DHX Media Ltd.

Consolidated Financial Statements
June 30, 2010 and June 30, 2009
(expressed in thousands of Canadian dollars, except for shares and amounts per share)

September 23, 2010

Management's Responsibility for Financial Reporting

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

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

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

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

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

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

PRICEWATERHOUSECOOPERS

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September 23, 2010

Auditors' Report

To the Shareholders of
DHX Media Ltd.

We have audited the consolidated balance sheets of **DHX Media Ltd.** as at June 30, 2010 and June 30, 2009 and the consolidated statements of income (loss) and comprehensive income (loss) and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2010 and June 30, 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) *"PricewaterhouseCoopers LLP"*

Chartered Accountants

DHX Media Ltd.

Consolidated Balance Sheets

As at June 30, 2010 and June 30, 2009

(expressed in thousands of Canadian dollars)

	2010 $	2009 $
Assets		
Current assets		
Cash	15,920	10,806
Short-term investments (note 4)	6,098	272
Amounts receivable (note 5)	54,332	72,466
Prepaid expenses and deposits	622	429
Current portion of investment in film and television programs (note 6)	10,952	19,979
	87,924	103,952
Investment in film and television programs (note 6)	18,940	15,848
Restricted cash (note 7)	–	8
Investment in production companies and other equity investment (note 8)	3,409	2,472
Assets related to discontinued operations (note 9)	–	6
Property, plant and equipment (note 10)	7,545	8,243
Long-term investment (note 3(a))	330	2,042
Intangible assets (note 11)	4,068	5,144
Goodwill (note 11)	11,088	11,088
	133,304	148,803
Liabilities		
Current liabilities		
Bank indebtedness (note 12)	250	2,750
Accounts payable and accrued liabilities	12,481	15,476
Deferred revenue	3,901	10,108
Liabilities related to discontinued operations (note 9)	–	19
Interim production financing (note 13)	32,815	53,793
Current portion of long-term debt and obligations under capital leases (note 14)	541	635
Other liability	–	675
	49,988	83,456
Long-term debt and obligations under capital leases (note 14)	2,623	3,164
Future income taxes (note 17)	514	1,416
Non-controlling interest	–	217
	53,125	88,253
Shareholders' Equity		
Share capital and contributed surplus (note 15)	82,167	61,725
Deficit	(1,988)	(1,175)
	80,179	60,550
	133,304	148,803

Commitments and contingencies (note 19)

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

Approved by the Board of Directors

By: (signed) *"Donald Wright"*
Director

By: (signed) *"Sir Graham Day"*
Director

DHX Media Ltd.

Consolidated Statements of Income (loss) and Comprehensive Income (loss) and Deficit

For the years ended June 30, 2010 and June 30, 2009

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

	2010 $	2009 $
Revenues (note 24)	40,471	61,969
Direct production costs and amortization of film and television produced	24,062	39,791
	16,409	22,178
Operating expenses		
Amortization of acquired library	897	736
Impairment in value of certain investment in film and television programs	557	494
Development expenses	449	425
Selling, general and administrative	12,984	13,787
	14,887	15,442
Income before the following	1,522	6,736
Amortization of property, plant and equipment and intangibles	2,274	2,323
Costs associated with abandoned transactions	–	1,360
Equity loss (note 8)	40	–
Gain on restructuring of investment (note 3(a))	(348)	–
Foreign exchange (gain) loss	587	(409)
Interest expense	291	363
Interest income	(68)	(26)
Loss (income) from strategic investments	47	(122)
Loss non-controlling interest	3	29
Income (loss) before income taxes	(1,304)	3,218
Provision for (recovery of) income taxes (note 17)		
Large corporation taxes	60	95
Current income taxes	(154)	745
Future income taxes	(397)	535
	(491)	1,375
Net income (loss) for the years before discontinued operations	(813)	1,843
Discontinued operations, net of income tax (note 9)	–	(1,468)
Net income (loss) and comprehensive income (loss) for the years	(813)	375
Deficit – Beginning of years	(1,175)	(1,550)
Deficit – End of years	(1,988)	(1,175)
Basic earnings (loss) before discontinued operations per common share (note 21)	(0.02)	0.04
Diluted earnings (loss) before discontinued operations per common share (note 21)	(0.02)	0.04
Basic earnings (loss) per common share (note 21)	(0.02)	0.01
Diluted earnings (loss) per common share (note 21)	(0.02)	0.01

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

DHX Media Ltd.

Consolidated Statements of Cash Flows

For the years ended June 30, 2010 and June 30, 2009

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

	2010 $	2009 $
Cash provided by (used in)		
Operating activities		
Net income (loss) for the years	(813)	375
Discontinued operations, net of income tax	–	1,468
Charges (credits) to income not involving cash		
Amortization of film and television programs	17,867	37,427
Amortization of acquired library	897	736
Amortization of property, plant and equipment	1,198	1,049
Amortization of intangible assets	1,076	1,274
Unrealized foreign exchange loss (gain)	436	(688)
Impairment in value of certain investment in film and television programs	557	494
Equity loss	40	–
Gain on restructuring of investment	(348)	–
Unrealized gain on short-term investments	(12)	(42)
Loss (gain) on disposal of short-term investments	44	(55)
Stock-based compensation	731	999
Interest on promissory notes	9	13
Non-controlling interest	3	29
Provision for (recovery of) future income taxes	(397)	535
	21,288	43,614
Net investment in film and television programs	(13,386)	(24,331)
Net change in non-cash working capital balances related to operations (note 22)	8,481	(18,240)
Cash provided by operating activities – continuing operations	16,383	1,043
Cash used in operating activities – discontinued operations	(13)	(257)
Cash provided by (used in) operating activities	16,370	786
Financing activities		
Proceeds from issuance of common shares and warrants, net of issuance costs	18,921	–
Proceeds from repayment of employee share purchase loan	2	–
Common shares repurchased and cancelled	(116)	(84)
Proceeds from (repayment of) bank indebtedness	(2,500)	80
Proceeds from (repayment of) interim production financing	(20,978)	6,303
Proceeds from long-term debt	–	401
Repayment of long-term debt	(635)	(1,358)
Repayment of other liabilities	(675)	(295)
Cash provided by (used in) financing activities – continuing operations	(5,981)	5,047
Cash used in financing activities – discontinued operations	–	(60)
Cash provided by (used in) financing activities	(5,981)	4,987
Investing activities		
Business acquisitions	–	(1,375)
Acquisitions of short-term investments	(6,086)	(265)
Proceeds on disposal of short-term investments	228	376
Acquisition of property, plant and equipment	(500)	(1,322)
Net cash advances (to) from investees	1,083	(1,237)
Decrease in long-term investment	–	30
Cash provided by (used in) investing activities	(5,275)	(3,793)
Net change in cash during the years	5,114	1,980
Cash – Beginning of years	10,806	8,826
Cash – End of years	15,920	10,806

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

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

1 Nature of the business and significant accounting policies

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

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

Principles of consolidation

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

Revenue recognition

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

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

Cash payments received or advances currently due pursuant to a broadcast license or distribution arrangement are recorded as deferred revenue until all of the foregoing conditions of revenue recognition have been met. Revenues from production services for third parties and new media revenue on the Company's proprietary productions are recognized on a percentage-of-completion basis. Percentage-of-completion is based upon the proportion of costs incurred in the current period to total expected costs. Royalty revenue is accrued for royalty streams the Company has a history of receiving revenue on and is recognized in periods in accordance with statements received from third party agents and/or based on historical experience. Associated production costs are charged against earnings as the revenue is recognized. A provision is made for the entire amount of future estimated losses, if any, on production-in-progress.

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

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

Investment in film and television programs

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

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

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

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

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

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

Investment in film and television programs (continued)

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

Development costs

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

Property, plant and equipment

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

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

Intangible assets

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

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

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

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

Government financing and assistance

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

Impairment of long-lived assets

Long-lived assets are subject to recoverability test, whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. Any impairment would be recognized as an expense in the period of impairment.

Income taxes

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

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

Foreign currency

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

Earnings (loss) per share

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

Goodwill

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

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

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

Management estimates

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

Stock-based compensation

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

Financial instruments

Financial instruments, including derivatives, are recorded at fair value on initial recognition except for certain related party transactions. Subsequent measurement depends on the classification of the instrument and is either at fair value or, in limited circumstances when fair value may not be considered most relevant, at cost or amortized cost. Financial instruments intended to be held-to-maturity are recorded at amortized cost.

Comprehensive income

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

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

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

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

Variable interest entities

A variable interest entity (''VIE'') is an entity that either does not have sufficient equity at risk to finance its activities without subordinated financial support or wherein the equity investors lack the characteristic of a controlling financial interest. VIEs are subject to consolidation by the Company if the Company is deemed the primary beneficiary of the VIE. The primary beneficiary is the party that is either exposed to a majority of the expected losses from the VIE's activities or is entitled to receive a majority of the VIE's residual returns or both.

Production arrangements

In the normal course of business, the Company enters into production arrangements with third party production, distribution companies and broadcasters related to the production of television series or feature films. The wholly-owned production companies in which these production activities are undertaken, are VIEs as they do not have sufficient equity at risk to finance their activities. The Company has variable interests in certain entities but in certain companies, it is not exposed to the majority of the expected losses and, therefore, does not consolidate these companies. The Company accounts for these entities using the equity method (note 8).

2 Changes in accounting policies and future accounting standard changes

a) Changes in accounting policies

Goodwill and intangible assets and financial instruments

Goodwill and Intangible Assets

On July 1, 2009, the Company adopted CICA Handbook Section 3064, "Goodwill and Intangible Assets" replacing Section 3062, "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Costs". The section establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are aligned with International Accounting Standard ("IAS") 38, "Intangible Assets". Recommended disclosures from this section have been included in note 11 to these financial statements. The adoption of this section had no impact on the Company's consolidated financial position or results of operations.

Financial Instruments

In June 2009, the Accounting Standards Board ("AcSB") issued amendments to Section 3862, "Financial Instruments – Disclosures", to require enhanced disclosures about the relative reliability of the data, or "inputs", that an entity uses in measuring the fair values of its financial instruments. The new requirements are effective for annual financial statements for fiscal years ending after September 30, 2009. The additional disclosures have been included in note 18.

The Company has applied these standards without restatement of prior years.

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

2 Changes in accounting policies and future accounting standard changes (continued)

b) Future accounting changes

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

The CICA issued new accounting standards: International Financial Reporting Standards (“IFRS”), Section 3064, Business Combinations, Section 1601, Consolidated Financial Statements, and Section 1602, Non-controlling Interest. Sections 1581, 1601, 1602 and IFRS are effective for fiscal years beginning on or after January 1, 2011, and accordingly, the Company is anticipating adopting them on July 1, 2011, but as early adoption is permitted, the Company is considering its options.

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 in 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.

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. While permitted, the Company does not expect to early adopt these sections.

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

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

3 Acquisitions and long-term investment

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

a) 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. 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 year ended June 30, 2010 was $41 (2009 - $nil) and is included in the equity loss and is netted against $1 for equity income pickup for Tribal Nova from the Tribal Nova Transaction Date to June 30, 2010. 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 now being accounted for using the equity method (note 8) and the investment in Woozworld is being accounted for at cost and is shown in long term investment.

b) 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 has 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.

   The Company will finalize the purchase price allocation upon completion of final review of certain working capital balances and any resulting changes will be recorded as an adjustment to the purchase price.

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

3 Acquisitions and long-term investment (continued)

During the year ended June 30, 2009, the following acquisition occurred:

c) On July 20, 2008 ("the Effective Date"), the Company acquired all the outstanding shares in imX Communications Inc. ("imX Communications" or "imX"), and its library of 20 feature films and 26 half-hours of television drama, documentary and animation entertainment for consideration as follows:

- Cash consideration and transaction costs of $904 ($855 and $49 respectively) on the Effective Date; and
- 118,216 shares of the Company valued at $175.

The acquisition was accounted for using the purchase method. As such, the results of operations reflect revenue and expenses of the assets of imX from the Effective Date. The purchase price has been allocated to the assets acquired and liabilities assumed based on their estimated fair value as follows:

	$
Assets acquired	
Cash	30
Accounts receivable	2
Investments in film and television programs	172
Future income tax asset	940
Goodwill	73
	1,217
Less: Liabilities assumed	
Accounts payable and accrued liabilities	138
	1,079

Of the consideration paid for imX, $75, through the issue of 50,664 common shares of the Company, was paid to a former shareholder of imX who is also a director and shareholder of the Company.

During the year ended June 30, 2010, the Company finalized the purchase price allocation upon completion of its review of certain working capital balances.

4 Short-term investments

	2010 $	2009 $
Investments, at fair value	6,098	272

As at June 30, 2010, investments at cost were $6,086 (2009 - $230). As at June 30, 2010, short-term investments consist of government T-bills and government grade bonds which bear interest at rates from 0.9% to 4.0% and mature at various dates from February 2011 to June 2012.

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

5 Amounts receivable

	2010 **$**	**2009** **$**
Trade	18,164	22,223
Goods and service taxes recoverable	352	1,649
Federal and provincial film tax credits and other government assistance	35,816	48,594
	54,332	72,466

6 Investment in film and television programs

	2010 **$**	**2009** **$**
Development costs	2,162	1,817
Theatrical and non-theatrical productions in progress		
Cost, net of government and third party assistance and third party participation	4,584	16,337
Acquired participation rights – theatrical and non-theatrical		
Cost	5,860	5,860
Accumulated amortization	(3,842)	(2,945)
	2,018	2,915
Non-theatrical productions completed and released		
Cost, net of government and third party assistance and third party participation	143,196	118,402
Accumulated amortization	(118,235)	(100,368)
Accumulated impairment in value of certain investment in film and television programs	(3,833)	(3,276)
	21,128	14,758
	29,892	35,827
Less: Current portion	(10,952)	(19,979)
	18,940	15,848

The Company expects that 34% 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 69% 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 87% 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 Participation Rights has been reflected as current.

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

6 Investment in film and television programs (continued)

During the fiscal year ended June 30, 2010, interest of $1,444 (2009 - $2,187) has been capitalized to investment in film and television.

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

	2010 $	2009 $
Net opening investment in film and television programs	35,827	49,981
Productions acquired during the year	–	139
Cost of productions (completed and released and productions in progress) during the year, net of government assistance and third party participation	13,041	24,304
Increase of acquired participation rights	–	33
Increase in developments costs	345	27
Amortization	(18,764)	(38,163)
Impairment in value of certain investment in film and television programs	(557)	(494)
	29,892	35,827

7 Restricted cash

Restricted cash is the balance of cash on hand in Media Fund (Atlantic) Ltd. As the Company effectively acquired 100% of the outstanding shares of Media Fund during the year ended June 30, 2010, the cash is no longer restricted (2009 - $8 was restricted).

8 Investment in production companies and other equity investment

Investment in production companies and other equity investment represents the Company's investment in investee companies and its investment in Tribal Nova (note 3 (a)) both of which it accounts for using the equity method.

	2010 $	2009 $
The continuity is as follows:		
Opening balance	2,472	1,235
Tribal Nova investment (note 3(a))	2,060	–
Equity loss – Tribal Nova	(40)	–
Net cash advances to (from) investees	(1,083)	1,237
	3,409	2,472

The advances to investees are non-interest bearing with no set terms of repayment.

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

9 Discontinued operations

In December 2008, the Company decided to abandon the operations of Bulldog Interactive (the “Discontinued Business”) due to a slow down in franchisee opportunities as a result of the global economic recession.

Selected financial information for the Discontinued Business is as follows:

	2010 $	2009 $
Revenue	–	165
Direct loss	–	(333)
Write-down to fair value	–	1,035
Provision for income taxes	–	100
Loss from discontinued operations	–	(1,468)

	2010 $	2009 $
Property, plant and equipment	–	6
Total assets	–	6
Bank indebtedness	–	1
Accounts payable and accrued liabilities	–	12
Long-term debt	–	6
Total liabilities	–	19

10 Property, plant and equipment

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

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

10 Property, plant and equipment (continued)

	2009		
	Cost **$**	**Accumulated amortization** **$**	**Net** **$**
Land	800	–	800
Buildings	4,329	492	3,837
Furniture, fixtures and other equipment	3,022	2,017	1,005
Computer equipment	2,984	1,955	1,029
Post-production equipment	1,356	1,030	326
Website design	104	99	5
Computer software	813	616	197
Leasehold improvements	1,917	873	1,044
	15,325	7,082	8,243

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

	2010 **$**	**2009** **$**
Net opening balance, property, plant and equipment	8,243	6,657
Acquisitions of property, plant and equipment	500	2,640
Disposals of property, plant and equipment	–	(5)
Amortization	(1,198)	(1,049)
	7,545	8,243

11 Intangible assets and goodwill

Intangible assets

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

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

11 Intangible assets and goodwill (continued)

Intangible assets (continued)

			2009
	Cost **$**	**Accumulated amortization** **$**	**Net** **$**
Production backlog	1,033	613	420
Broadcaster relationships	4,417	1,257	3,160
Customer and distribution relationships	546	172	374
Non-compete contracts and brand	1,788	869	919
Production software	394	123	271
	8,178	3,034	5,144

The continuity of intangible assets is as follows:

	2010 **$**	**2009** **$**
Net opening balance	5,144	6,418
Amortization	(1,076)	(1,274)
	4,068	5,144

Goodwill

The continuity of goodwill is as follows:

	2010 **$**	**2009** **$**
Net opening balance goodwill	11,088	10,766
Acquired on imX acquisition (note 3 (c))	–	73
Addition for Studio B earnout	–	1,379
Finalization of the purchase price allocation of Studio B	–	(1,130)
	11,088	11,088

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

11 Intangible assets and goodwill (continued)

The Company performed its annual test for goodwill impairment at June 30, 2010 in accordance with its policy described in note 1. As the fair value of the reporting unit was greater than its carrying value, the Company determined there was no impairment of goodwill as at June 30, 2010 and June 30, 2009.

For determining the fair value of its reporting unit, the Company uses both the income and market approaches. Under the income approach, management estimates the discounted future cash flows for five years and a terminal value for the reporting unit. The future cash flows are based on management's best estimates considering historical and expected production, distribution and other revenue deliveries, economic conditions, and general outlook for the industry. The discount rates used by the Company are based on optimal debt equity ratio and consider the average debt ratio, market equity risk premium, and size premium for possible variations from management's projections. The terminal value is the value attributed to the reporting unit's operations beyond the projected period of 2015 using a perpetuity growth rate based on industry, revenue and operating income trends and growth prospects. Under the market approach, the Company estimates fair value by multiplying maintainable earnings before interest, income taxes, depreciation, amortization and other non-recurring costs by multiples based on market comparables. The estimation process results in a range of values for which management uses the simple average of the mid-points under each approach.

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

12 Bank indebtedness

As of June 30, 2010, bank indebtedness was $250 (2009 - $2,750) (the "RBC Revolving Operating Credit Facility"). The maximum amount of the RBC Revolving Operating Credit Facility for general working capital purposes is $3,510 bearing interest at Royal Bank of Canada ("Royal Bank") prime plus 1.25% (2009 – Royal Bank prime plus 1.25%). A general security agreement over all property of the Company has been pledged as security for the RBC Revolving Operating Credit Facility. 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)

13 Interim production financing

	2010 **$**	**2009** **$**
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 $21,214 at June 30, 2010 (June 30, 2009 - $55,318)	19,468	40,401
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 $25,531 at June 30, 2010 (June 30, 2009 - $15,735)	13,347	10,903
Demand production bank loans repaid during the year	–	2,489
	32,815	53,793

During the fiscal year ended June 30, 2010, the bank prime rate averaged 2.27% (2009 – 3.49%).

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)

14 Long-term debt and obligations under capital leases

	2010 **$**	**2009** **$**
Loans payable, bearing interest at Business Development Bank of Canada prime minus 1.0%, maturing in May 2021, repayable in monthly principal instalments of $20 plus interest, secured by a first mortgage on the land and building having a net book value of $4,486 at June 30, 2010 (June 30, 2009 - $4,637) and a general assignment of rents	2,424	2,663
Obligation under capital lease, payable in monthly instalments of $22 including interest of 4%, maturing in February 2013	663	893
Obligation 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	77	243
	3,164	3,799
Less: Current portion	(541)	(635)
	2,623	3,164

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

	$
Year ending June 30, 2011	541
2012	505
2013	411
2014	239
2015	239

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

15 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

b) Issued and outstanding

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

	2010 Number	2010 Amount $	2009 Number	2009 Amount $
Preferred variable voting shares (note 15 (c))	100,000,000	–	100,000,000	–
Common shares (note 15 (d))				
Opening balance	44,442,711	56,758	42,715,785	55,488
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	219,802	300
Issued as consideration for acquisition of imX	–	–	118,216	175
Issued in consideration for Studio B Earnout	–	–	1,500,000	879
Normal course issuer bid shares repurchased and cancelled	(149,833)	(116)	(111,092)	(84)
	61,626,836	76,548	44,442,711	56,758
Share purchase financing (note 15 (e))				
Opening balance	–	(419)	–	(432)
Repayments made by an officer	–	2	–	–
Compensation expense	–	140	–	–
Interest received on notes	–	9	–	13
	–	(268)	–	(419)
Warrants (note 15 (f))				
Opening balance	4,922,750	1,630	5,661,163	2,070
Issued for cash consideration	937,500	215	–	–
Warrant issuance costs, net of tax effect of $2	–	(5)	–	–
Expiration of warrants	–	–	(738,413)	(440)
	5,860,250	1,840	4,922,750	1,630
Contributed surplus and stock options (note 15 (g))				
Opening balance	3,766,547	3,756	2,436,547	2,617
Compensation expense on options issued during the period	345,000	5	1,910,000	31
Management bonuses for the year ended June 30, 2008	–	–	–	(300)
Management bonuses for the year ended June 30, 2009	–	(300)	–	300
Compensation expense on existing options	–	586	–	668
Options cancelled	–	–	(580,000)	–
Warrants expired	–	–	–	440
	4,111,547	4,047	3,766,547	3,756
		82,167		61,725

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

15 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 July 2, 2008, the Company issued 67,552 common shares at $1.48 per share for a gross amount of $100. The 67,552 shares were issued to former shareholders of imX in connection with the purchase of imX.

On October 3, 2008, the Company issued 50,664 common shares at $1.48 per share, for a gross amount of $75 in settlement of the imX earnout. The 50,664 common shares were issued to former shareholders of imX.

On March 26, 2009, the Company issued 219,802 common shares at $1.36 per share valued at $300 for payment of management performance bonuses accrued at June 30, 2008.

On April 27, 2009 and April 28, 2009, 109,095 and 1,997 common shares respectively were repurchased and cancelled as part of the Company's previously announced normal course issuer bid ("Normal Course Issuer Bid").

On May 13, 2009, the Company issued 1,500,000 common shares at $0.59 per share for a gross amount of $899 in settlement of the Studio B earnout. The common shares were issued to the former shareholders of Studio B.

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 (b) and note 15 (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.

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

15 Share capital and contributed surplus (continued)

e) Share purchase financing

During the years ended June 30, 2010 and June 30, 2009, the Company issued no amounts for share purchase financing. During the year ended June 30, 2010, $140 of compensation expense was recognized on an employee loan forgiven (year ended June 30, 2009 - $nil). During the year ended June 30, 2010, $9 of interest (year June 30, 2009 - $13) received on these loans was recorded as capital contributions. During the year ended June 30, 2010, $2 was received (year ended June 30, 2009 - $nil) as principal repayment of an employee loan.

f) Warrants

In connection with 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 shareholders to acquire 937,500 common shares for $1.15 and expire on January 26, 2012. During the year ended June 30, 2009, nil warrants were granted and 738,413 expired.

	Number of warrants	Weighted average exercise price per warrant
Outstanding at June 30, 2008	5,661,163	2.06
Warrants expired	(738,413)	1.80
Outstanding at June 30, 2009	4,922,750	2.10
Warrants issued	937,500	1.15
Outstanding at June 30, 2010	5,860,250	1.95

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:

	2010	2009
Risk-free interest rate	3.75%	4.25%
Expected option life	1.6 years	1.5 years
Expected volatility	65%	65%
Expected dividend yield	nil	nil

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

15 Share capital and contributed surplus (continued)

g) Stock options

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

	Number of options	Weighted average exercise price per stock option
Outstanding at June 30, 2008	2,436,547	2.02
Granted to an employee and director	1,910,000	0.75
Options cancelled	(580,000)	2.11
Outstanding at June 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
Exercisable at June 30, 2009	1,081,060	2.03
Exercisable at June 30, 2010	1,997,797	1.72

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 June 30, 2010, this amounted to 5,546,415 (June 30, 2009 - 3,999,843).

During the year ended June 30, 2009, 1,910,000 stock options were issued to officers, directors and employees at prices ranging from $0.58 - $0.93 per share, vesting over four years and expiring from September 26, 2013 – June 17, 2014. No stock options expired during the year ended June 30, 2009 and 580,000 options were cancelled at $2.10.

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

The weighted average grant date fair value of stock options granted in 2010 has been estimated at $0.52 (2009 - $0.39) using the Black Scholes option pricing model. The following weighted average assumptions were used in the calculations:

	2010	2009
Risk-free interest rate	2.35%	1.82%
Expected option life	4 years	4 years
Expected volatility	68%	70%
Expected dividend yield	nil	nil

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

15 Share capital and contributed surplus (continued)

g) Stock options (continued)

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

During the year ended June 30, 2010, a total of $731 (2009 - $999) was recognized as compensation expense. Included in the compensation expense for June 30, 2010 was $nil (June 30, 2009 - $300) awarded as bonuses to certain key executives of the Company to be paid in common shares of the Company based on achieving certain financial benchmarks by a wholly-owned subsidiary. Included in the twelve months ended June 30, 2010 was $140 related to employee share purchase loans (twelve months ended June 30, 2009 - $nil).

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

Information related to options outstanding at June 30, 2009 is presented below:

Range of exercise prices	Number outstanding at June 30, 2009	Weighted average remaining contractual life	Weighted average exercise price $	Number exercisable at June 30, 2009	Weighted average exercise price $
$0.58 – $0.99	1,910,000	4.84 years	0.75	–	–
$1.00 – $2.35	1,856,547	2.44 years	1.99	1,081,160	2.03
Total	3,766,547	3.65 years	1.36	1,081,160	2.03

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 (b)).

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

16 Government financing and assistance

During the year ended June 30, 2010, investment in film and television programs was reduced by $3,862 (year ended June 30, 2009 - $8,051) related to production financing from government agencies. This financing is related to equity participation by government agencies and is repayable from distribution revenue of the specific productions for which the financing was made. In addition, during the year, investment in film also has been reduced by $6,455 (year ended June 30, 2009 - $17,897) related to non-repayable contributions from the Canadian Television Fund license fee program. During the year, investment in film and television programs has been reduced by $17,494 (year ended June 30, 2009 - $30,241) in tax credits relating to production activities. Lastly, during the year ended June 30, 2010, the Company received $40,828 in government financing and assistances (year ended June 30, 2009 - $37,783).

17 Income taxes

Significant components of the Company's future tax assets and liabilities as at June 30, 2010 and 2009 are as follows:

	2010 **$**	**2009** **$**
Cultural donations	432	–
Foreign tax credits	245	202
Investments	–	(14)
Participation payables and capital lease obligations	249	335
Property, plant and equipment	(77)	121
Share issuance costs and deferred financing fees	656	701
Investment in film and television programs	(2,239)	(1,295)
Intangible assets	(2,153)	(2,740)
Non-capital losses and other	2,373	1,274
Future income taxes	(514)	(1,416)

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

	2010 **$**	**2009** **$**
Income tax expense (recovery) based on combined federal and provincial tax rates of 30.70% (2009 – 29.82%)	(400)	960
Income taxes increased (reduced) by		
Stock-based compensation	224	352
Large corporation tax	60	95
Non-deductible expenses, rate changes and other	189	(6)
Foreign losses	(43)	(16)
Cultural donations	(454)	–
Non-taxable portion of capital gains	(67)	(10)
Provision for (recovery of) income taxes	(491)	1,375

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

18 Financial instruments

a) Fair value of financial instruments

Management believes the carrying amounts reported on the financial statements for amounts receivable, accounts payable and accrued liabilities, other liability and long-term debt all approximate their fair values due to their immediate or short-term maturities or variable interest rates. Interim production financing and bank indebtedness were renegotiated during the year ended June 30, 2010 to reflect current interest rates, therefore, management believes the carrying amounts also approximate their fair values.

b) Credit risk

Amounts receivable from the Canadian federal government and other government agencies in connection with production financing represents 66% of total amounts receivable at June 30, 2010 (June 30, 2009 - 67%). Certain of these amounts are subject to audit by the government agency. Management believes that these amounts are fully collectible. Management believes that it is standard for the industry for some amounts receivable to take considerable time to collect, for instance it is normal course for federal and provincial tax credits receivable, to take up to 24 months to proceed through audit and collection. The Company adjusts amounts receivable from Canadian federal government and other government agencies including federal and provincial tax credits receivables, in connection with production financing, quarterly for any known differences arising from internal or external audit of these balances. An allowance against Federal and Provincial tax credits receivable has been booked based on the Company's history of collection of these receivables.

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

c) Interest rate risk

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

d) Liquidity risk

The Company manages liquidity by forecasting and monitoring operating cash flows and through the use of capital leases and maintaining revolving credit facilities (notes 12, 13 and 14). As at June 30, 2010, the Company had cash on hand of $15,920. (June 30, 2009 – $10,806).

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

18 Financial instruments (continued)

e) Currency risk

The Company's activities involve holding foreign currencies and incurring production costs and earning revenues denominated in foreign currencies. These activities result in exposure to fluctuations in foreign currency exchange rates. At June 30, 2010, the Company revalued its financial instruments denominated in a foreign currency at the prevailing exchange rates. A 1% change in the USD or Euro exchange rate would have less than a $100 effect on net income.

f) Long-term investment

As at June 30, 2010, management is continuing to value its investment in Woozworld (note 3 (a)) at cost of $330 (2009 - $2,042 investment in Tribal Nova) as fair value cannot be reliably measured, it continues to be a private company and, as such, a quoted market price in an active market is not available. The Company does not expect to dispose of this investment in the near term, and believes there is no impairment of the long-term investment as at June 30, 2010 and June 30, 2009.

g) Contractual maturity analysis for financial liabilities

	Total $	Less than 1 year $	1 to 3 years $	4 to 5 years $	After 5 years $
Bank indebtedness	250	250	–	–	–
Long-term debt	2,424	239	478	478	1,229
Capital lease obligations	740	302	438	–	–
Operating leases	5,569	1,133	1,362	1,059	2,015
	8,983	1,924	2,278	1,537	3,244

Payments noted above do not include interest.

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

18 Financial instruments (continued)

h) Fair values

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

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

	2010		**2009**	
	Carrying value $	**Fair value $**	**Carrying value $**	**Fair value $**
Available-for-sale assets	330	330	2,042	2,042
Foreign currency forward contracts	(13)	(13)	–	–
Long-term debt and obligations under capital leases	2,623	2,618	3,164	3,131

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

Fair value hierarchy

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

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

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

Level 3 - valuation techniques with significant unobservable market inputs.

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

18 Financial instruments (continued)

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

The following table presents the financial instruments recorded at fair value in the consolidated balance sheets as at June 30, 2010, classified using the fair value hierarchy described above:

	Level 1 $	Level 2 $	Level 3 $
Cash	15,920	–	–
Short-term investments	6,098	–	–
Foreign currency forward contracts	(13)	–	–

Foreign currency contracts

At June 30, 2010, the Company had notional principal of approximately $2,390 (2009 - $nil) in contracts to sell United States dollars and notional principal of approximately £380 (2009 - £nil) in contracts to purchase British pounds. The carrying value of these contracts is the fair value based on exchange rates at June 30, 2010. The contracts expire at various dates between March 2011 and March 2012.

19 Commitments and contingencies

Commitments

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

	$
Year ending June 30, 2011	1,133
2012	829
2013	533
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 June 30, 2010 under the above matters is estimated at $1,300.

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

20 Capital disclosures

The Company's objectives when managing capital are to provide an adequate return to shareholders, safeguard its assets, maintain a competitive cost structure and continue as a going concern in order to pursue the development, production and distribution of its film and television properties. To maximize ongoing development and growth effort, the Company did not pay out dividends during the year ended June 30, 2010. The Company is not anticipating paying out dividends during the year ended June 30, 2011.

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

	2010 $	2009 $
Total bank indebtedness, long-term debt and obligations under capital leases and other liabilities	3,414	7,224
Less: Cash	(15,920)	(10,806)
Net debt	(12,506)	(3,582)
Total Shareholders' Equity	80,179	60,550
	67,673	56,968

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

The Company monitors capital using a number of financial ratios, specifically for the RBC Revolving Operating and Production Credit Facilities (notes 12 and 13), including but not limited to:

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

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

	Measure targets	2010	2009
Coverage Ratio	> 4.0x	15.8x	27.0x
Net Worth Ratio	< 3.0x	0.6x	1.1x

The Company has been in compliance with these ratios since the inception of the RBC Revolving Operating and Revolving Production Credit Facilities.

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

21 Earnings (loss) per common share

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

	2010 $	2009 $
Net income (loss) and comprehensive income (loss) before discontinued operations for the year	(813)	1,843
Net income (loss) and comprehensive income (loss) for the period	(813)	375
Weighted average number of common shares:		
Basic	48,579,538	43,066,259
Diluted	48,579,538	43,095,742
Earnings (loss) per common share before discontinued operations:		
Basic	(0.02)	0.04
Diluted	(0.02)	0.04
Earnings (loss) per common share		
Basic	(0.02)	0.01
Diluted	(0.02)	0.01

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

At June 30, 2010, the weighted average number of potentially dilutive instruments, comprised of shares issuable in respect of convertible warrants, stock options and put options, was nil (2009 - 29,483).

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

	2010 $	2009 $
Decrease (increase) in amounts receivable	17,868	(16,866)
Decrease (increase) in prepaid expenses and deposits	(193)	618
Decrease (increase) in restricted cash	8	450
Increase (decrease) in accounts payable and accrued liabilities	(2,995)	1,797
Increase (decrease) in deferred revenue	(6,207)	(4,239)
	8,481	(18,240)
During the year, the Company paid and received the following:		
Interest paid	1,965	2,689
Interest received	444	298
Taxes paid	420	40

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

23 Interest in joint ventures

The Company's interest in joint ventures is summarized below:

	2010 $	2009 $
Statement of income		
Revenues	8	21
General and administrative	–	(11)
Income from joint ventures before income taxes	8	10
Balance sheet		
Current assets	3	1,311
Current liabilities	(5)	(1,201)
	(2)	110
Statement of cash flows		
Operating activities	8	10
Financing activities	(10)	(278)
Net change in cash during the year	(2)	(268)

24 Revenues and segmented information

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

	2010 $	2009 $
Production revenue	18,278	44,056
Distribution revenue	11,202	12,363
Producer and service fee revenues	7,480	2,660
Other	3,511	2,890
	40,471	61,969

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

25 Seasonality

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

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

26 Subsequent event

On September 14, 2010, the Company acquired all the outstanding shares in W!LDBRAIN Entertainment Inc., ("Wildbrain") a privately owned company, based in Los Angeles California, for $8,000 USD. Wildbrain operates an animation studio in Los Angeles and is the co-owner of acclaimed children's television series and live touring show Yo-Gabba-Gabba!. Further consideration is payable in US$ as an earn out payment calculated as 50% of cash receipts from the Yo-Gabba-Gabba! property over $11,500 (inclusive of an allocation for $500 per year in operating expenses from the year in which $10,000 in cash receipts are achieved, as defined in the Wildbrain share purchase agreement) for a period of 36 months from closing.