dhx media

Unaudited Consolidated Financial Statements

For the periods ended March 31, 2011 and 2010 and the period ended and as at June 30, 2010

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

May 11, 2011

Management's Responsibility for Financial Reporting

The accompanying unaudited interim consolidated financial statements, Management's Discussion and Analysis ("MD&A") and supplemental information of DHX Media Ltd. (the "Company") are the responsibility of management and have been approved by the Audit Committee of the Board of Directors ("The Board"). The Board is responsible for ensuring that management fulfills its responsibilities for financial reporting, and is ultimately responsible for reviewing and approving the unaudited interim consolidated financial statements and MD&A. The Board carries out this responsibility through its Audit Committee. The Audit Committee reviews the Company's interim consolidated financial statements and recommends their approval by the Board of Directors.

The Audit Committee is appointed by the Board and all of its members are independent directors. It meets with the Company's management 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.

The unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. When alternative methods of accounting exist, management has chosen those it deems most appropriate in the circumstances. The unaudited interim consolidated financial statements and information in the MD&A necessarily include amounts based on informed judgements and estimates of the expected effects of current events and transactions with appropriate consideration to materiality. In addition, in preparing the financial information management must make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information. The MD&A also includes information regarding the impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from our present assessment of this information because future events and circumstances may not occur as expected.

These unaudited interim financial statements have not been reviewed by the external auditors of the Company.

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

(signed) "*Dana Landry*"
Chief Financial Officer

DHX Media Ltd.

Unaudited Consolidated Balance Sheets

As at March 31, 2011 and June 30, 2010

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

	March 31, 2011 $	June 30, 2010 $
Assets		
Current assets		
Cash	17,941	15,920
Short-term investments	9,076	6,098
Amounts receivable (note 4)	60,865	54,332
Prepaid expenses and deposits	992	622
Current portion of investment in film and television programs (note 5)	11,914	10,952
	100,788	87,924
Investment in film and television programs (note 5)	25,774	18,940
Investment in production companies and other equity investment (note 6)	3,131	3,409
Property, plant, and equipment	7,862	7,545
Long-term investment	330	330
Future income taxes	255	-
Intangible assets (note 7)	3,654	4,068
Goodwill (note 7)	11,088	11,088
	152,882	133,304
Liabilities		
Current liabilities		
Bank indebtedness (note 8)	5,974	250
Accounts payable and accrued liabilities	20,009	12,481
Deferred revenue	5,870	3,901
Interim production financing (note 9)	36,341	32,815
Current portion of long-term debt and obligations under capital leases (note 10)	513	541
	68,707	49,988
Long-term debt and obligations under capital leases (note 10)	2,241	2,623
Non-controlling interest	96	-
Future income taxes	-	514
	71,044	53,125
Shareholders' Equity		
Share capital and contributed surplus (note 11)	82,189	82,167
Deficit	(351)	(1,988)
	81,838	80,179
	152,882	133,304

Commitments and contingencies (note 12)

The accompanying notes form an integral part of these financial statements

DHX Media Ltd.

Unaudited Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) and Deficit

For the three-month and nine-month periods ended March 31, 2011 and 2010

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

	For the three-month period ended March 31, 2011 $	For the three-month period ended March 31, 2010 $	For the nine-month period ended March 31, 2011 $	For the nine-month period ended March 31, 2010 $
Revenues (note 15)	12,279	9,015	43,785	31,390
Direct costs and amortization of film and television produced	6,772	5,677	26,258	19,177
	5,507	3,338	17,527	12,213
Operating expenses				
Amortization of acquired library	107	149	446	610
Impairment in value of certain investment in film and television programs	-	151	450	385
Development expenses and other	215	35	651	60
Selling, general and administrative	4,135	3,021	11,779	9,706
	4,457	3,356	13,326	10,761
Income (loss) before the following	1,050	(18)	4,201	1,452
Amortization of property, plant and equipment and intangibles	527	468	1,545	1,456
Equity loss (note 6)	111	-	265	-
Foreign exchange loss (gain)	(184)	102	(160)	534
Interest expense	124	90	194	202
Interest income	(12)	(6)	(116)	(16)
Loss (income) from strategic investments	10	(1)	28	23
Loss (income) from non-controlling interest	-	(5)	-	3
Income (loss) before income taxes	474	(666)	2,445	(750)
Provision for (recovery of) income taxes				
Large corporation taxes	15	15	45	45
Current income taxes	289	(135)	1,170	73
Future income taxes	(182)	(11)	(407)	(133)
	122	(131)	808	(15)
Net income (loss) and comprehensive income (loss) for the periods	352	(535)	1,637	(735)
Deficit - Beginning of periods	(703)	(1,375)	(1,988)	(1,175)
Deficit – End of periods	(351)	(1,910)	(351)	(1,910)
Basic earnings (loss) per common share (note 13)	0.01	(0.01)	0.03	(0.02)
Diluted earnings (loss) per common share (note 13)	0.01	(0.01)	0.03	(0.02)

The accompanying notes form an integral part of these financial statements

DHX Media Ltd.

Unaudited Consolidated Statements of Cash Flows

For the three-month and nine-month periods ended March 31, 2011 and 2010

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

	For the three-month period ended March 31, 2011 $	For the three-month period ended March 31, 2010 $	For the nine-month period ended March 31, 2011 $	For the nine-month period ended March 31, 2010 $
Cash provided by (used in)				
Operating activities				
Net income (loss) for the periods	352	(535)	1,637	(735)
Charges (credits) to income not involving cash				
Amortization of film and television programs	2,265	4,522	10,649	15,306
Amortization of acquired library	107	149	446	610
Amortization of property, plant, and equipment	330	203	824	649
Amortization of intangible assets	197	265	721	807
Unrealized foreign exchange loss (gain)	(51)	84	(250)	208
Equity loss	111	-	265	-
Impairment in value of certain investment in film and television programs	-	151	450	385
Unrealized loss (gain) on short-term investments	10	-	28	-
Loss (gain) on disposal of short-term investments	(7)	-	(7)	44
Stock-based compensation	92	161	341	624
Interest on promissory notes	1	2	4	7
Loss (income) from non-controlling interest	-	(5)	-	3
Recovery of future income taxes	(182)	(11)	(407)	(133)
	3,225	4,986	14,701	17,775
Net investment in film and television programs	(1,369)	(836)	(13,319)	(10,076)
Net change in non-cash working capital related to operations (note 14)	1,230	455	3,843	10,103
Cash provided by operating activities - continuing operations	3,086	4,605	5,225	17,802
Cash used in operating activities - discontinued operations	-	(13)	-	(13)
Cash provided by operating activities	3,086	4,592	5,225	17,789
Financing activities				
Proceeds from issuance of common shares and warrants, net of issuance costs	(100)	1,469	(100)	1,469
Proceeds of shares related to employee share purchase plan	4	-	6	-
Proceeds from repayment of employee share purchase loan	1	1	1	2
Common shares repurchased and cancelled	-	-	-	(116)
Proceeds from (repayment of) bank indebtedness	(87)	(37)	5,724	338
Proceeds from (repayment of) interim production financing	(669)	(7,387)	3,526	(18,876)
Repayment of long-term debt	(136)	(160)	(410)	(474)
Repayment of other liability	-	-	-	(650)
Cash provided by (used in) financing activities	(987)	(6,114)	8,747	(18,307)
Investing activities				
Business acquisition, net of cash acquired (note 3(a))	-	-	(8,007)	-
Acquisitions of short-term investments	(3)	-	(4,005)	-
Proceeds on disposal of short-term investments	1,007	-	1,016	228
Acquisitions of property, plant, and equipment	(279)	(6)	(968)	(8)
Net cash advances from (to) investees	(222)	569	13	996
Cash provided by (used in) investing activities	503	563	(11,951)	1,216
Net change in cash during the periods	2,602	(959)	2,021	698
Cash – Beginning of periods	15,339	12,463	15,920	10,806
Cash – End of periods	17,941	11,504	17,941	11,504

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) under the 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, distributes and licenses 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.

Basis of presentation

The accompanying unaudited interim financial statements have been prepared in accordance with the requirements of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1751 "Interim Financial Statements." Accordingly, certain information and note disclosure normally included in annual financial statements prepared in accordance with Canadian generally accepted accounting principles have been omitted or condensed. In the opinion of management, these statements include all adjustments, consisting of normal accruals, considered necessary by management to present a fair statement of the results of operations, financial position and cash flows. Except as indicated in note 2, these unaudited interim financial statements were prepared using the same accounting principles as were used for the consolidated financial statements for the year ended June 30, 2010 and should be read in conjunction with the financial statements of the Company for the year ended June 30, 2010, as set out in the 2010 Annual Financial Statements, available at www.sedar.com.

2 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 CICA Handbook – Accounting for the periods beginning on 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 are not discussed in these financial statements as they will normally 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

(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 $8,282, ($8,211, and $71 respectively) on the Wildbrain Effective Date; and
- An earnout in US$ calculated as 50% of cash receipts over $10,500 – $11,500 from the Yo-Gabba-Gabba! property over the 36 month period from closing ("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, 2010.

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

	$
Assets acquired	
Cash	275
Short-term investments	10
Accounts receivable	1,144
Prepaid expenses and deposits	67
Investment in film and television programs	6,022
Property, plant, and equipment	173
Intangible assets	307
Future income taxes	592
	8,590
Less: liabilities assumed	
Accounts payable and accrued liabilities	212
Non-controlling interest	96
	308
	8,282

The Company will finalize the purchase price allocation upon completion of final review of certain working capital balances and determination of the fair value of the tangible and intangible assets acquired. Any future adjustment resulting from this review will be recorded as an adjustment to the purchase price.

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)

(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. At June 30, 2010, the Company determined its investment in Tribal Nova was $2,060 and its investment in Woozworld was $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 three and nine-month periods ended March 31, 2011 was $62 and $186 respectively (three and nine-month periods ended March 31, 2010 - $nil) and was combined with the $49 and $79 for equity loss for Tribal Nova to total $111 and $265 for the three and nine-month period ended March 31, 2011 respectively (three and nine-month periods ended March 31, 2010 - $nil and $nil). The Company will finalize the allocation upon completion of a final review of the intangible assets recorded and any resulting changes will be adjusted against the corresponding category of asset. The investment in Tribal Nova is accounted for using the equity method (note 6) and the investment in Woozworld is accounted for at cost and is 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 fair value.

During the nine-month period ended March 31, 2011, the Company finalized the purchase price allocation upon completion of its review of certain working capital balances.

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

4 Amounts receivable

	March 31, 2011 $	June 30, 2010 $
Trade	20,202	18,164
Goods and services and income taxes recoverable	1,164	352
Federal and provincial film tax credits and other government assistance	39,499	35,816
	60,865	54,332

5 Investment in film and television programs

	March 31, 2011 $	June 30, 2010 $
Development costs	2,499	2,162
Theatrical and non-theatrical productions in progress		
Cost, net of government and third party assistance and third party participation	4,154	4,584
Acquired library – theatrical and non-theatrical		
Cost	5,860	5,860
Accumulated amortization	(4,288)	(3,842)
	1,572	2,018
Non-theatrical productions completed and released		
Cost, net of government and third party assistance and third party participation	162,631	143,196
Accumulated amortization	(128,885)	(118,235)
Accumulated impairment in value of certain investment in film and television programs	(4,283)	(3,833)
	29,463	21,128
	37,688	29,892
Less: Current portion	(11,914)	(10,952)
	25,774	18,940

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

5 Investment in film and television programs (continued)

The Company expects that 28% of the costs related to theatrical and non-theatrical productions completed and released will be amortized during the year ending June 30, 2011. The Company expects that 66% of the costs related to theatrical and non-theatrical productions completed and released will be amortized by June 30, 2013. The Company expects that over 83% of the costs related to productions completed will be amortized by June 30, 2015.

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 library has been reflected as current.

During the three and nine-month periods ended March 31, 2011, interest of $353 and $1,212 respectively (three and nine-month periods ended March 31, 2010 - $354 and $1,142) has been capitalized to investment in film and television programs.

6 Investment in production companies and other equity investment

Investment in production companies and other equity investment represents the Company's investment in investee companies both of which it accounts for using the equity method.

	Three-month period ended March 31, 2011 $	Nine-month period ended March 31, 2011 $	Year ended June 30, 2010 $
The continuity of investment in production companies is as follows:			
Opening balance	3,020	3,409	2,472
Equity loss - Tribal Nova (note 3(b))	(111)	(265)	(40)
Tribal Nova investment (note 3(b))	-	-	2,060
Net cash advances to (from) investees	222	(13)	(1,083)
	3,131	3,131	3,409

Any remaining carry forward net cash advances to investees are non-interest bearing and have no set terms of repayment.

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

7 Intangible assets and goodwill

Intangible assets

			March 31, 2011
	Cost $	Accumulated amortization $	Net $
Production backlog	1,228	1,042	186
Broadcaster relationships	4,434	2,174	2,260
Customer and distribution relationships	546	268	278
Non-compete contracts and brand	1,883	1,087	796
Production software	394	260	134
	8,485	4,831	3,654

			June 30, 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

The continuity of intangible assets is as follows:

	Three-months ended March 31, 2011 $	Nine-months ended March 31, 2011 $	Year ended June 30, 2010 $
Net opening balance	3,851	4,068	5,144
Acquired in the Wildbrain acquisition (note 3(a))	-	307	-
Amortization	(197)	(721)	(1,076)
	3,654	3,654	4,068

Goodwill

The Company performed its annual test for goodwill impairment at June 30, 2010, in accordance with its policy. No events or circumstances have occurred since June 30, 2010 to indicate that the fair value of the reporting unit is below its carrying value; therefore, no test for impairment of goodwill was required to be conducted for the three and nine-month periods ended March 31, 2011.

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

8 Bank indebtedness

As of March 31, 2011, the maximum amount of all the borrowing, including Interim Production Financing (note 9), with the Royal Bank of Canada ("RBC") is $55,000 ("RBC Master Agreement"). The RBC Master Agreement has been extended to November 30, 2011. As part of the RBC Master Agreement, bank indebtedness was $5,974 at March 31, 2011 (June 30, 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, $2,115 was drawn at March 31, 2011. In addition, RBC temporarily increased the Company's RBC Revolving Operating Credit Facility, for the Wildbrain acquisition (note 3(a)), by a maximum additional US$ 4,000 ($3,859) and was fully drawn at March 31, 2011.

Under the extended 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 $4,000 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 and Acquisition Facility is subject to the Company maintaining interest and consolidated indebtedness coverage ratios and certain other covenants.

9 Interim production financing

	March 31, 2011 $	June 30, 2010 $
Revolving production credit facility ("RBC Revolving Production Credit Facility") bearing interest at bank prime plus 0.5% - 2.0%. Assignment and direction of specific production financing and licensing contracts receivable, with a net book value of approximately $34,207 at March 31, 2011 (June 30, 2010 - $21,214)	21,461	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 $18,681 at March 31, 2011 (June 30, 2010 - $25,531)	14,880	13,347
	36,341	32,815

During the three and nine-month periods ended March 31, 2011, the bank prime rate averaged 3.00% and 2.93% respectively (three and nine-month periods ended March 31, 2010 – 2.25%).

Under the RBC Master Agreement, 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").

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

9 Interim production financing (continued)

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 October 2012, but specifically twenty-four months following the first drawdown of funds in respect of each RBC Individual Approved Tranche.

10 Long-term debt and obligations under capital leases

	March 31, 2011 $	June 30, 2010 $
Loans payable, bearing interest at Business Development Bank of Canada prime minus 1.0%, maturing in May 2021, repayable in monthly principal installments of $20 plus interest, secured by a first mortgage on land and building having a net book value of $4,376 at March 31, 2011 (June 30, 2010 - $4,486) and a general assignment of rents	2,245	2,424
Obligation under capital lease, payable in monthly installments of $22 including interest of 4%, maturing in February 2013	480	663
Obligations under capital leases, bearing interest at rates ranging from 5.2% to 8.4%, maturing on dates ranging from May 2011 to December 2011 and repayable in monthly instalments ranging from $3 to $4	29	77
	2,754	3,164
Less: Current portion	(513)	(541)
	2,241	2,623

The aggregate amount of principal repayments required through June 30, 2015 is as follows:

	$
Year ending June 30, 2011	134
2012	502
2013	410
2014	239
2015	239

11 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)

11 Share capital and contributed surplus (continued)

b) Issued and outstanding

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

	Number	Nine-month period ended March 31, 2011 Amount $	Number	Year ended June 30, 2010 Amount $
Preferred variable voting shares (note 11 (c))	100,000,000	-	100,000,000	-
Common shares (note 11 (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 $35 (year ended June 30, 2010 $503)	-	(65)	-	(1,057)
Issued as part of employee share purchase plan	5,666	6	-	-
Shares cancelled related to an employee loan forgiven	(13,514)	(25)	-	-
Issued in exchange for the Media Fund Put Options (note 3(c))	-	-	425,420	391
Management bonuses	-	-	428,538	300
Normal course issuer bid shares repurchased and cancelled	-	-	(149,833)	(116)
	61,618,988	76,464	61,626,836	76,548
Share purchase financing (note 11 (e))				
Opening balance	-	(268)	-	(419)
Repayments made by an officer	-	1	-	2
Loan forgiven	-	25	-	-
Compensation expense	-	47	-	140
Interest received on notes	-	4	-	9
	-	(191)	-	(268)
Warrants (note 11 (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 11 (g))				
Opening balance	4,111,547	4,047	3,766,547	3,756
Compensation expense on options issued during the period	170,000	10	345,000	5
Management bonuses	-	-	-	(300)
Compensation expense on existing options	-	284	-	586
Warrants expired, net of tax effect of $265	-	1,365	-	-
Options expired	(746,547)	-	-	-
Options cancelled	(115,000)	-	-	-
	3,420,000	5,706	4,111,547	4,047
		82,189		82,167

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

11 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

As part of the Company's 2009 normal course issuer bid, 149,833 common shares were repurchased for a gross amount of $116 and cancelled on July 30, 2009.

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 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)).

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 11(e)).

During the three and nine-month periods ended March 31, 2011, the Company issued 3,774 and 5,666 common shares, at average prices of $0.91 and $0.98, respectively, as part of the Company's employee share purchase plan (three and nine-month periods ended March 31, 2010 – nil).

During the three and nine-month periods ended March 31, 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 have been scheduled to be cancelled subsequent to March 31, 2011.

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

11 Share capital and contributed surplus (continued)

e) Share purchase financing

During the three and nine-month periods ended March 31, 2011 and March 31, 2010, the Company issued no amounts for share purchase financing. During the three and nine-month periods ended March 31, 2011, $nil and $47 of compensation expense was recognized, respectively, on an employee loan forgiven (three and nine-month periods ended March 31, 2010 - $nil and $140). During the three and nine-month periods ended March 31, 2011, $1 and $4, respectively, of interest (three and nine-month periods ended March 31, 2010 - $2 and $7) received on these loans were recorded as capital contributions. During the three and nine-month periods ended March 31, 2011, $1 was received (three and nine-month periods ended March 31, 2010 - $1 and $2) as principal repayment of an employee loan. During the three and nine-month periods ended March 31, 2011, $nil and $25 reductions in share purchase financing were recorded on a loan forgiven in exchange for common shares returned and cancelled (note 11(d)) (three and nine-month periods ended March 31, 2010 - $nil and $nil).

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 three and nine-month periods ended March 31, 2011 no warrants were issued or granted (three and nine-month periods ended March 31, 2010 – nil and nil). During the three and nine-month periods ended March 31, 2011 4,922,750 warrants expired (three and nine-month periods ended March 31, 2010 – nil)

	Number of warrants	**Weighted average exercise price per warrant**
Outstanding at June 30, 2009 and December 31, 2009	4,922,750	2.10
Warrants issued	937,500	1.15
Outstanding at March 31, 2010 and June 30, 2010	5,860,250	1.95
Warrants expired	(4,922,750)	2.10
Outstanding at December 31, 2010 and March 31, 2011	937,500	1.15

The fair value of the warrants has been estimated by management using the Black Scholes option pricing model. The weighted average assumptions used in the pricing model to value the warrants are as follows:

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)

11 Share capital and contributed surplus (continued)

g) Stock options

At March 31, 2011 and 2010 and June 30, 2010, the Company had the following stock options outstanding:

	Number of options	Weighted average exercise price
Outstanding at December 31, 2009	3,801,547	1.35
Granted to employees	150,000	0.99
Outstanding at March 31, 2010	3,951,547	1.34
Granted to employees	160,000	0.99
Outstanding at June 30, 2010	4,111,547	1.33
Granted to an employee	150,000	0.96
Options cancelled	(40,000)	1.62
Outstanding at December 31, 2010	4,221,547	1.31
Granted to an employee	20,000	0.97
Options cancelled	(75,000)	1.83
Options expired	(746,547)	2.25
Outstanding at March 31, 2011	3,420,000	1.09
Exercisable at March 31, 2010	1,585,297	1.95
Exercisable at June 30, 2010	1,997,797	1.72
Exercisable at March 31, 2011	1,528,750	1.38

On February 13, 2009, the date of the Company's annual general meeting, the shareholders approved an increase to 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 March 31, 2011, this amounted to 5,545,708 (June 30, 2010 – 5,546,415).

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.

During the year ended June 30, 2010, 345,000 stock options were issued to officers and employees at prices ranging from $0.90 to $0.99 per share, vesting over four years and expiring from November 19, 2014 to May 18, 2015. No stock options expired or were cancelled during the year ended June 30, 2010.

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

11 Share capital and contributed surplus (continued)

g) Stock options (continued)

During the three and nine-month periods ended March 31, 2011, 75,000 and 115,000, respectively, stock options were cancelled and 746,547 expired (three and nine-month periods ended March 31, 2010 – nil and nil).

The weighted average grant date value of stock options and assumptions using the Black Scholes option pricing model for the three and nine-month periods ended March 31, 2011 (for the three and nine-month periods ended March 31, 2010 are as follows:

	Three-months ended March 31, 2011	Three-months ended March 31, 2010	Nine-months ended March 31, 2011	Nine-months ended March 31, 2010
Weighted average grant date value	$0.51	$0.53	$0.50	$0.51
Risk-free interest rate	2.51%	2.28%	1.87%	2.28%
Expected option life	4 years	4 years	4 years	4 years
Expected volatility	67%	69%	68%	68%
Expected dividend yield	nil	nil	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 three and nine-month periods ended March 31, 2011, a total of $92 and $341, respectively, (three and nine-month periods ended March 31, 2010 - $161 and $624) was recognized as compensation expense. Included in the compensation expense for the three and nine-month periods ended March 31, 2011 was $nil and $47, respectively, related to employee share purchase loans (three and nine-month periods ended March 31, 2010 - $nil and $140) (note 11(e)).

Information related to options outstanding at March 31, 2011 is presented below:

Range of exercise prices	Number outstanding at March 31, 2011	Weighted average remaining contractual life	Weighted average exercise price $	Number exercisable at March 31, 2011	Weighted average exercise price $
$0.58 - $0.99	2,400,000	3.32 years	0.80	626,250	0.75
$1.00 - $2.35	1,020,000	1.19 years	1.79	902,500	1.81
Total	3,420,000	2.68 years	1.09	1,528,750	1.38

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

11 Share capital and contributed surplus (continued)

g) Stock options (continued)

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

12 Commitments and contingencies

The Company has entered into various operating leases for operating premises and equipment. The estimated future minimum payments under these operating leases required through June 30, 2015 are as follows:

	$
Year ending June 30, 2011	458
2012	1,708
2013	1,255
2014	890
2015	538

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 March 31, 2011 under the above matters is estimated at $900 (June 30, 2010 - $1,300).

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

13 Earnings (loss) per common share

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

	For the three-month period ended March 31, 2011 $	For the three-month period ended March 31, 2010 $	For the nine-month period ended March 31, 2011 $	For the nine-month period ended March 31, 2010 $
Net income (loss) and comprehensive income (loss) for the period	352	(535)	1,637	(735)
Weighted average number of common shares:				
Basic	61,617,610	46,346,766	61,620,850	45,045,855
Diluted	61,939,499	46,346,766	61,944,605	45,045,855
Earnings (loss) per common share:				
Basic	0.01	(0.01)	0.03	(0.02)
Diluted	0.01	(0.01)	0.03	(0.02)

For the three and nine-month periods ended March 31, 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.

The weighted average number of potentially dilutive instruments, comprised of shares issuable in respect of convertible warrants, stock options, and put options, were 321,889 and 323,755 for the three and nine-month periods ended March 31, 2011 (three and nine-month periods ended March 31, 2010 – nil and nil).

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

	For the three-month period ended March 31, 2011 $	For the three-month period ended March 31, 2010 $	For the nine-month period ended March 31, 2011 $	For the nine-month period ended March 31, 2010 $
Decrease (increase) in amounts receivable	(373)	5,643	(5,139)	17,868
Decrease (increase) in prepaid expenses and deposits	24	(99)	(303)	(539)
Decrease in restricted cash	-	4	-	8
Increase (decrease) in accounts payable and accrued liabilities	2,228	(1,743)	7,316	(2,451)
Increase (decrease) in deferred revenue	(649)	(3,350)	1,969	(4,783)
	1,230	455	3,843	10,103
During the period, the Company paid and received the following:				
Interest paid	506	189	1,421	744
Interest received	55	108	275	200
Taxes paid	1	85	17	397

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

15 Revenues and segmented information

The Company operates production entities and offices throughout Canada and the United States of America ("USA"). 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:

	For the three-month period ended March 31, 2011	For the three-month period ended March 31, 2010	For the nine-month period ended March 31, 2011	For the nine-month period ended March 31, 2010
	$	$	$	$
Production revenue	2,486	5,361	12,590	16,075
Distribution revenue	1,640	1,681	6,192	8,983
Producer and service fee revenues	4,220	1,293	11,960	3,759
Merchandising and licensing and other	3,933	680	13,043	2,573
	12,279	9,015	43,785	31,390

Of the Company's $12,279 and $43,785 in revenues for the three and nine-month periods ended March 31, 2011 ($9,015 and $31,390 for the three and nine-month periods ended March 31, 2010), $7,054 and $26,381 was attributable to the Company's entities based in Canada ($9,015 and $31,390 for the three and nine-month periods ended March 31, 2010) and $5,225 and $17,404 (three and nine-month periods ended March 31, 2010 – nil and nil) was attributable to the Company's entities based in the USA.

16 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 and are driven by contracted deliveries with the primary broadcasters, although with the Company's continued diversification of its revenue mix, particularly in 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 also fluctuate significantly from period to period.