposits	67
Investments in film and television programs	5,903
Development costs	713
Property, plant and equipment	212
Intangible assets	433
	8,757
Less: Liabilities assumed	
Accounts payable and accrued liabilities	307
	8,450

The purchase agreement includes a contingent payment, based on an earnout amount as described above. The purchase consideration does not include any amounts related to the earnout amount. The earnout amount is not determinable at this time as the cash component will only be determined when the earnout amount conditions are met. When the contingency is resolved, any earnout amount due will be attributed to the assets acquired and/or goodwill.

(expressed in thousands of Canadian dollars, except for shares and amounts per share)

3 Acquisitions and long-term investment (continued)

During the year ended June 30, 2010, the following acquisitions occurred:

b) On April 30, 2010 ("Tribal Nova Transaction Date"), the Company's investment in Tribal Nova Inc. ("Tribal Nova") was restructured. In exchange for 670,000 Class A preferred shares of Tribal Nova, the Company received 670,000 preferred shares, representing 4% of Woozworld Inc. ("Woozworld"). The Company also received 4,360,000 Class D preferred shares representing 34% of the shares of Tribal Nova, in exchange for the Company's remaining 1,344,898 Class A preferred shares. For the year ended June 30, 2010, the Company recorded a net gain of $348 on the restructuring of its investment. The Company recorded its investment in Tribal Nova at $2,060 and its investment in Woozworld at $330. The $2,060 investment in Tribal Nova was allocated to the identifiable intangible assets based on their estimated fair values as follows: $1,648 to source code, $412 to license contracts and subscription lists. Amortization of these intangibles for the year ended June 30, 2011 was $247 (2010 - $41) and is included in the equity loss, along with an equity loss of $86 for Tribal Nova for the year ended June 30, 2011 ($1 equity income pickup for the period from the Tribal Nova Transaction Date to June 30, 2010). During the year ended June 30, 2011, the Company finalized the allocation of the intangible assets. The investment in Tribal Nova was accounted for using the equity method (note 7) and the investment in Woozworld was accounted for at cost and shown in long term investment.

c) Pursuant to financing of Media Fund (Atlantic) Ltd. ("Media Fund"), the Company previously granted shareholders of Media Fund the right to have the Company purchase the common shares in Media Fund in exchange for common shares of the Company (the "Media Fund Put Options") on a one-for-one basis.

   On January 15, 2010, the holders of the Media Fund Put Options exercised their rights and exchanged the Media Fund Put Options for common shares of the Company ("Media Fund Transaction"). As such, the Company acquired effectively all of the outstanding shares of Media Fund. The consideration for the exchange of the Media Fund Put Options was 425,420 shares of the Company, valued at $391.

   Prior to the exchange, Media Fund was a VIE which the Company was consolidating into its results from operations. The Media Fund Transaction was accounted for using the purchase method and as a result, the Company's financial position and results of operations continue to reflect the revenue, expenses, assets and liabilities of Media Fund. The purchase price has been allocated to the assets acquired and liabilities assumed based on their estimated fair value.

   During the year ended June 30, 2011, the Company finalized the purchase price allocation.

(expressed in thousands of Canadian dollars, except for shares and amounts per share)

4 Short-term investments

	2011 $	2010 $
Investments, at fair value	6,060	6,098

As at June 30, 2011, investments at cost were $6,095 (2010 - $6,086). As at June 30, 2011, short-term investments consist of a thirty day automatic rolling Royal Bank of Canada GIC and a government grade bond which bear interest at 0.3% and 4.0% and mature in July 2011 and June 2012, respectively (2010 – government T-bills and government grade bonds which bore interest at rates from 0.9% to 4.0% with maturity ranging from February 2011 to June 2012). The Royal Bank of Canada GIC, in the amount of $4,010, has been pledged as security to the Royal Bank of Canada (note 10).

5 Amounts receivable

	2011 $	2010 $
Trade	19,794	18,164
Goods and service taxes recoverable	1,234	352
Federal and provincial film tax credits and other government assistance	32,505	35,816
	53,533	54,332

6 Investment in film and television programs

	2011 $	2010 $
Development costs	2,373	2,162
Non-theatrical productions in progress		
Cost, net of government and third party assistance and third party participation	4,448	4,584
Acquired participation rights – theatrical and non-theatrical		
Cost	5,860	5,860
Accumulated amortization	(4,453)	(3,842)
	1,407	2,018
Theatrical and non-theatrical productions (including acquired) completed and released		
Cost, net of government and third party assistance and third party participation	166,985	143,196
Accumulated amortization	(131,334)	(118,235)
Accumulated impairment in value of certain investment in film and television programs	(4,283)	(3,833)
	31,368	21,128
	39,596	29,892
Less: Current portion	(13,297)	(10,952)
	26,299	18,940

(expressed in thousands of Canadian dollars, except for shares and amounts per share)

6 Investment in film and television programs (continued)

The Company expects that 29% of the costs related to theatrical and non-theatrical productions including acquired, completed and released will be amortized during the year ending June 30, 2012. The Company expects that 66% of the costs related to theatrical and non-theatrical productions including acquired, completed and released will be amortized during the three-year period ending June 30, 2014. The Company expects that over 83% of the costs related to productions completed will be amortized by June 30, 2016.

The Company has estimated the current portion of investment in film and television programs by reference to production delivery schedules, expected revenues in the next twelve months and the related amortization on a production-by-production basis. These estimates are subject to change as ultimate revenues may differ from estimates. No portion of development costs or Acquired Participation Rights has been reflected as current.

During the fiscal year ended June 30, 2011, interest of $1,714 (2010 - $1,444) has been capitalized to investment in film and television.

The continuity of investment in film and television programs is as follows:

	2011 $	2010 $
Net opening investment in film and television programs	29,892	35,827
Non-theatrical productions acquired during the year (note 3 (a))	5,903	–
Non-theatrical cost of productions (completed and released and productions in progress) during the year, net of government assistance and third party participation	17,750	13,041
Increase in acquired development costs (note 3 (a))	713	–
Increase (decrease) in developments costs (not acquired) net of allowance of $300 (2010 - $nil)	(502)	345
Amortization	(13,710)	(18,764)
Impairment in value of certain investment in film and television programs	(450)	(557)
	39,596	29,892

(expressed in thousands of Canadian dollars, except for shares and amounts per share)

7 Investment in production companies and other equity investment

Investment in production companies and other equity investment represents the Company's investment in and advances to investee companies, including advances to investees that are non-interest bearing with no set terms of repayment, and its investment in Tribal Nova (note 3 (b)), both of which are accounted for using the equity method.

	2011 $	2010 $
The continuity is as follows:		
Opening balance	3,409	2,472
Tribal Nova investment (note 3 (b))	–	2,060
Equity loss – investments in production companies	(220)	–
Equity loss – Tribal Nova (note 3 (b))	(333)	(40)
Net cash advances from investees	(174)	(1,083)
	2,682	3,409

8 Property, plant and equipment

			2011
	Cost $	Accumulated amortization $	Net $
Land	800	–	800
Buildings	4,329	788	3,541
Furniture, fixtures and other equipment	3,328	2,425	903
Computer equipment	4,945	2,732	2,213
Post-production equipment	1,485	1,200	285
Website design	104	104	–
Computer software	2,045	1,047	998
Leasehold improvements	2,195	1,128	1,067
	19,231	9,424	9,807

			2010
	Cost $	Accumulated amortization $	Net $
Land	800	–	800
Buildings	4,329	643	3,686
Furniture, fixtures and other equipment	3,138	2,232	906
Computer equipment	3,130	2,373	757
Post-production equipment	1,420	1,138	282
Website design	104	103	1
Computer software	956	811	145
Leasehold improvements	1,948	980	968
	15,825	8,280	7,545

(expressed in thousands of Canadian dollars, except for shares and amounts per share)

8 Property, plant and equipment (continued)

The continuity of property, plant and equipment is as follows:

	2011 $	2010 $
Net opening balance, property, plant and equipment	7,545	8,243
Acquired in Wildbrain acquisition (note 3(a))	212	–
Acquisitions of property, plant and equipment	3,255	500
Disposals of property, plant and equipment at cost	(61)	–
Accumulated amortization related to disposals	40	–
Amortization	(1,184)	(1,198)
	9,807	7,545

9 Intangible assets and goodwill

Intangible assets

			2011
	Cost $	Accumulated amortization $	Net $
Production backlog	1,085	1,045	40
Broadcaster relationships	4,627	2,321	2,306
Customer and distribution relationships	546	282	264
Non-compete contracts and brand	1,959	1,130	829
Production software	394	281	113
	8,611	5,059	3,552

			2010
	Cost $	Accumulated amortization $	Net $
Production backlog	1,033	907	126
Broadcaster relationships	4,417	1,781	2,636
Customer and distribution relationships	546	227	319
Non-compete contracts and brand	1,788	993	795
Production software	394	202	192
	8,178	4,110	4,068

(expressed in thousands of Canadian dollars, except for shares and amounts per share)

9 Intangible assets and goodwill (continued)

Intangible assets (continued)

The continuity of intangible assets is as follows:

	2011 $	2010 $
Net opening balance	4,068	5,144
Acquired in the Wildbrain transaction (note 3(a))	433	–
Amortization	(949)	(1,076)
	3,552	4,068

Goodwill

The continuity of goodwill is as follows:

	2011 $	2010 $
Net opening balance goodwill	11,088	11,088

The Company performed its annual test for goodwill impairment at June 30, 2011 in accordance with its policy described in note 1. As the fair value of the reporting unit was greater than its carrying value, the Company determined there was no impairment of goodwill as at June 30, 2011 or June 30, 2010.

For determining the fair value of its reporting unit, the Company uses both the income and market approaches. Under the income approach, management estimates the discounted future cash flows for five years and a terminal value for the reporting unit. The future cash flows are based on management's best estimates considering historical and expected production, distribution and other revenue deliveries, economic conditions, and general outlook for the industry. The discount rates used by the Company are based on optimal debt equity ratio and consider the average debt ratio, market equity risk premium, and size premium for possible variations from management's projections. The terminal value is the value attributed to the reporting unit's operations beyond the projected period of 2016 using a perpetuity growth rate based on industry, revenue and operating income trends and growth prospects. Under the market approach, the Company estimates fair value by multiplying maintainable earnings before interest, income taxes, depreciation, amortization and other non-recurring costs by multiples based on market comparables. The estimation process results in a range of values for which management uses the simple average of the mid-points under each approach.

(expressed in thousands of Canadian dollars, except for shares and amounts per share)

9 Intangible assets and goodwill (continued)

Goodwill (continued)

The Company's assumptions are affected by current market conditions which may affect expected revenues, particularly production and distribution revenues. In addition, while the Company has implemented cost savings initiatives, selling, general and administrative costs may increase more significantly than expected. The Company also has significant competition in the markets in which it operates which may impact its revenue and operating costs. The Company has made certain assumptions for the discount and terminal growth rates to reflect possible variations in the cash flows; however, the risk premiums expected by market participants related to uncertainties about the industry or specific intangible assets may differ or change quickly depending on economic conditions and other events. Accordingly, it is reasonably possible that future changes in assumptions may negatively impact future valuations of goodwill and the Company would be required at that time to recognize impairment losses.

10 Bank indebtedness

As of June 30, 2011, the maximum amount of all the borrowing, including Interim Production Financing (note 11), with the Royal Bank of Canada ("RBC") is $55,000 ("RBC Master Agreement"). The RBC Master Agreement matures November 30, 2011. As part of the RBC Master Agreement, bank indebtedness was $5,200 at June 30, 2011 (2010 - $250) (the "RBC Revolving Operating Credit Facility"). The maximum amount of the RBC Revolving Operating Credit Facility for general working capital purposes is $3,510 against which, $1,200 was drawn at June 30, 2011 (2010 - $250). In addition, RBC temporarily increased the Company's RBC Revolving Operating Credit Facility, for the Wildbrain acquisition (note 3(a)), by a maximum additional $4,000 and was fully drawn at June 30, 2011.

Under the RBC Master Agreement, this temporary increase in the RBC Operating Credit Facility will be replaced by a first drawdown of a term facility with a maximum amount of $10,000 ("RBC Acquisition Facility") to fund acceptable acquisitions as defined in the RBC Master Agreement. A general security agreement over all property of the Company and a $4,010 GIC has been pledged as security for the expanded RBC Revolving Operating Credit and Acquisition Facility. The RBC Revolving Operating Facility bears interest at RBC prime plus 1.25% (June 30, 2010 – RBC prime plus 1.25%). The RBC Acquisition Facility bears interest at RBC prime plus 2.5%. Each advance under the RBC Acquisition Facility will be amortized over 3 years with quarterly payments of principal and monthly payments of interest. The availability of the RBC Revolving Operating Credit Facility and RBC Acquisition Facility are subject to the Company maintaining funded debt and fixed charge ratios and certain other covenants (note 18).

(expressed in thousands of Canadian dollars, except for shares and amounts per share)

11 Interim production financing

	2011 $	2010 $
Revolving production credit facility ("RBC Revolving Production Credit Facility"), bearing interest at bank prime plus 0.5% - 1.45%. Assignment and direction of specific production financing and licensing contracts receivable, with a net book value of approximately $27,887 at June 30, 2011 (2010 - $21,214)	17,448	19,468
Interim production credit facilities with various institutions, bearing interest at bank prime plus 0.5% - 2.25%. Assignment and direction of specific production financing and licensing contracts receivable, with a net book value of approximately $17,466 at June 30, 2011 (2010 - $25,531)	11,871	13,347
	29,319	32,815

During the fiscal year ended June 30, 2011, the bank prime rate averaged 2.94% (2010 – 2.27%).

As part of the RBC Master Agreement (note 10), the Company also has a RBC Revolving Production Credit Facility with a maximum authorized amount of $40,284. The RBC Revolving Production Credit Facility is the aggregate of interim production financing of individual programs financed through the RBC which are subject to individual approved tranches (collectively the "RBC Individual Approved Tranches"). Substantially all of the Company's assets and certain of its subsidiaries have been pledged as security for borrowing under the RBC Revolving Production Credit Facility. The RBC Revolving Credit Production Facility matures at various dates up to June 2013, but specifically twenty-four months following the first drawdown of funds in respect of each RBC Individual Approved Tranche.

(expressed in thousands of Canadian dollars, except for shares and amounts per share)

12 Long-term debt and obligations under capital leases

	2011 $	2010 $
Loans payable, bearing interest at Business Development Bank of Canada prime minus 1.0%, maturing in May 2021, repayable in monthly principal instalments of $20 plus interest, secured by a first mortgage on the land and building having a net book value of $4,340 at June 30, 2011 (2010 - $4,486) and a general assignment of rents	2,186	2,424
Obligations due under various capital leases with total quarterly instalments of $195, bearing implied interest at rates ranging from 4.0% to 9.8%, maturing between November 2011 and October 2013, of which $1,290 is denominated in USD (2010 - $nil)	1,724	740
	3,910	3,164
Less: Current portion	(1,017)	(541)
	2,893	2,623

The aggregate amount of principal repayments required in each of the next five years is as follows:

	$
Year ending June 30, 2012	1,017
2013	932
2014	493
2015	239
2016	239

13 Share capital and contributed surplus

a) Authorized

100,000,000 Preferred variable voting shares, redeemable at the option of the Company at any time at a millionth of a cent per share, no entitlement to dividends, voting

Unlimited common shares without nominal or par value

(expressed in thousands of Canadian dollars, except for shares and amounts per share)

13 Share capital and contributed surplus (continued)

b) Issued and outstanding

Changes in the Company's issued share capital during the years were as follows:

	Number	2011 Amount $	Number	2010 Amount $
Preferred variable voting shares (note 13 (c))	100,000,000	–	100,000,000	–
Common shares (note 13 (d))				
Opening balance	61,626,836	76,548	44,442,711	56,758
Issued for cash consideration	–	–	16,480,000	20,272
Share issuance costs, net of tax effect of $38 (2010 - $503)	–	(82)	–	(1,057)
Issued in exchange for the Media Fund Put Options	–	–	425,420	391
Management bonuses	–	–	428,538	300
Issued as part of employee share purchase plan	9,293	9	–	–
Option exercised	25,000	30	–	–
Shares cancelled related to an employee loan forgiven	(13,514)	(25)	–	–
Normal course issuer bid shares repurchased and cancelled	(51,000)	(43)	(149,833)	(116)
	61,596,615	76,437	61,626,836	76,548
Share purchase financing (note 13 (e))				
Opening balance	–	(268)	–	(419)
Repayments made by an officer	–	2	–	2
Loan forgiven	–	25	–	–
Compensation expense	–	47	–	140
Interest received on notes	–	5	–	9
	–	(189)	–	(268)
Warrants (note 13 (f))				
Opening balance	5,860,250	1,840	4,922,750	1,630
Issued for cash consideration	–	–	937,500	215
Warrant issuance costs, net of tax effect of $2	–	–	–	(5)
Expiration of warrants	(4,922,750)	(1,630)	–	–
	937,500	210	5,860,250	1,840
Contributed surplus and stock options (note 13 (g))				
Opening balance	4,111,547	4,047	3,766,547	3,756
Compensation expense on options issued during the period	870,000	108	345,000	5
Stock option exercised	(25,000)	(11)	–	–
Management bonuses	–	–	–	(300)
Compensation expense on existing options	–	373	–	586
Warrants expired, net of tax effect of $271	–	1,359	–	–
Options expired	(746,547)	–	–	–
Options forfeited	(190,000)	–	–	–
	4,020,000	5,876	4,111,547	4,047
		82,334		82,167

(expressed in thousands of Canadian dollars, except for shares and amounts per share)

13 Share capital and contributed surplus (continued)

c) Preferred variable voting shares

The Preferred variable voting shares were issued May 12, 2006 to an officer and director.

d) Common shares

On November 20, 2009, the Company issued 428,538 common shares at $0.70 per share, for a gross amount of $300, for payment of certain management performance bonuses accrued at June 30, 2009.

On January 15, 2010, the Company issued 425,420 common shares at $0.92 per share for the retirement of the Media Fund Put Options (note 3 (c) and note 13 (h)).

On January 29, 2010, the Company issued 1,875,000 units ("January 29, 2010 Unit Offering") from treasury at a price of $0.80 per unit for gross proceeds of $1,500. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a price of $1.15 per common share, expiring on January 26, 2012.

On April 15, 2010, the Company issued 14,605,000 common shares at a price of $1.30 for gross proceeds of $18,987.

On October 27, 2010, 13,514 shares were returned and cancelled as settlement of an exiting employee's share purchase financing loan (note 13 (e)).

During the year ended June 30, 2011, the Company issued 9,293 common shares, at an average price of $0.96 as part of the Company's employee share purchase plan (2010 – nil).

During the year ended June 30, 2011, as part of the Company's previously announced normal course issuer bid, 51,000 common shares were repurchased for a gross amount of $42 and cancelled. Subsequent to June 30, 2011, 606,500 common shares have been repurchased for a gross amount of $479, with 175,000 common shares cancelled and 431,500 common shares scheduled to be cancelled.

On June 20, 2011, 25,000 common shares were issued out of treasury at a price of $0.78 upon the exercise of options by a director.

e) Share purchase financing

During the years ended June 30, 2011 and June 30, 2010, the Company issued no amounts for share purchase financing. During the year ended June 30, 2011, $47 of compensation expense was recognized on an employee loan forgiven (2010 - $140). During the year ended June 30, 2011, $5 of interest (2010 - $9) received on these loans was recorded as capital contributions. During the year ended June 30, 2011, $2 was received (2010 - $2) as principal repayment of an employee loan.

(expressed in thousands of Canadian dollars, except for shares and amounts per share)

13 Share capital and contributed surplus (continued)

f) Warrants

On January 29, 2010, as part of the January 29, 2010, Unit Offering, the Company issued 937,500 common share purchase warrants valued at $0.24 per warrant for cash consideration. The warrants entitle the shareholder to acquire 937,500 common shares at a price of $1.15 per share and expire on January 26, 2012. During the year ended June 30, 2011, no warrants were issued (2010 – 937,500). During the year ended June 30, 2011, 4,922,750 warrants expired (2010 – nil)

	Number of warrants	Weighted average exercise price per warrant
Outstanding at June 30, 2009	4,922,750	2.10
Warrants issued	937,500	1.15
Outstanding at June 30, 2010	5,860,250	1.95
Warrants expired	(4,922,750)	2.10
Outstanding at June 30, 2011	937,500	1.15

The fair value of the warrants has been estimated by management using the Black-Scholes option pricing model. During the year ended June 30, 2011, no warrants were issued. The weighted average assumptions used in the pricing model to value the warrants issued during 2010 are as follows:

	2010
Risk-free interest rate	1.17%
Expected option life	2 years
Expected volatility	68%
Expected dividend yield	Nil

(expressed in thousands of Canadian dollars, except for shares and amounts per share)

13 Share capital and contributed surplus (continued)

g) Stock options

At June 30, 2011 and 2010, the Company had the following stock options outstanding:

	Number of options	Weighted average exercise price per stock option
Outstanding at June 30, 2009	3,766,547	1.36
Granted to employee and officers	345,000	0.98
Outstanding at June 30, 2010	4,111,547	1.33
Granted to employees	170,000	0.96
Granted to directors	700,000	0.93
Options exercised	(25,000)	0.78
Options expired	(746,547)	2.25
Options forfeited	(190,000)	1.45
Outstanding at June 30, 2011	4,020,000	1.07
Exercisable at June 30, 2010	1,997,797	1.72
Exercisable at June 30, 2011	2,081,250	1.16

The total maximum number of common shares to be reserved for issuance through the Company stock option plan to 9% of the total number of issued and outstanding common shares at any time. As at June 30, 2011, this amounted to 5,543,695 (2010 - 5,546,415).

During the year ended June 30, 2010, 345,000 stock options were issued to officers and employees at prices ranging from $0.90 - $0.99 per share, vesting over four years and expiring from November 19, 2014 – May 18, 2015.

On September 30, 2010, 150,000 stock options were issued to an employee at $0.96 per share, vesting over four years and expiring on September 30, 2015.

On February 15, 2011, 20,000 stock options were issued to an employee at $0.97 per share, vesting over four years and expiring on February 15, 2016.

On May 16, 2011, 700,000 stock options were issued to directors at $0.93 per share, 25% vesting upon grant and the remainder vesting over three years and expiring on May 16, 2016.

During the year ended June 30, 2011, 190,000 options were forfeited and 746,547 expired (2010 – nil and nil).

(expressed in thousands of Canadian dollars, except for shares and amounts per share)

13 Share capital and contributed surplus (continued)

g) Stock options (continued)

The weighted average grant date fair value of stock options granted in 2011 has been estimated at $0.48 (2010 - $0.52) using the Black-Scholes option pricing model. The following weighted average assumptions were used in the calculations:

	2011	2010
Risk-free interest rate	2.14%	2.35%
Expected option life	4 years	4 years
Expected volatility	66%	68%
Expected dividend yield	nil	nil

Changes in the assumptions can materially affect the fair value estimate and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the stock options.

During the year ended June 30, 2011, a total of $528 (2010 - $731) was recognized as compensation expense. Included in the twelve months ended June 30, 2011 was $47 related to employee share purchase loans (2010 - $140).

Information related to options outstanding at June 30, 2011 is presented below:

Range of exercise prices	Number outstanding at June 30, 2011	Weighted average remaining contractual life	Weighted average exercise price $	Number exercisable at June 30, 2011	Weighted average exercise price $
$0.58 – $0.99	3,000,000	3.47 years	0.82	1,178,750	0.79
$1.00 – $2.35	1,020,000	0.94 years	1.79	902,500	1.81
Total	4,020,000	2.83 years	1.07	2,081,250	1.23

Information related to options outstanding at June 30, 2010 is presented below:

Range of exercise prices	Number outstanding at June 30, 2010	Weighted average remaining contractual life	Weighted average exercise price $	Number exercisable at June 30, 2010	Weighted average exercise price $
$0.58 – $0.99	2,255,000	3.98 years	0.78	477,500	0.75
$1.00 – $2.35	1,856,547	1.44 years	1.99	1,520,297	2.03
Total	4,111,547	2.83 years	1.33	1,997,797	1.72

(expressed in thousands of Canadian dollars, except for shares and amounts per share)

13 Share capital and contributed surplus (continued)

h) Put options

On January 15, 2010, the holders of the Media Fund Put Options exercised their rights and accordingly the Company issued 425,420 common shares from treasury in exchange for the retirement of the Media Fund Put Options (note 3 (c)).

14 Government financing and assistance

During the year ended June 30, 2011, investment in film and television programs was reduced by $2,737 (2010 - $3,862) related to production financing from government agencies. This financing is related to equity participation by government agencies and is repayable from distribution revenue of the specific productions for which the financing was made. In addition, during the year, investment in film also has been reduced by $2,376 (2010 - $6,455) related to non-repayable contributions from the Canadian Television Fund license fee program. During the year, investment in film and television programs has been reduced by $11,754 (2010 - $17,494) in tax credits relating to production activities. Lastly, during the year ended June 30, 2011, the Company received $19,358 in government financing and assistances (2010 - $40,828).

15 Income taxes

Significant components of the Company's future tax assets and liabilities as at June 30, 2011 and 2010 are as follows:

	2011 **$**	**2010** **$**
Cultural donations	4	432
Deferred production revenue	426	–
Foreign tax credits	296	245
Leasehold inducement	124	–
Participation payables and capital lease obligations	289	249
Property, plant and equipment	(263)	(77)
Share issuance costs and deferred financing fees	452	656
Investment in film and television programs	(3,448)	(2,239)
Intangible assets	(1,848)	(2,153)
Non-capital losses and other	3,742	2,373
Future income taxes	(226)	(514)

(expressed in thousands of Canadian dollars, except for shares and amounts per share)

15 Income taxes (continued)

The reconciliation of income taxes computed at the statutory tax rates to income tax expense (recovery) is as follows:

	2011 $	2010 $
Income tax expense (recovery) based on combined federal and provincial tax rates of 28.62% (2010 – 30.70%)	621	(400)
Income taxes increased (reduced) by		
Stock-based compensation	175	224
Large corporation tax	60	60
Future tax rate differential	333	212
Recognition of previously unrecognized future tax assets	(645)	-
Other	24	(23)
Foreign gains (losses) and California state tax expense, net	72	(43)
Cultural donations	(174)	(454)
Non-taxable portion of capital gains	(9)	(67)
Provision for (recovery of) income taxes	457	(491)

16 Financial risk factors and financial instruments

a) Credit risk

Amounts receivable from the Canadian federal government and other government agencies in connection with production financing represents 63% of total amounts receivable at June 30, 2011 (2010 - 66%). Certain of these amounts are subject to audit by the government agency. Management believes that the net amounts recorded are fully collectible. Management believes that it is standard for the industry for some amounts receivable to take considerable time to collect, for instance it is normal course for federal and provincial tax credits receivable, to take up to 24 months to proceed through audit and collection. The Company adjusts amounts receivable from Canadian federal government and other government agencies including federal and provincial tax credits receivables, in connection with production financing, quarterly and yearly for any known differences arising from internal or external audit of these balances. An allowance against Federal and Provincial tax credits receivable has been booked based on the Company's history of collection of these receivables.

The balance of trade amounts receivable are mainly with Canadian broadcasters and large international distribution companies. Management believes that the net amounts recorded are fully collectible. The Company has booked an allowance for doubtful accounts of less than 1% against the gross amounts or certain trade, amounts receivables and management believes that the net amount of trade amounts receivables is fully collectible.

b) Interest rate risk

The Company is exposed to interest rate risk arising from fluctuations in interest rates as its interim production financing, certain long-term debt, and a portion of cash bear interest at floating rates. A 1% fluctuation would have an approximate $200 to $300 affect on net income

(expressed in thousands of Canadian dollars, except for shares and amounts per share)

16 Financial instruments (continued)

c) Liquidity risk

The Company manages liquidity by forecasting and monitoring operating cash flows and through the use of capital leases and maintaining revolving credit facilities (notes 10, 11 and 12). As at June 30, 2011, the Company had cash on hand of $18,662 (2010 – $15,920).

d) Currency risk

The Company's activities involve holding foreign currencies and incurring production costs and earning revenues denominated in foreign currencies. These activities result in exposure to fluctuations in foreign currency exchange rates. At June 30, 2011, the Company revalued its financial instruments denominated in a foreign currency at the prevailing exchange rates. A 1% change in the USD or Euro exchange rate would have less than a $100 effect on net income.

e) Long-term investment

As at June 30, 2011, management is continuing to account for its investment in Woozworld (note 3 (b)) at cost of $330 (2010 - $330) as, it continues to be a private company and, as such, a quoted market price in an active market is not available. The Company does not expect to dispose of this investment in the near term, and has determined that there is no impairment of the long-term investment as at June 30, 2011 and June 30, 2010.

f) Contractual maturity analysis for financial liabilities

	Total $	Less than 1 year $	1 to 3 years $	4 to 5 years $	After 5 years $
Bank indebtedness	5,200	5,200	-	-	-
Long-term debt	2,186	239	478	478	991
Capital lease obligations	1,724	778	946	-	-
Operating leases	6,444	1,745	2,145	1,093	1,461
	15,554	7,962	3,569	1,571	2,452

Payments noted above do not include interest.

(expressed in thousands of Canadian dollars, except for shares and amounts per share)

16 Financial instruments (continued)

g) Fair values

The carry value of cash, short-term investments, amounts receivable, bank indebtedness, accounts payable and accrued liabilities, current portion of long-term debt and obligations under capital leases approximate the fair value.

The fair value of non-current portion of long-term debt and capital leases is set out below and is estimated using discounted cash flow analyses based on discount rates that reflect current market conditions for instruments with similar terms and risks.

	2011		2010	
	Carrying value $	**Fair value $**	**Carrying value $**	**Fair value $**
Available-for-sale assets	330	330	330	330
Foreign currency forward contracts	104	104	(13)	(13)
Long-term debt and obligations under capital leases	2,893	2,456	2,623	2,129

Fair value estimates are made at a specific point in time on relevant market information. These are estimates and involve uncertainties and matters of significant judgment and cannot be determined with precision. Change in assumptions and estimates could significantly affect fair values.

(expressed in thousands of Canadian dollars, except for shares and amounts per share)

16 Financial instruments (continued)

g) Fair values (continued)

Fair value hierarchy

Financial instruments recorded at fair value on the balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The value hierarchy has the following levels:

Level 1 - valuation based on quoted prices observed in active markets for identical assets and liabilities.

Level 2 - valuation techniques based on inputs that are quoted prices of similar instruments in the markets, quoted prices for identical or similar instruments in markets that are not active, inputs other than quoted prices used in a valuation model that are observable market for that instruments, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - valuation techniques with significant unobservable market inputs.

A financial instrument is classified to the lowest of the hierarchy for which a significant input has been considered in measuring fair value.

The following table presents the financial instruments recorded at fair value in the consolidated balance sheets as at June 30, 2011, classified using the fair value hierarchy described above:

	Level 1 **$**	**Level 2** **$**	**Level 3** **$**
Cash	18,662	–	–
Short-term investments	6,060	–	–
Foreign currency forward contracts	104	–	–

Foreign currency contracts

At June 30, 2011, the Company had notional principal of approximately $1,125 (2010 - $2,390) in contracts to sell United States dollars and notional principal of approximately £85 (2010 - £380) in contracts to purchase British pounds and notional principal of approximately €583 in contracts to sell Euros and purchase British Pounds of approximately £505. The carrying value of these contracts is the fair value based on exchange rates at June 30, 2011. The contracts expire at various dates between July 2011 and March 2012.

(expressed in thousands of Canadian dollars, except for shares and amounts per share)

17 Commitments and contingencies

Commitments

The Company has entered into various operating leases for operating premises and equipment. The future minimum payments under these operating leases are as follows:

	$
Year ending June 30, 2012	1,745
2013	1,255
2014	890
2015	538
2016	555

Contingencies

The Company is, from time to time, involved in various claims, legal proceedings and complaints arising in the normal course of business and provisions have been recorded where appropriate. Management does not believe that the final determination of these claims will have a material adverse effect on the financial position or results of operations of the Company. The maximum contingent liability at June 30, 2011 under the above matters is estimated at $400 (2010 - $1,300).

18 Capital disclosures

The Company's objectives when managing capital are to provide an adequate return to shareholders, safeguard its assets, maintain a competitive cost structure and continue as a going concern in order to pursue the development, production, licensing and distribution of its film and television properties. To maximize ongoing development and growth effort, the Company did not pay out dividends during the year ended June 30, 2011. The Company is not anticipating paying out dividends during the year ended June 30, 2012.

The Company's capital is summarized in the table below:

	2011 $	2010 $
Total bank indebtedness, long-term debt and obligations under capital leases and other liabilities	9,110	3,414
Less: Cash	(18,662)	(15,920)
Net debt	(9,552)	(12,506)
Total Shareholders' Equity	82,059	80,179
	72,507	67,673

(expressed in thousands of Canadian dollars, except for shares and amounts per share)

18 Capital disclosures (continued)

To facilitate the management of its capital structure, the Company prepares annual expenditure operating budgets that are updated as necessary depending on various factors including industry conditions and operating cash flow. The annual and updated budgets are reviewed by the board of directors.

For the year ended June 30, 2011, the Company monitors capital using a number of financial ratios, specifically for the RBC Revolving Operating and Production Credit Facilities (notes 10 and 11), including but not limited to:

- Funded Debt Ratio, defined as funded debt (the total of all obligations for borrowed money which bear interest or imputed interest (not including interim production financing), all capital lease obligations, and any contingent liabilities) (“Funded Debt”) to consolidated EBITDA; and

- The Fixed Charge Ratio, defined as adjusted consolidated EBITDA (consolidated EBITDA less cash income taxes and unfunded capital expenditures) to fixed charges (consolidated interest expense, scheduled principal payments on Funded Debt, and Company distributions).

The following table illustrates the financial ratios calculated on a rolling twelve-month basis as at:

	Measure targets	2011
Funded Debt Ratio	< 3.0x	1.2x
Fixed Charge Ratio	> 1.25x	6.44x

The Company has been in compliance with these and all previous ratios since the inception of the RBC Master Credit Facility.

For the year ended June 30, 2010, the Company monitored capital using a number of financial ratios calculated on a rolling twelve-month basis, including but not limited to:

- The Coverage Ratio defined as consolidated EBITDA to interest expense (defined as interest on long-term debt); and
- The Net Worth Ratio defined as funded debt to consolidated net worth.

The following table illustrates the financial ratios (calculated on a rolling twelve-month basis):

	Measure targets	2010
Coverage Ratio	> 4.0x	15.8x
Net Worth Ratio	< 3.0x	0.6x

(expressed in thousands of Canadian dollars, except for shares and amounts per share)

19 Earnings (loss) per common share

Earnings (loss) per common share is calculated as follows:

	2011 $	2010 $
Net income (loss) and comprehensive income (loss) for the year	1,713	(813)
Weighted average number of common shares:		
Basic	61,621,639	48,579,538
Diluted	61,943,963	48,579,538
Earnings (loss) per common share		
Basic	0.03	(0.02)
Diluted	0.03	(0.02)

At June 30, 2011, the weighted average number of potentially dilutive instruments, comprised of shares issuable in respect of convertible warrants and stock options was 322,324.

For the year ended June 30, 2010, the diluted weighted average number of common shares outstanding is the same as the basic weighted average number of common shares outstanding, as the Company had a net loss and the exercise of potentially dilutive instruments would be anti-dilutive.

20 Net change in non-cash working capital balances related to operations

	2011 $	2010 $
Decrease in amounts receivable	2,258	17,868
Increase in prepaid expenses and deposits	(502)	(193)
Decrease in restricted cash	–	8
Increase (decrease) in accounts payable and accrued liabilities	3,602	(2,995)
Increase (decrease) in deferred revenue	5,496	(6,207)
	10,854	8,481

	2011	2010
During the year, the Company paid and received the following:		
Interest paid	1,938	1,965
Interest received	424	444
Taxes paid	77	420

(expressed in thousands of Canadian dollars, except for shares and amounts per share)

21 Revenues and segmented information

The Company operates production entities and offices throughout Canada. In measuring performance, the Company does not distinguish or group its operations on a geographical or any other basis and, accordingly, has a single reportable segment for disclosure purposes and has the following sources of revenue:

	2011 $	2010 $
Production revenue	15,368	18,278
Distribution revenue	8,016	11,202
Producer and service fee revenues	15,479	7,480
Merchandising and licensing and other	15,813	3,511
	54,676	40,471

Of the Company's $54,676 in revenues for the year ended June 30, 2011 (2010 - $40,471), $32,848 was attributable to the Company's entities based in Canada (2010 - $40,471) and $21,828 (2010 – $nil) was attributable to the Company's entities based in the USA.

22 Seasonality

Results of operations for any period are dependent on the number and timing of film and television programs delivered, which cannot be predicted with certainty. Consequently, the Company's results from operations may fluctuate materially from period-to-period and the results of any one period are not necessarily indicative of results for future periods. Cash flows may also fluctuate and are not necessarily closely correlated with revenue recognition. During the initial broadcast of the rights the Company is somewhat reliant on the broadcaster's budget and financing cycles and at times the license period gets delayed and commences at a later date than originally projected.

The Company's film and television revenues vary significantly from quarter to quarter driven by contracted deliveries with the primary broadcasters. Although with the Company's recent diversification of its revenue mix, particularly in the strengthening of the distribution revenue stream, some of the quarterly unevenness is improving slightly and becoming more predictable. Distribution revenues are contract and demand driven and can fluctuate significantly from year to year.