Unaudited Consolidated Financial Statements

For the periods ended December 31, 2010 and 2009 and the period ended and as at June 30, 2010

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

February 10, 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 December 31, 2010 and June 30, 2010

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

	December 31, 2010 $	June 30, 2010 $
Assets		
Current assets		
Cash	15,339	15,920
Short-term investments	10,083	6,098
Amounts receivable (note 4)	60,441	54,332
Prepaid expenses and deposits	1,016	622
Current portion of investment in film and television programs (note 5)	13,286	10,952
	100,165	87,924
Investment in film and television programs (note 5)	25,405	18,940
Investment in production companies and other equity investment (note 6)	3,020	3,409
Property, plant, and equipment	7,913	7,545
Long-term investment	330	330
Future income taxes	38	-
Intangible assets (note 7)	3,851	4,068
Goodwill (note 7)	11,088	11,088
	151,810	133,304
Liabilities		
Current liabilities		
Bank indebtedness (note 8)	6,061	250
Accounts payable and accrued liabilities	17,781	12,481
Deferred revenue	6,519	3,901
Interim production financing (note 9)	37,010	32,815
Current portion of long-term debt and obligations under capital leases (note 10)	527	541
	67,898	49,988
Long-term debt and obligations under capital leases (note 10)	2,363	2,623
Non-controlling interest	96	-
Future income taxes	-	514
	70,357	53,125
Shareholders' Equity		
Share capital and contributed surplus (note 11)	82,156	82,167
Deficit	(703)	(1,988)
	81,453	80,179
	151,810	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 and Comprehensive Income and Deficit

For the three-month and six-month periods ended December 31, 2010 and 2009

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

	For the three-month period ended December 31, 2010 $	For the three-month period ended December 31, 2009 $	For the six-month period ended December 31, 2010 $	For the six-month period ended December 31, 2009 $
Revenues (note 15)	19,259	9,427	31,506	22,375
Direct costs and amortization of film and television produced	12,171	5,409	19,486	13,500
	7,088	4,018	12,020	8,875
Operating expenses				
Amortization of acquired library	79	174	339	461
Impairment in value of certain investment in film and television programs	350	75	450	234
Development expenses and other	368	-	436	25
Selling, general and administrative	4,278	3,245	7,644	6,685
	5,075	3,494	8,869	7,405
Income before the following	2,013	524	3,151	1,470
Amortization of property, plant and equipment and intangibles	512	498	1,018	988
Equity loss (note 6)	83	-	154	-
Foreign exchange loss	170	224	24	432
Interest expense	18	35	70	112
Interest income	(60)	(4)	(104)	(10)
Loss (income) from strategic investments	8	(29)	18	24
Loss (income) from non-controlling interest	-	(15)	-	8
Income (loss) before income taxes	1,282	(185)	1,971	(84)
Provision for (recovery of) income taxes				
Large corporation taxes	15	15	30	30
Current income taxes	559	201	881	208
Future income taxes	(122)	(192)	(225)	(122)
	452	24	686	116
Net income (loss) and comprehensive income (loss) for the periods	830	(209)	1,285	(200)
Deficit - Beginning of periods	(1,533)	(1,166)	(1,988)	(1,175)
Deficit – End of periods	(703)	(1,375)	(703)	(1,375)
Basic earnings (loss) per common share (note 13)	0.01	0.00	0.02	0.00
Diluted earnings (loss) per common share (note 13)	0.01	0.00	0.02	0.00

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 six-month periods ended December 31, 2010 and 2009

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

	For the three-month period ended December 31, 2010 $	For the three-month period ended December 31, 2009 $	For the six-month period ended December 31, 2010 $	For the six-month period ended December 31, 2009 $
Cash provided by (used in)				
Operating activities				
Net income (loss) for the periods	830	(209)	1,285	(200)
Charges (credits) to income not involving cash				
Amortization of film and television programs	4,338	4,394	8,384	10,784
Amortization of acquired library	79	174	339	461
Amortization of property, plant, and equipment	259	227	493	446
Amortization of intangible assets	252	271	524	542
Unrealized foreign exchange loss (gain)	98	79	(199)	124
Equity loss	83	-	154	-
Impairment in value of certain investment in film and television programs	350	75	450	234
Unrealized loss (gain) on short-term investments	8	(74)	18	-
Loss on disposal of short-term investments	-	62	-	44
Stock-based compensation	93	162	249	463
Interest on promissory notes	1	2	3	5
Loss (income) from non-controlling interest	-	(15)	-	8
Recovery of future income taxes	(122)	(192)	(225)	(122)
	6,269	4,956	11,475	12,789
Net investment in film and television programs	(5,823)	(7,173)	(11,950)	(9,240)
Net change in non-cash working capital related to operations (note 14)	102	7,936	2,612	9,648
Cash provided by operating activities	548	5,719	2,137	13,197
Financing activities				
Proceed of shares related to employee share purchase plan	2	-	2	-
Proceeds from repayment of employee share purchase loan	-	1	-	1
Common shares repurchased and cancelled	-	(1)	-	(116)
Proceeds from (repayment of) bank indebtedness	435	(30)	5,811	375
Proceeds from (repayment of) interim production financing	3,718	(5,126)	4,195	(11,489)
Repayment of long-term debt	(135)	(158)	(275)	(314)
Repayment of other liability	-	-	-	(650)
Cash provided by (used in) financing activities	4,020	(5,314)	9,733	(12,193)
Investing activities				
Business acquisition, net of cash acquired (note 3(a))	-	-	(8,007)	-
Acquisitions of short-term investments	-	-	(4,002)	-
Proceeds on disposal of short-term investments	10	84	10	228
Disposal (acquisition) of property, plant, and equipment	(259)	45	(687)	(2)
Net cash advances from (to) investees	(277)	509	235	427
Cash provided by (used in) investing activities	(526)	638	(12,451)	653
Net change in cash during the periods	4,042	1,043	(581)	1,657
Cash – Beginning of periods	11,297	11,420	15,920	10,806
Cash – End of periods	15,339	12,463	15,339	12,463

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

The following is an overview of accounting standards that the Company will be required to adopt in future years:

International Financial Reporting Standards ("IFRS")

In January 2006, the AcSB announced its decision to replace Canadian GAAP with IFRS. In February 2008, the AcSB confirmed January 1, 2011 as the mandatory changeover date to IFRS for all Canadian publicly accountable enterprises. This means that the Company will be required to prepare IFRS financial statements for the interim periods and fiscal year ends beginning July 1, 2011. While IFRS is based on a conceptual framework similar to Canadian GAAP, there are significant differences. The Company has created an implementation team comprised of certain employees who deal with accounting, finance and reporting matters, and an external consultant. A three phase transition plan is being established to convert to the new standards within the allotted timeline and consists of the following phases: initial review and assessment; in-depth analysis; and implementation. Phase 1 is complete. Phase 2 is underway and its completion is planned for the end of fiscal 2011. At this time, the quantitative effects on the financial statements cannot be reasonably estimated.

(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 six-month periods ended December 31, 2010 was $62 and $124 respectively (three and six-month periods ended December 31, 2009 - $nil) and is combined with the $21 and $30 for equity loss for Tribal Nova to total $83 and $154 for the three and six-month period ended December 31, 2010 respectively (three and six-month periods ended December 31, 2009 - $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.

3 Acquisitions and long-term investment (continued)

(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 ("Media Fund Effective Date"), 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 six-month period ended December 31, 2010, 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

	December 31, 2010 $	June 30, 2010 $
Trade	19,731	18,164
Goods and services taxes recoverable	655	352
Federal and provincial film tax credits and other government assistance	40,055	35,816
	60,441	54,332

5 Investment in film and television programs

	December 31, 2010 $	June 30, 2010 $
Development costs	2,389	2,162
Theatrical and non-theatrical productions in progress		
Cost, net of government and third party assistance and third party participation	4,954	4,584
Acquired library – theatrical and non-theatrical		
Cost	5,860	5,860
Accumulated amortization	(4,181)	(3,842)
	1,679	2,018
Non-theatrical productions completed and released		
Cost, net of government and third party assistance and third party participation	160,571	143,196
Accumulated amortization	(126,619)	(118,235)
Accumulated impairment in value of certain investment in film and television programs	(4,283)	(3,833)
	29,669	21,128
	38,691	29,892
Less: Current portion	(13,286)	(10,952)
	25,405	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 during the three-year period ending June 30, 2013. The Company expects that over 84% 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 six-month periods ended December 31, 2010, interest of $542 and $859 respectively (three and six-month periods ended December 31, 2009 - $350 and $788) 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 December 31, 2010 $	**Six-month period ended December 31, 2010 $**	**Year ended June 30, 2010 $**
The continuity of investment in production companies is as follows:			
Opening balance	2,826	3,409	2,472
Equity loss - Tribal Nova (note 3(b))	(83)	(154)	(40)
Tribal Nova investment (note 3(b))	-	-	2,060
Net cash advances from investees	277	(235)	(1,083)
	3,020	3,020	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

			December 31, 2010
	Cost $	Accumulated amortization $	Net $
Production backlog	1,228	1,037	191
Broadcaster relationships	4,434	2,045	2,389
Customer and distribution relationships	546	255	291
Non-compete contracts and brand	1,883	1,056	827
Production software	394	241	153
	8,485	4,634	3,851

			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:

	Six-months ended December 31, 2010 $	Year ended June 30, 2010 $
Net opening balance	4,068	5,144
Acquired in the Wildbrain acquisition (note 3(a))	307	-
Amortization	(524)	(1,076)
	3,851	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 six-month periods ended December 31, 2010.

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

8 Bank indebtedness

As of December 31, 2010, bank indebtedness was $6,061 (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, $1,970 was drawn at December 31, 2010. In addition, the Royal Bank increased the Company's RBC Revolving Operating Credit Facility, for the Wildbrain acquisition (note 3(a)), by a maximum additional US$ 4,000 ($4,091) and was fully drawn at December 31, 2010. 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 Facility. The RBC Revolving Operating Facility bears interest at Royal Bank of Canada ("Royal Bank") prime plus 1.25% (June 30, 2010 – Royal Bank prime plus 1.25%). The availability of the RBC Revolving Operating Credit Facility is subject to the Company maintaining interest and consolidated indebtedness coverage ratios and certain other covenants. The RBC Revolving Operating Credit Facility has been extended to November 30, 2011.

9 Interim production financing

	December 31, 2010 $	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 $23,801 at December 31, 2010 (June 30, 2010 - $21,214)	21,544	19,468
Interim production credit facilities with various institutions, bearing interest at bank prime plus 0.5% - 3.0%. Assignment and direction of specific production financing and licensing contracts receivable, with a net book value of approximately $25,872 at December 31, 2010 (June 30, 2010 - $25,531)	15,466	13,347
	37,010	32,815

During the three and six-month periods ended December 31, 2010, the bank prime rate averaged 3.00% and 2.89% respectively (three and six-month periods ended December 31, 2009 – 2.25%).

The Company has a RBC Revolving Production Credit Facility with the Royal Bank with a maximum authorized amount of $39,380. The RBC Revolving Production Credit Facility is the aggregate of interim production financing of individual programs financed through the Royal Bank 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 October 2012, 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)

10 Long-term debt and obligations under capital leases

	December 31, 2010 $	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 $4,412 at December 31, 2010 (June 30, 2010 - $4,486) and a general assignment of rents	2,305	2,424
Obligation under capital lease, payable in monthly installments of $22 including interest of 4%, maturing in February 2013	539	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	46	77
	2,890	3,164
Less: Current portion	(527)	(541)
	2,363	2,623

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

	$
Year ending June 30, 2011	270
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	Six-month period ended December 31, 2010 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 $503	-	-	-	(1,057)
Issued as part of employee share purchase plan	1,892	2	-	-
Shares cancelled related to an employee loan forgiven	(13,514)	(25)	-	-
Issued in exchange for the Media Fund Put Options	-	-	425,420	391
Management bonuses	-	-	428,538	300
Normal course issuer bid shares repurchased and cancelled	-	-	(149,833)	(116)
	61,615,214	76,525	61,626,836	76,548
Share purchase financing (note 11 (e))				
Opening balance	-	(268)	-	(419)
Repayments made by an officer	-	-	-	2
Loan forgiven	-	25	-	-
Compensation expense	-	47	-	140
Interest received on notes	-	3	-	9
	-	(193)	-	(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	150,000	5	345,000	5
Management bonuses	-	-	-	(300)
Compensation expense on existing options	-	197	-	586
Warrants expired, net of tax effect of $265	-	1,365	-	-
Options cancelled	(40,000)	-	-	-
	4,221,547	5,614	4,111,547	4,047
		82,156		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

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 11 (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 11(e)).

During the three and six-month period ended December 31, 2010, 1,892 common shares, at an average price of $1.11, were issued as part of the Company employee share purchase plan (three and six-month periods ended December 31, 2009 – nil).

e) Share purchase financing

During the three and six-month periods ended December 31, 2010 and December 31, 2009, the Company issued no amounts for share purchase financing. During the three and six-month periods ended December 31, 2010, $nil and $47 of compensation expense was recognized, respectively, on an employee loan forgiven (three and six-month periods ended December 31, 2009 - $nil and $140). During the three and six-month periods ended December 31, 2010, $1 and $3, respectively, of interest (three and six-month periods ended December 31, 2009 - $2 and $3) received on these loans were recorded as capital contributions. During the three and six-month periods ended December 31, 2010, $nil was received (three and six-month periods ended December 31, 2009 - $1) as principal repayment of an employee loan. During the three and six-month periods ended December 31, 2011, a $25 reduction in share purchase financing was recorded on a loan forgiven in exchange for common shares returned and cancelled (note 11(d)) (three and six-month periods ended December 31, 2009 - $nil).

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

11 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 three and six-month periods ended December 31, 2010 no warrants were issued or granted (three and six-month periods ended December 31, 2009 – nil and nil). During the three and six-month periods ended December 31, 2010 4,922,750 warrants expired (three and six-month periods ended December 31, 2009 – 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 June 30, 2010 and September 30, 2010	5,860,250	1.95
Warrants expired	(4,922,750)	2.10
Outstanding at December 31, 2010	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 December 31, 2010 and 2009 and June 30, 2010, the Company had the following stock options outstanding:

	Number of options	Weighted average exercise price
Outstanding at September 30, 2009	3,766,547	1.36
Granted to employees and officers	35,000	0.90
Outstanding at December 31, 2009	3,801,547	1.35
Granted to employees and officers	310,000	0.99
Outstanding at June 30, 2010	4,111,547	1.33
Granted to employee	150,000	0.96
Options cancelled	(40,000)	1.62
Outstanding at September 30, 2010 and December 31, 2010	4,221,547	1.31
Exercisable at December 31, 2009	1,308,660	2.00
Exercisable at June 30, 2010	1,997,797	1.72
Exercisable at December 31, 2010	2,204,047	1.73

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 December 31, 2010, this amounted to 5,545,369 (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 19, 2015.

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.

During the three and six-month periods ended December 31, 2010, nil and 40,000 respectively stock options were cancelled and none expired (three and six-month periods ended December 31, 2009 – nil and nil).

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

11 Share capital and contributed surplus (continued)

g) Stock options (continued)

The weighted average grant date value of stock options and assumptions using the Black Scholes option pricing model for the three and six-month periods ended December 31, 2010 (for the three and six-month periods ended December 31, 2009 are as follows:

	Three and six-months ended December 31, 2010	Three and six-months ended December 31, 2009
Weighted average grant date value	$0.50	$0.45
Risk-free interest rate	1.79%	2.28%
Expected option life	4 years	4 years
Expected volatility	68%	64%
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 three and six-month periods ended December 31, 2010, a total of $93 and $249 respectively (three and six-month periods ended December 31, 2009 - $162 and $463) was recognized as compensation expense. Included in the compensation expense for the three and six-month periods ended December 31, 2010 was $nil and $47, respectively, related to employee share purchase loans (three and six-month periods ended December 31, 2009 - $nil and $140) (note 11(e)).

Information related to options outstanding at December 31, 2010 is presented below:

Range of exercise prices	Number outstanding at December 31, 2010	Weighted average remaining contractual life	Weighted average exercise price $	Number exercisable at December 31, 2010	Weighted average exercise price $
$0.58 - $0.99	2,405,000	3.55 years	0.79	505,000	0.76
$1.00 - $2.35	1,816,547	0.93 years	1.99	1,699,047	2.02
Total	4,221,547	2.43 years	1.31	2,204,047	1.73

(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

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)).

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	706
2012	917
2013	532
2014	521
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 December 31, 2010 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 December 31, 2010	**For the three-month period ended December 31, 2010**	**For the six-month period ended December 31, 2010**	**For the six-month period ended December 31, 2010**
	$	**$**	**$**	**$**
Net income (loss) and comprehensive income (loss) for the period	830	(209)	1,285	(200)
Weighted average number of common shares:				
Basic	61,618,035	44,483,857	61,622,435	44,409,540
Diluted	62,149,064	44,483,857	62,149,101	44,409,540
Earnings (loss) per common share:				
Basic	0.01	0.00	0.02	0.00
Diluted	0.01	0.00	0.02	0.00

For the three and six-month periods ended December 31, 2009, 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 531,029 and 526,666 for the three and six-month periods ended December 31, 2010 (three and six-month periods ended December 31, 2009 – nil and nil).

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

	For the three-month period ended December 31, 2010	**For the three-month period ended December 31, 2009**	**For the six-month period ended December 31, 2010**	**For the six-month period ended December 31, 2009**
	$	**$**	**$**	**$**
Decrease (increase) in amounts receivable	(1,898)	6,570	(4,766)	12,225
Decrease (increase) in prepaid expenses and deposits	152	(279)	(327)	(440)
Decrease in restricted cash	-	4	-	4
Increase (decrease) in accounts payable and accrued liabilities	2,521	1,171	5,088	(708)
Increase (decrease) in deferred revenue	(673)	470	2,617	(1,433)
	102	7,936	2,612	9,648
During the period, the Company paid and received the following:				
Interest paid	559	367	915	555
Interest received	67	1	220	92
Taxes paid	5	312	16	312

(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. 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 December 31, 2010	For the three-month period ended December 31, 2009	For the six-month period ended December 31, 2010	For the six-month period ended December 31, 2009
	$	$	$	$
Production revenue	5,844	3,916	10,104	10,714
Distribution revenue	1,603	3,552	4,552	7,302
Producer and service fee revenues	5,185	805	7,740	2,466
Merchandising and licensing and other	6,627	1,154	9,110	1,893
	19,259	9,427	31,506	22,375

Of the Company's $19,259 and $31,506 in revenues for the three and six-month periods ended December 31, 2010 ($9,427 and $22,375 for the three and six-month periods ended December 31, 2009), $10,266 and $19,327 was attributable to the Company's entities based in Canada ($9,427 and $22,375 for the three and six-month periods ended December 31, 2009) and $8,993 and $12,179 (three and six-month periods ended December 31, 2009 – nil and nil) was attributable to the Company's entities based in the United States of America.

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.