DHX Media Ltd.

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

November 12, 2009

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 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.

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, 2009 and June 30, 2009

(expressed in thousands of Canadian dollars)

	September 30, 2009 $	June 30, 2009 $
Assets		
Current assets		
Cash	11,420	10,806
Short-term investments	72	272
Amounts receivable (note 4)	66,766	72,466
Prepaid expenses and deposits	590	429
Current portion of investment in film and television programs (note 5)	15,667	19,979
	94,515	103,952
Investment in film and television programs (note 5)	15,391	15,848
Restricted cash	8	8
Investment in production companies (note 6)	2,554	2,472
Assets related to discontinued operations (note 7)	6	6
Property, plant, and equipment	8,071	8,243
Long-term investment	2,042	2,042
Intangible assets (note 8)	4,873	5,144
Goodwill (note 8)	11,088	11,088
	138,548	148,803
Liabilities		
Current liabilities		
Bank indebtedness (note 9)	3,155	2,750
Accounts payable and accrued liabilities	13,597	15,476
Deferred revenue	8,205	10,108
Liabilities related to discontinued operations (note 7)	19	19
Interim production financing (note 10)	47,430	53,793
Current portion of long-term debt and obligations under capital leases (note 11)	611	635
Other liability (note 12)	25	675
	73,042	83,456
Long-term debt and obligations under capital leases (note 11)	3,032	3,164
Future income taxes	1,486	1,416
Non-controlling interest	240	217
	77,800	88,253
Shareholders' Equity		
Share capital and contributed surplus (note 13)	61,914	61,725
Deficit	(1,166)	(1,175)
	60,748	60,550
	138,548	148,803

Commitments (note 14)

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, 2009 and 2008

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

	For the three-month period ended September 30, 2009 $	For the three-month period ended September 30, 2008 $
Revenues	12,948	16,871
Direct production costs and amortization of film and television produced	8,287	11,878
	4,661	4,993
Operating expenses		
Amortization of acquired library	287	141
Impairment in value of certain investment in film and television programs	159	-
Development expenses	25	8
Selling, general and administrative	3,452	3,338
	3,923	3,487
Income before the following	738	1,506
Amortization	490	519
Interest expense	77	109
Interest income	(6)	(12)
Loss (income) from strategic investments	53	(72)
Non-controlling interest	23	7
Income before income taxes	101	955
Provision for (recovery of) income taxes		
Large corporation taxes	15	10
Current income taxes	7	45
Future income taxes	70	290
	92	345
Net income and comprehensive income for the period before discontinued operations	9	610
Discontinued operations, net of income tax (note 7)	-	(80)
Net income and comprehensive income for the period	9	530
Deficit - Beginning of period	(1,175)	(1,550)
Deficit – End of period	(1,166)	(1,020)
Basic earnings before discontinued operations per common share (note 15)	0.00	0.01
Diluted earnings before discontinued operations per common share (note 15)	0.00	0.01
Basic earnings per common share (note 15)	0.00	0.01
Diluted earnings per common share (note 15)	0.00	0.01

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, 2009 and 2008

(expressed in thousands of Canadian dollars)

	For the three-month period ended September 30, 2009 $	For the three-month period ended September 30, 2008 $
Cash provided by (used in)		
Operating activities		
Net income for the period	9	530
Discontinued operations, net of income tax	-	80
Charges (credits) to income not involving cash		
Amortization of film and television programs	6,390	11,229
Amortization of acquired library	287	141
Amortization of property, plant, and equipment	219	191
Amortization of intangible assets	271	328
Impairment in value of certain investment in film and television programs	159	-
Unrealized loss (gain) on short-term investments	74	(49)
Gain on disposal of short-term investments	(18)	(16)
Stock-based compensation	301	190
Interest on promissory notes	3	3
Non-controlling interest	23	7
Future income taxes	70	290
	7,788	12,924
Investment in film and television programs	(2,067)	(10,321)
Net change in non-cash working capital related to operations (note 16)	1,757	(9,468)
Cash provided by (used in) operating activities - continuing operations	7,478	(6,865)
Cash used in operating activities - discontinued operations	-	(70)
Cash provided by (used in) operating activities	7,478	(6,935)
Financing activities		
Common shares repurchased and cancelled	(115)	-
Proceeds from bank indebtedness	405	95
Proceeds from (repayment of) interim production financing	(6,363)	5,953
Proceeds from long-term debt	-	694
Repayment of long-term debt	(156)	(176)
Repayment of other liability	(650)	-
Cash from (used in) financing activities - continuing operations	(6,879)	6,566
Cash used in financing activities - discontinued operations	-	(5)
Cash from (used in) financing activities	(6,879)	6,561
Investing activities		
Business acquisitions	-	(843)
Acquisitions of short-term investments	-	(84)
Proceeds on disposal of short-term investments	144	164
Acquisition of property, plant, and equipment	(47)	(721)
Net cash advances to investees	(82)	(149)
Cash from (used in) investing activities	15	(1,633)
Net change in cash during the periods	614	(2,007)
Cash – Beginning of periods	10,806	8,826
Cash – End of periods	11,420	6,819

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 were admitted to trading on the Alternate Investment Market (AIM) and the Toronto Stock Exchange (TSX) 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 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, 2009 and should be read in conjunction with the financial statements of the Company for the year ended June 30, 2009, as set out in the 2009 Annual Financial Statements, available at www.sedar.com.

2 Changes in accounting policies and future accounting standard changes

a) 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 8 to these financial statements.

The Company has applied this standard without restatement of prior periods.

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

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

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

b) Future accounting standard changes

In January 2006, the Canadian Accounting Standards Board ("AcSB") announced its decision to replace Canadian GAAP with International Financial Reporting Standards ("IFRS"). On February 13, 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 which the Company is beginning to assess. The Company will commence reporting under the new standards on July 1, 2011. The Company has begun to assess the impact of IFRS on the Company, its information systems and its financial statements.

The CICA issued the following new accounting standards: Section 1582, "*Business Combinations*", Section 1601, "*Consolidated Financial Statements*", and Section 1602, "*Non-controlling Interests*". Sections 1582, 1601, and 1602 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.

Business Combinations

Section 1582 will replace "*Business Combinations*" and improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. This section outlines a variety of changes, including but not limited to the following: an expanded definition of a business, a requirement to measure all business combinations and non-controlling interests at fair value, a requirement to recognize future income tax assets and liabilities, and a requirement to record acquisition and related costs as expenses of the period.

Consolidated Financial Statements and Non-Controlling Interests

Sections 1601 and 1602 will replace Section 1600, "*Consolidated Financial Statements*". Section 1601 establishes standards for the preparation of consolidated financial statements and specifically addresses consolidation accounting following a business combination that involves the purchase of an equity interest in one company by another. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

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

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

3 Acquisitions and long-term investment

(a) On July 20, 2008 ("imX Effective Date"), the Company acquired all the outstanding shares in imX Communications Inc. ("imX Communications" or "imX"), for consideration as follows:

- Cash consideration and transaction costs of $904, ($855 and $49 respectively) on the imX 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 imX 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
Investment in film and television programs	172
Future income taxes	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 were issued to a former shareholder of imX who is also a director and shareholder of the Company.

During the period, the Company finalized the purchase price allocation upon completion of its review of certain working capital balances.

(b) On November 22, 2007 the Company completed a strategic investment in privately-held Tribal Nova Inc. ("Tribal Nova") by acquiring a minority interest in the company for consideration of $2,042, including transaction costs of $42. The Company has accounted for the investment using the cost method.

During the year ended June 30, 2009, Tribal Nova entered into an agreement to issue new Class B preferred shares at a value of $3,000 to venture capital firms. As part of the transaction, the Company's investment in Tribal Nova was converted from common shares to 2,014,898 Class A preferred shares. These shares are non-redeemable, voting and are currently exchangeable for 2,014,898 Class A common shares.

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

3 Acquisitions and long-term investment (continued)

(c) On December 4, 2007 ("Studio B Effective Date"), the Company acquired all the outstanding shares in Studio B Productions Inc. ("Studio B"), for the consideration ("Studio B Consideration") as follows:

- Cash consideration of $8,500 and transaction costs of $36; and
- 1,500,000 common shares of the company accrued at a value of $879.

The acquisition was accounted for using the purchase method. As such the results of operations reflect revenue and expenses of the assets of Studio B from the Studio B Effective Date. The purchase price has been allocated to the assets acquired (including all identifiable intangible assets arising from the purchase) and liabilities assumed based on their estimated fair value at the date of acquisition as follows:

	$
Assets acquired	
Cash	497
Amounts receivable	10,494
Investment in production companies	130
Prepaids and deposits	10
Investment in film and television programs	4,147
Property, plant and equipment	1,006
Intangible assets	4,898
Goodwill	3,858
	25,040
Less: liabilities assumed	
Bank indebtedness	297
Accounts payable and accrued liabilities	2,742
Deferred revenue	307
Interim production financing	10,760
Long-term debt and obligations under capital leases	913
Future income taxes	606
	15,625
	9,415

(d) On March 20, 2008 ("Bulldog Effective Date"), the Company acquired all the outstanding shares in Bulldog Interactive Fitness Inc. ("Bulldog Interactive" or "Bulldog"), for the consideration as follows:

- Cash payment of $625 on the Bulldog Effective Date and transactions costs of $7; and
- 99,333 common shares of the Company valued at $150.

In December 2008, the Company decided to abandon operations of Bulldog. As such, as at September 30, 2009 and June 30, 2009 the assets and liabilities have been fair valued and the results of Bulldog operations from the Bulldog Effective Date have been retroactively restated and have been shown separately as discontinued operations, net of income taxes in these financial statements (note 7).

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

4 Amounts receivable

	September 30, 2009 $	June 30, 2009 $
Trade	19,486	22,223
Goods and services taxes recoverable	369	1,649
Federal and provincial film tax credits and other government assistance	46,911	48,594
	66,766	72,466

5 Investment in film and television programs

	September 30, 2009 $	June 30, 2009 $
Development costs	2,063	1,817
Theatrical and non-theatrical productions in progress		
Cost, net of government and third party assistance and third party participation	9,967	16,337
Acquired participation rights – theatrical and non-theatrical		
Cost	5,860	5,860
Accumulated amortization	(3,232)	(2,945)
	2,628	2,915
Non-theatrical productions completed and released		
Cost, net of government and third party assistance and third party participation	126,593	118,402
Accumulated amortization	(106,758)	(100,368)
Accumulated impairment in value of certain investment in film and television programs	(3,435)	(3,276)
	16,400	14,758
	31,058	35,827
Less: Current portion	(15,667)	(19,979)
	15,391	15,848

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

5 Investment in film and television programs (continued)

The Company expects that 43% of the costs related to theatrical and non-theatrical productions completed and released will be amortized during the year ending June 30, 2010. The Company expects that 72% of the costs related to theatrical and non-theatrical productions completed and released will be amortized during the three-year period ending June 30, 2012. The Company expects that over 86% of the costs related to productions completed will be amortized by June 30, 2014.

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

During the three-month period ended September 30, 2009, interest of $438 (three-month period ended September 30, 2008 - $595) has been capitalized to investment in film and television programs.

6 Investment in production companies

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

	September 30, 2009 $	June 30, 2009 $
The continuity of investment in production companies is as follows:		
Opening balance	2,472	1,235
Net cash advances to investees	82	1,237
	2,554	2,472

The net cash advances to investees are non-interest bearing and have no set terms of repayment.

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

7 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:

	Three-month period ended September 30, 2009 $	Three-month period ended September 30, 2008 $
Revenue	–	122
Direct loss	–	(125)
Recovery of income taxes	–	(45)
Loss from discontinued operations	–	(80)

	September 30, 2009 $	June 30, 2009 $
Total assets (property, plant and equipment)	6	6
Bank indebtedness	1	1
Accounts payable and accrued liabilities	12	12
Long-term debt	6	6
Total liabilities	19	19

8 Intangible assets and goodwill

Intangible assets

			September 30, 2009
	Cost $	Accumulated amortization $	Net $
Production backlog	1,033	687	346
Broadcaster relationships	4,417	1,389	3,028
Customer and distribution relationships	546	186	360
Non-compete contracts and brand	1,788	900	888
Production software	394	143	251
	8,178	3,305	4,873

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

8 Intangible assets and goodwill (continued)

Intangible assets (continued)

			June 30, 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:

	September 30, 2009 $	June 30, 2009 $
Net opening balance	5,144	6,418
Amortization	(271)	(1,274)
	4,873	5,144

Goodwill

The Company performed its annual test for goodwill impairment at June 30, 2009, in accordance with its policy. No events or circumstances have occurred since June 30, 2009 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, 2009.

9 Bank indebtedness

As of September 30, 2009, bank indebtedness (the “RBC Revolving Operating Credit Facility”) was $3,155 (June 30, 2009 - $2,750). The maximum amount of the RBC Revolving Operating Credit Facility for general working capital purposes is $3,510 bearing interest at bank prime plus 1.25% (June 30, 2009 - 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 on March 31, 2010. The Company was in compliance with these covenants during the period.

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

10 Interim production financing

	September 30, 2009 $	June 30, 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 $44,537 at September 30, 2009 (June 30, 2009 - $55,318)	33,278	40,401
Interim production credit facilities with various institutions, bearing interest at bank prime plus 0.5% - 1.25%. Assignment and direction of specific production financing and licensing contracts receivable, with a net book value of approximately $23,427 at September 30, 2009 (June 30, 2009 - $15,735)	11,874	10,903
Demand production bank loans bearing interest at bank prime plus 1.25% - 1.50%. Assignment and direction of specific production financing and licensing contracts receivable, with a net book value of approximately $3,316 at September 30, 2009 (June 30, 2009 - $4,459)	2,278	2,489
	47,430	53,793

During the three-month period ended September 30, 2009, the bank prime rate averaged 2.25% (three-month period ended September 30, 2008 – 4.75%).

The RBC Revolving Production Credit Facility with the Royal Bank has a maximum authorized amount of $63,231. 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 Production Credit Facility matures at various dates up to March 2011, 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)

11 Long-term debt and obligations under capital leases

	September 30, 2009 $	June 30, 2009 $
Loans payable, bearing interest at Business Development Bank of Canada prime plus 0.5%, 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 $4,598 at September 30, 2009 (June 30, 2009 - $4,637) and a general assignment of rents	2,603	2,663
Obligation under capital lease, payable in monthly installments of $22 including interest of 4%, maturing in February 2013	837	893
Obligations under capital leases, bearing interest at rates ranging from 5.2% to 8.4%, maturing on dates ranging from June 2010 to December 2011 and repayable in monthly instalments ranging from $3 to $9	203	243
	3,643	3,799
Less: Current portion	(611)	(635)
	3,032	3,164

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

	$
Year ending June 30, 2010	478
2011	542
2012	504
2013	411
2014	239

12 Other liability

	September 30, 2009 $	June 30, 2009 $
Other liability related to the acquisition of distribution rights	25	675

The aggregate amount of payments required during the year ending June 30, 2010 is $25.

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

13 Share capital and contributed surplus

a) Authorized

100,000,000 Preferred variable voting shares, redeemable at the option of the Company at any time at a millionth of a cent per share, no entitlement to dividends, voting
Unlimited common shares without nominal or par value

b) Issued and outstanding

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

	Number	September 30, 2009 Amount $	Number	June 30, 2009 Amount $
Preferred variable voting shares (note 13 (c))	100,000,000	-	100,000,000	-
Common shares (note 13 (d))				
Opening balance	44,442,711	56,758	42,715,785	55,488
Managament bonuses	-	-	219,802	300
Issued as consideration for acquisition of imX	-	-	118,216	175
Issued in consideration of Studio B Earnout	-	-	1,500,000	879
Normal course issuer bid shares repurchased and cancelled	(149,833)	(115)	(111,092)	(84)
	44,292,878	56,643	44,442,711	56,758
Share purchase financing (note 13 (e))				
Opening balance	-	(419)	-	(432)
Compensation expense	-	140	-	-
Interest received on notes	-	3	-	13
	-	(276)	-	(419)
Warrants (note 13 (f))				
Opening balance	4,922,750	1,630	5,661,163	2,070
Expiration of warrants	-	-	(738,413)	(440)
	4,922,750	1,630	4,922,750	1,630
Contributed surplus and stock options (note 13 (g))				
Opening balance	3,766,547	3,756	2,436,547	2,617
Compensation expense on options issued during the period	-	-	1,910,000	31
Management bonuses 2008	-	-	-	(300)
Management bonuses 2009	-	-	-	300
Compensation expense on existing options	-	161	-	668
Options cancelled	-	-	(580,000)	-
Warrants expired	-	-	-	440
	3,766,547	3,917	3,766,547	3,756
		61,914		61,725

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

13 Share capital and contributed surplus (continued)

c) Preferred variable voting shares

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

d) Common shares

On November 13 and 14, 2007, the Company issued a combined 9,815,000 units ("Unit or Units") from the treasury at a price of $1.80 per Unit, for aggregate gross proceeds of $17,667 (the "Offering") plus an additional $6 for separately issued warrants. 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 $2.10 per common share, expiring on November 13, 2010.

On May 26, 2008, the Company issued 99,333 common shares at $1.51 per share, for a gross amount of $150. The 99,333 common shares were issued to former shareholders of Bulldog in connection with the purchase of Bulldog.

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, for a gross amount of $300, for payment of certain management performance bonuses accrued at June 30, 2008.

As part of the Company's previously announced normal course issuer bid, 149,833, 109,095 and 1,997 common shares were repurchased for a gross amount of $115, $82 and $2 respectively and cancelled on July 30, 2009, April 27, 2009 and April 28, 2009, respectively.

On May 13, 2009, the company issued 1,500,000 common shares at $0.59 per share, for a gross amount of $879 in settlement of the Studio B Earnout. The common shares were issued to the former shareholders of Studio B.

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

13 Share capital and contributed surplus (continued)

e) Share purchase financing

During the three-month period ended September 30, 2009, the Company issued no amounts for share purchase financing (year ended June 30, 2009 - nil). During the three-month period ended September 30, 2009, $140 of compensation expense was recognized on employee loans forgiven (three-month period ended September 30, 2008 - $nil). During the three-month period ended September 30, 2009, $3 of interest (three-month period ended September 30, 2008 - $3; year-ended June 30, 2009 - $13) received on these loans were recorded as capital contributions.

f) Warrants

During the three-month period ended September 30, 2009 nil warrants were granted and nil expired. In connection with the Offering, the Company issued 4,922,750 common share purchase warrants valued at $0.35 per warrant for cash consideration. The warrants entitle the shareholders to acquire 4,922,750 common shares for $2.10 and expire on November 13 and 14, 2010. Also, in connection with the Offering, the Company granted 738,413 common share warrants valued at $0.60 per warrant to the brokers of the Offering. The warrants entitled holders to purchase 738,413 common shares for $1.80 and expired on May 13 and 14, 2009.

	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
Outstanding at September 30, 2009	4,922,750	2.10

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	4.25%
Expected option life	1.5 years
Expected volatility	65%
Expected dividend yield	nil

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

13 Share capital and contributed surplus (continued)

g) Stock options

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, 2009, this amounted to 3,986,359 (June 30, 2009 – 3,999,843).

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

	Number of options	Weighted average exercise price
Outstanding at June 30, 2008	2,436,547	2.20
Granted to an employee	75,000	0.93
Outstanding at September 30, 2008	2,511,547	1.98
Granted to employees and directors	1,835,000	0.74
Options cancelled	(580,000)	2.11
Outstanding at June 30, 2009 and September 30, 2009	3,766,547	1.36
Exercisable at September 30, 2008	642,024	2.19
Exercisable at June 30, 2009	1,081,160	2.03
Exercisable at September 30, 2009	1,227,410	1.97

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 to $0.93 per share, vesting over four years and expiring from September 26, 2013 to June 17, 2014. No stock options expired during the year ended June 30, 2009 and 580,000 stock options at $2.11 were cancelled.

During the three-month period ended September 30, 2009, no stock options were issued or cancelled and none expired.

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

13 Share capital and contributed surplus (continued)

g) Stock options (continued)

The weighted average grant date value of stock options and assumptions using the Black Scholes option pricing model for the period ended June 30, 2009 are as follows:

	Year ended June 30, 2009 $
Weighted average grant date value	$0.74
Risk-free interest rate	2.92%
Expected option life	4 years
Expected volatility	65%
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, 2009, a total of $301 (three-month period ended September 30, 2008 - $190) was recognized as compensation expense. Included in the compensation expense for September 30, 2009 is $140 (September 30, 2008 - $nil) related to employee share purchase loans (note 13(e)).

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

Range of exercise prices	Number outstanding at September 30, 2009	Weighted average remaining contractual life	Weighted average exercise price $	Number exercisable at September 30, 2009	Weighted average exercise price $
$0.58 - $0.93	1,910,000	4.59 years	0.75	18,750	0.93
$0.94 - $2.35	1,856,547	2.19 years	1.99	1,208,660	1.99
Total	3,766,547	3.40 years	1.36	1,227,410	1.97

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

13 Share capital and contributed surplus (continued)

h) Put options

Pursuant to financing provided by Media Fund (Atlantic) Ltd. ("Media Fund"), the Company granted to the new shareholders of Media Fund a right to have the Company purchase their common shares in exchange for common shares of the Company (the "put option") on a one-for-one basis. These put options are exercisable only if and when the Company obtains a public listing for its shares. The put options are automatically exercised on January 15, 2010, unless the holder rejects the put right. The Company has a buy-out right to acquire all of the Media Fund shares after obtaining a public listing unless more than 25 percent of the shareholders reject the put right.

The common shares of Media Fund are redeemable by January 15, 2010 since a listing of the Company has occurred. However, as these common shares of Media Fund are residual equity in Media Fund, these shares have been presented as non-controlling interest.

The put option was issued for no consideration. At September 30, 2009, 425,420 (June 30, 2009 - 425,420) shares in Media Fund carried the put option described above.

14 Commitments

The Company has entered into various operating leases for operating premises and equipment. The estimated future minimum payments under these operating leases in each of the next 5 years are as follows:

	$
Year ending June 30, 2010	766
2011	1,040
2012	784
2013	494
2014	521

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

15 Earnings per common share

Earnings per common share are calculated as follows:

	For the three-month period ended September 30, 2009	For the three-month period ended September 30, 2008
	$	$
Net income and comprehensive before discontinued operations for the period	9	610
Net income and comprehensive income for the period	9	530
Weighted average number of common shares:		
Basic	44,335,222	42,783,337
Diluted	44,512,539	42,783,337
Earnings before discontinued operations per common share:		
Basic	0.00	0.01
Diluted	0.00	0.01
Earnings per common share:		
Basic	0.00	0.01
Diluted	0.00	0.01

The weighted average number of potentially dilutive instruments, comprised of shares issuable in respect of convertible warrants, stock options, and put options, for the three-month period ended September 30, 2009 is 177,317 (three-month period ended September 30, 2008 – nil).

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

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

	For the three-month period ended September 30, 2009 $	For the three-month period ended September 30, 2008 $
Decrease (increase) in amounts receivable	5,700	(8,085)
Increase in prepaid expenses and deposits	(161)	(347)
Decrease in restricted cash	-	450
Increase (decrease) in accounts payable and accrued liabilities	(1,879)	1,554
Decrease in deferred revenue	(1,903)	(3,040)
	1,757	(9,468)
During the period, the Company paid and received the following:		
Interest paid	188	948
Interest received	91	72

17 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:

	For the three-month period ended September 30, 2009 $	For the three-month period ended September 30, 2008 $
Production revenue	5,587	14,108
Distribution revenue	3,750	1,455
Producer and service fee revenues	2,872	1,026
Other	739	282
	12,948	16,871

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

18 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

19 Reconciliation of Canadian Generally Accepted Accounting Principles ("GAAP") and International Financial Reporting Standards ("IFRS")

These consolidated financial statements have been prepared in accordance with Canadian GAAP. In certain aspects, GAAP, as applied under IFRS differs from Canadian GAAP.

a) Judgments made by management

IFRS requires disclosure of judgments that have been made by management in the preparation of the financial statements. In this regard, other than estimates which are disclosed under Canadian GAAP, management has made judgments about which development projects, with total costs of $2,063 at September 30, 2009 (September 30, 2008 - $2,089) are likely to result in productions. Development projects which, during the reporting period, have not been assessed as likely to proceed have been written off.

b) Leases

Under IFRS, total costs charged to expenses relating to operating leases must be disclosed. The Company incurred expenses relating to operating leases of $323 for the three-months ended September 30, 2009 (three-months ended September 30, 2008 - $412).