Unaudited Consolidated Financial Statements

For the periods ended September 30, 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)

November 12, 2010

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 September 30, 2010 and June 30, 2010

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

	September 30, 2010 $	June 30, 2010 $
Assets		
Current assets		
Cash	11,297	15,920
Short-term investments	10,101	6,098
Amounts receivable (note 4)	58,641	54,332
Prepaid expenses and deposits	1,168	622
Current portion of investment in film and television programs (note 5)	14,304	10,952
	95,511	87,924
Investment in film and television programs (note 5)	23,331	18,940
Investment in production companies and other equity investment (note 6)	2,826	3,409
Property, plant, and equipment	7,913	7,545
Long-term investment	330	330
Future income taxes	181	-
Intangible assets (note 7)	4,103	4,068
Goodwill (note 7)	11,088	11,088
	145,283	133,304
Liabilities		
Current liabilities		
Bank indebtedness (note 8)	5,626	250
Accounts payable and accrued liabilities	15,262	12,481
Deferred revenue	7,191	3,901
Interim production financing (note 9)	33,292	32,815
Current portion of long-term debt and obligations under capital leases (note 10)	534	541
	61,905	49,988
Long-term debt and obligations under capital leases (note 10)	2,490	2,623
Non-controlling interest	96	-
Future income taxes	-	514
	64,491	53,125
Shareholders' Equity		
Share capital and contributed surplus (note 11)	82,325	82,167
Deficit	(1,533)	(1,988)
	80,792	80,179
	145,283	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 periods ended September 30, 2010 and 2009

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

	For the three-month period ended September 30, 2010 $	For the three-month period ended September 30, 2009 $
Revenues (note 15)	12,247	12,948
Direct costs and amortization of film and television produced	7,315	8,091
	4,932	4,857
Operating expenses		
Amortization of acquired library	260	287
Impairment in value of certain investment in film and television programs	100	159
Development expenses	68	25
Selling, general and administrative	3,366	3,440
	3,794	3,911
Income before the following	1,138	946
Amortization of property, plant and equipment and intangibles	506	490
Equity loss (note 6)	71	-
Foreign exchange (gain) loss	(146)	208
Interest expense	52	77
Interest income	(44)	(6)
Loss from strategic investments	10	53
Loss from non-controlling interest	-	23
Income before income taxes	689	101
Provision for (recovery of) income taxes		
Large corporation taxes	15	15
Current income taxes	322	7
Future income taxes	(103)	70
	234	92
Net income and comprehensive income for the periods	455	9
Deficit - Beginning of periods	(1,988)	(1,175)
Deficit – End of periods	(1,533)	(1,166)
Basic earnings per common share (note 13)	0.01	0.00
Diluted earnings per common share (note 13)	0.01	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 periods ended September 30, 2010 and 2009

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

	For the three-month period ended September 30, 2010 $	For the three-month period ended September 30, 2009 $
Cash provided by (used in)		
Operating activities		
Net income for the periods	455	9
Charges (credits) to income not involving cash		
Amortization of film and television programs	4,046	6,390
Amortization of acquired library	260	287
Amortization of property, plant, and equipment	234	219
Amortization of intangible assets	272	271
Unrealized foreign exchange loss (gain)	(297)	45
Equity loss	71	-
Impairment in value of certain investment in film and television programs	100	159
Unrealized loss on short-term investments	10	74
Gain on disposal of short-term investments	-	(18)
Stock-based compensation	156	301
Interest on promissory notes	2	3
Non-controlling interest	-	23
Provision for (recovery of) future income taxes	(103)	70
	5,206	7,833
Net investment in film and television programs	(6,127)	(2,067)
Net change in non-cash working capital related to operations (note 14)	2,510	1,712
Cash provided by operating activities	1,589	7,478
Financing activities		
Common shares repurchased and cancelled	-	(115)
Proceeds from bank indebtedness	5,376	405
Proceeds from (repayment of) interim production financing	477	(6,363)
Repayment of long-term debt	(140)	(156)
Repayment of other liability	-	(650)
Cash provided by (used in) financing activities	5,713	(6,879)
Investing activities, net of cash acquired		
Business acquisition (note 3(a))	(8,007)	-
Acquisitions of short-term investments	(4,002)	-
Proceeds on disposal of short-term investments	-	144
Acquisition of property, plant, and equipment	(428)	(47)
Net cash advances from (to) investees	512	(82)
Cash provided by (used in) investing activities	(11,925)	15
Net change in cash during the periods	(4,623)	614
Cash – Beginning of periods	15,920	10,806
Cash – End of periods	11,297	11,420

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 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.

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. 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 currently underway. Phase 2 will begin shortly and its completion is planned for the end of the third quarter of 2011.

While IFRS is based on a conceptual framework similar to Canadian GAAP, there are significant differences. The Company will commence reporting under the new standards on July 1, 2011. The Company is currently assessing the impact of IFRS on its information systems and its financial statements. 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)

2 Future accounting standard changes (continued)

Business Combinations, Consolidated Financial Statements and Non-controlling Interests

In January 2009, the CICA issued Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-controlling Interests" which replace Section 1581, "Business Combinations" and Section 1600, "Consolidated Financial Statements". Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1582 is applicable for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Early adoption of this section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the entity's interim and annual consolidated financial statements for fiscal years beginning on or after January 1, 2011.

The Company is in the process of evaluating the impact of disclosure, presentation and measurement of these new standards.

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.

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

3 Acquisitions and long-term investment (continued)

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 investment	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.

(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. The Company recorded a net gain of $348 on the restructuring of its investment for the year ended June 30, 2010. 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 has been allocated to the identifiable intangible assets based on their preliminary estimated fair values as follows: $1,648 to source code, $412 to license contracts and subscription lists. Amortization of these intangibles for the three month period ended September 30, 2010 was $62 (three month period ended September 30, 2009 - $nil) (year ended June 30, 2010 was $41) and is combined with the $9 for equity loss for Tribal Nova to total $71 for the three-month period ended September 30, 2010 (three-month period ended September 30, 2009 - $nil and $nil respectively). 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.

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

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 three-month period ended September 30, 2010, the Company finalized the purchase price allocation upon completion of its review of certain working capital balances.

4 Amounts receivable

	September 30, 2010 $	**June 30, 2010 $**
Trade	18,952	18,164
Goods and services taxes recoverable	418	352
Federal and provincial film tax credits and other government assistance	39,271	35,816
	58,641	54,332

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

5 Investment in film and television programs

	September 30, 2010 $	June 30, 2010 $
Development costs	2,608	2,162
Theatrical and non-theatrical productions in progress		
Cost, net of government and third party assistance and third party participation	6,058	4,584
Acquired library – theatrical and non-theatrical		
Cost	5,860	5,860
Accumulated amortization	(4,102)	(3,842)
	1,758	2,018
Non-theatrical productions completed and released		
Cost, net of government and third party assistance and third party participation	153,425	143,196
Accumulated amortization	(122,281)	(118,235)
Accumulated impairment in value of certain investment in film and television programs	(3,933)	(3,833)
	27,211	21,128
	37,635	29,892
Less: Current portion	(14,304)	(10,952)
	23,331	18,940

The Company expects that 30% 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 67% 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 85% of the costs related to productions completed will be amortized by June 30, 2015.

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

5 Investment in film and television programs (continued)

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-month period ended September 30, 2010, interest of $317 (three-month period ended September 30, 2009 - $438) 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.

	September 30, 2010 $	**June 30, 2010 $**
The continuity of investment in production companies is as follows:		
Opening balance	3,409	2,472
Equity loss - Tribal Nova	(71)	(40)
Tribal Nova investment (note 3(b))	-	2,060
Net cash advances from investees	(512)	(1,083)
	2,826	3,409

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

7 Intangible assets and goodwill

Intangible assets

			September 30, 2010
	Cost $	**Accumulated amortization $**	**Net $**
Production backlog	1,228	981	247
Broadcaster relationships	4,434	1,913	2,521
Customer and distribution relationships	546	241	305
Non-compete contracts and brand	1,883	1,024	859
Production software	394	223	171
	8,485	4,382	4,103

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

7 Intangible assets and goodwill (continued)

Intangible assets (continued)

			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 September 30, 2010 $	**Year ended June 30, 2010 $**
Net opening balance	4,068	5,144
Acquired in the Wildbrain acquisition (note 3(a))	307	-
Amortization	(272)	(1,076)
	4,103	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-month period ended September 30, 2010.

8 Bank indebtedness

As of September 30, 2010, bank indebtedness was $5,626 (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, $1,535 was drawn at September 30, 2010. In addition, the Royal bank has increased the Company’s RBC Revolving Operating Credit Facility by a maximum additional US$ 4,000 ($4,116) against which US$ 3,976 ($4,091) was drawn at September 30, 2010 for the Wildbrain acquisition (note 3(a)). 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 matures November 30, 2010.

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

9 Interim production financing

	September 30, 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 $28,477 at September 30, 2010 (June 30, 2010 - $21,214)	19,700	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 $23,283 at September 30, 2010 (June 30, 2010 - $25,531)	13,592	13,347
	33,292	32,815

During the three-month period ended September 30, 2010, the bank prime rate averaged 2.79% (three-month period ended September 30, 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 April 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

	September 30, 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 first a mortgage on land and building having a net book value of $4,449 at September 30, 2010 (June 30, 2010 - $4,486) and a general assignment of rents	2,365	2,424
Obligation under capital lease, payable in monthly installments of $22 including interest of 4%, maturing in February 2013	598	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	61	77
	3,024	3,164
Less: Current portion	(534)	(541)
	2,490	2,623

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

	$
Year ending June 30, 2011	405
2012	504
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	Three-month period ended September 30, 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 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)
	61,626,836	76,548	61,626,836	76,548
Share purchase financing (note 11 (e))				
Opening balance	-	(268)	-	(419)
Repayments made by an officer	-	-	-	2
Compensation expense	-	47	-	140
Interest received on notes	-	2	-	9
	-	(219)	-	(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)
	5,860,250	1,840	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	-	345,000	5
Management bonuses	-	-	-	(300)
Compensation expense on existing options	-	109	-	586
Options cancelled	(40,000)	-	-	-
	4,221,547	4,156	4,111,547	4,047
		82,325		82,167

c) Preferred variable voting shares

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

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

11 Share capital and contributed surplus (continued)

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 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.

e) Share purchase financing

During the three-month period ended September 30, 2010 and September 30, 2009, the Company issued no amounts for share purchase financing. During the three-month period ended September 30, 2010, $47 of compensation expense was recognized on an employee loan forgiven (three-month period ended September 30, 2009 - $140). During the three-month period ended September 30, 2010, $2 of interest (three-month period ended September 30, 2009 - $3) received on these loans were recorded as capital contributions. During the three-month period ended September 30, 2010, $nil was received (three-month period ended September 30, 2009 - $nil) as principal repayment of an employee loan.

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-month period ended September 30, 2010 no warrants were issued, granted or expired (three-month period ended September 30, 2009 – nil, nil and nil).

	Number of warrants	**Weighted average exercise price per warrant**
Outstanding at June 30, 2009 and September 30, 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

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

11 Share capital and contributed surplus (continued)

f) Warrants (continued)

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	3.75%
Expected option life	1.6 years
Expected volatility	65%
Expected dividend yield	nil

g) Stock options

At September 30, 2010 and 2009 and June 30, 2010, the Company had the following stock options outstanding:

	Number of options	Weighted average exercise price
Outstanding at June 30, 2009 and September 30, 2009	3,766,547	1.36
Granted to employees and officers	345,000	0.98
Outstanding at June 30, 2010	4,111,547	1.33
Granted to employees	150,000	0.96
Options cancelled	(40,000)	1.62
Outstanding at September 30, 2010	4,221,547	1.31
Exercisable at September 30, 2009	1,227,410	1.97
Exercisable at June 30, 2010	1,997,797	1.72
Exercisable at September 30, 2010	2,114,047	1.71

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 September 30, 2010, this amounted to 5,546,415 (June 30, 2010 – 5,546,415).

On September 30, 2010, 150,000 stock options were issued to employees 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 - May 18, 2015. No stock options expired or were cancelled during the year ended June 30, 2010.

During the three-month period ended September 30, 2010, 40,000 stock options were cancelled and none expired (three-month period ended September 30, 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-month period ended September 30, 2010 (for the three-month period ended September 30, 2009 – no stock options were issued) are as follows:

	Three-months ended September 30, 2010
Weighted average grant date value	$0.50
Risk-free interest rate	1.79%
Expected option life	4 years
Expected volatility	68%
Expected dividend yield	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-month period ended September 30, 2010, a total of $156 (three-month period ended September 30, 2009 - $301) was recognized as compensation expense. Included in the compensation expense for the three-month period ended September 30, 2010 was $47 related to employee share purchase loans (three-month period ended September 30, 2009 - $140) (note 11(e)).

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

Range of exercise prices	Number outstanding at September 30, 2010	Weighted average remaining contractual life	Weighted average exercise price $	Number exercisable at September 30, 2010	Weighted average exercise price $
$0.58 - $0.99	2,405,000	3.80 years	0.79	496,250	0.76
$1.00 - $2.35	1,816,547	1.17 years	1.99	1,617,797	2.00
Total	4,221,547	2.67 years	1.31	2,114,047	1.71

(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	1,044
2012	828
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 September 30, 2010 under the above matters is estimated at $1,300.

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

13 Earnings per common share

Earnings per common share are calculated as follows:

	For the three-month period ended September 30, 2010 $	For the three-month period ended September 30, 2009 $
Net income and comprehensive income for the period	455	9
Weighted average number of common shares:		
Basic	61,626,836	44,335,222
Diluted	62,033,486	44,512,539
Earnings per common share:		
Basic	0.01	0.00
Diluted	0.01	0.00

The weighted average number of potentially dilutive instruments, comprised of shares issuable in respect of convertible warrants, stock options, and put options, were 406,650 for the three-month period ended September 30, 2010 (three-month period ended September 30, 2009 – 177,317).

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

	For the three-month period ended September 30, 2010 $	For the three-month period ended September 30, 2009 $
Decrease (increase) in amounts receivable	(2,868)	5,655
Decrease (increase) in prepaid expenses and deposits	(479)	(161)
Increase (decrease) in accounts payable and accrued liabilities	2,567	(1,879)
Increase (decrease) in deferred revenue	3,290	(1,903)
	2,510	1,712
During the period, the Company paid and received the following:		
Interest paid	356	188
Interest received	153	91
Taxes paid	11	-

(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 September 30, 2010	For the three-month period ended September 30, 2009
	$	$
Production revenue	4,260	6,798
Distribution revenue	2,949	3,750
Producer and service fee revenues	2,555	1,661
Other	2,483	739
	12,247	12,948

Of the Company's $12,247 in revenues for the three-month period ended September 30, 2010 ($12,948 – three-month period ended September 30, 2009) $9,016 (three-month period ended September 30, 2009 - $12,948) was attributable to the Company's entities based in Canada and $3,186 (three-month period ended September 30, 2009 – 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.