DHX Media Ltd.

Consolidated Financial Statements
June 30, 2009 and June 30, 2008
(expressed in thousands of Canadian dollars, except
for shares and amounts per share)

September 28, 2009

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

PricewaterhouseCoopers LLP
Chartered Accountants
Summit Place
1601 Lower Water Street, Suite 400
Halifax, Nova Scotia
Canada B3J 3P6
Telephone +1 (902) 491 7400
Facsimile +1 (902) 422 1166

September 28, 2009

Auditors' Report

To the Shareholders of
DHX Media Ltd.

We have audited the consolidated balance sheets of **DHX Media Ltd.** as at June 30, 2009 and June 30, 2008 and the consolidated statements of income and comprehensive income 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, 2009 and June 30, 2008 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, 2009 and June 30, 2008

(expressed in thousands of Canadian dollars)

	2009 $	2008 $
Assets		
Current assets		
Cash	10,806	8,826
Short-term investments (note 4)	272	286
Amounts receivable (note 5)	72,466	54,764
Prepaid expenses and deposits	429	1,048
Current portion of investment in film and television programs (note 6)	19,979	31,418
	103,952	96,342
Investment in film and television programs (note 6)	15,848	18,563
Restricted cash (note 7)	8	458
Investment in production companies (note 8)	2,472	1,235
Assets related to discontinued operations (note 9)	6	1,465
Property, plant and equipment (note 10)	8,243	6,657
Long-term investment, at cost (note 3(b))	2,042	2,072
Intangible assets (note 11)	5,144	6,418
Goodwill (note 11)	11,088	10,766
	148,803	143,976
Liabilities		
Current liabilities		
Bank indebtedness (note 12)	2,750	2,670
Accounts payable and accrued liabilities	15,476	13,238
Deferred revenue	10,108	14,347
Liabilities related to discontinued operations (note 9)	19	327
Interim production financing (note 13)	53,793	47,490
Current portion of long-term debt and obligations under capital leases (note 14)	635	676
Other liabilities (note 15)	675	1,275
	83,456	80,023
Long-term debt and obligations under capital leases (note 14)	3,164	2,767
Future income taxes (note 18)	1,416	2,805
Non-controlling interest	217	188
	88,253	85,783
Shareholders' Equity		
Share capital and contributed surplus (note 16)	61,725	59,743
Deficit	(1,175)	(1,550)
	60,550	58,193
	148,803	143,976

Commitments (note 20)

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 and Comprehensive Income and Deficit

For the years ended June 30, 2009 and June 30, 2008

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

	2009 $	2008 $
Revenues	61,969	52,379
Direct production costs and amortization of film and television produced	39,168	35,145
	22,801	17,234
Operating expenses		
Amortization of acquired library	736	1,119
Impairment in value of certain investment in film and television programs	494	2,782
Development expenses	425	328
Selling, general and administrative	14,001	12,045
	15,656	16,274
Income before the following	7,145	960
Amortization	2,323	1,772
Costs associated with abandoned transactions	1,360	104
Equity income (note 8)	–	(44)
Interest expense	363	556
Interest income	(26)	(263)
Loss (income) from strategic investments	(122)	59
Non-controlling interest	29	(375)
Income (loss) before income taxes	3,218	(849)
Provision for (recovery of) income taxes (note 18)		
Large corporation taxes	95	40
Current income taxes	745	(13)
Future income taxes	535	13
	1,375	40
Net income (loss) and comprehensive income (loss) for the years before discontinued operations	1,843	(889)
Discontinued operations, net of income tax (note 9)	(1,468)	(141)
Net income (loss) and comprehensive income (loss) for the years	375	(1,030)
Deficit – Beginning of years	(1,550)	(520)
Deficit – End of years	(1,175)	(1,550)
Basic earnings (loss) before discontinued operations per common share (note 22)	0.04	(0.02)
Diluted earnings (loss) before discontinued operations per common share (note 22)	0.04	(0.02)
Basic earnings (loss) per common share (note 22)	0.01	(0.03)
Diluted earnings (loss) per common share (note 22)	0.01	(0.03)

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, 2009 and June 30, 2008

(expressed in thousands of Canadian dollars)

	2009 $	2008 $
Cash provided by (used in)		
Operating activities		
Net income (loss) and comprehensive income (loss) for the years	375	(1,030)
Discontinued operations, net of income tax	1,468	141
Charges (credits) to income not involving cash		
Amortization of film and television programs	37,427	34,837
Amortization of acquired library	736	1,119
Amortization of property, plant and equipment	1,049	717
Amortization of intangible assets	1,274	1,055
Impairment in value of certain investment in film and television programs	494	2,782
Unrealized loss (gain) on short-term investments	(42)	42
Loss (gain) on disposal of short-term investments	(55)	67
Stock-based compensation	999	904
Interest on promissory notes	13	13
Interest	–	118
Equity income	–	(44)
Non-controlling interest	29	(375)
Provision for future income taxes	535	13
	44,302	40,359
Investment in film and television programs	(24,331)	(37,547)
Net change in non-cash working capital balances related to operations (note 23)	(18,928)	(7,829)
Cash provided by (used in) operating activities – continuing operations	1,043	(5,017)
Cash used in operating activities – discontinued operations	(257)	(280)
Cash provided by (used in) operating activities	786	(5,297)
Financing activities		
Proceeds from issuance of common shares and warrants, net of issuance costs	–	15,941
Common shares repurchased and cancelled	(84)	–
Proceeds from bank indebtedness	80	1,873
Proceeds from interim production financing	6,303	3,611
Proceeds from long-term debt	401	–
Repayment of long-term debt	(1,358)	(626)
Repayment of note payable	–	(400)
Repayment of other liabilities	(295)	(675)
Cash from financing activities – continuing operations	5,047	19,724
Cash used in financing activities – discontinued operations	(60)	(7)
Cash from financing activities	4,987	19,717
Investing activities		
Business acquisitions	(1,375)	(8,166)
Acquisitions of short-term investments	(265)	(184)
Proceeds on disposal of short-term investments	376	1,739
Acquisition of property, plant and equipment	(1,322)	(495)
Net cash advances (to) from investees	(1,237)	150
Decrease (increase) in long-term investment	30	(2,072)
Cash used in investing activities	(3,793)	(9,028)
Net change in cash during the years	1,980	5,392
Cash – Beginning of years	8,826	3,434
Cash – End of years	10,806	8,826

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.

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 (''VIEs'') 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) collectability 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. Revenue from production services for third parties is recognized on a percentage-of-completion basis, and associated production costs are charged against earnings as the revenue is recognized. Percentage-of-completion is based upon the proportion of costs incurred in the current period to total expected costs. A provision is made for the entire amount of future estimated losses, if any, on each 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, and three years from the date of the initial investment if there have been no active development activities 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:

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

Intangible assets

Intangible assets are carried at cost, including the amounts included in 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 and distribution 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

Indefinite lived assets, including goodwill, are subject to annual impairment tests under GAAP. 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 accounting basis 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

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 net income.

Earnings (loss) per share

Earnings (loss) per share, both basic and diluted, are computed based on the weighted average number of common shares outstanding during the year.

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 generally accepted accounting principles 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 fair value of all stock options granted is recorded in selling, general and administrative expense or direct production costs, as applicable, over their respective vesting periods. The fair value of options is determined 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 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.

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 income.
- Bank indebtedness, interim production financing, accounts payable and accrued liabilities, long-term debt and other liabilities 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)

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 of net income.

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 companies, 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 in which it is not exposed to the majority of the expected losses and therefore does not consolidate these entities. 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

Financial instruments and capital disclosures

Financial instruments

On July 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3862, "*Financial Instruments – Disclosures*", Section 3863, "*Financial Instruments – Presentation*", and Section 1535, "*Capital Disclosures*".

Section 3862, *"Financial Instruments - Disclosures"* and Section 3863, *"Financial Instruments – Presentation"* have replaced Section 3861, *"Financial Instruments – Presentation and Disclosure"*, revising and enhancing its disclosure requirements and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how an entity manages those risks. Recommended disclosures from these sections have been included in note 19 of these financial statements.

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

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

a) Changes in accounting policies (continued)

Financial instruments and capital disclosures (continued)

Capital disclosures

Section 1535, *"Capital Disclosures"* establishes disclosure requirements about an entity's capital and how it is managed. The purpose is to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital, including compliance with externally imposed capital requirements. Recommended disclosures from this section have been included in note 21 of these financial statements.

Credit risk and the fair value of financial assets and financial liabilities

On January 20, 2009, the Emerging Issues Committee ("EIC") of the Accounting Standards Board issued EIC Abstract 173, *"Credit Risk and the Fair Value of Financial Assets and Financial Liabilities"*, which establishes guidance requiring an entity to consider its own credit and the credit risk of the counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC 173 should be applied retroactively, without restatement of prior periods. The adoption of this interpretation did not have a significant impact on the Company's financial statements.

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

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.

(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 standard changes (continued)

The CICA issued the following new accounting standards: Section 3064, "*Goodwill and Intangible Assets*", Section 1582, "*Business Combinations*", Section 1601, "*Consolidated Financial Statements*", and Section 1602, "*Non-controlling Interests*". Section 3064 is effective for years beginning on or after October 1, 2008 and the Company will adopt it on July 1, 2009. 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.

Goodwill and Intangible Assets

Section 3064 will replace 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*".

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 interest at fair value and a requirement to recognize future income tax assets and liabilities and 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

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

(a) On July 20, 2008 ("imX Effective Date"), the Company acquired all of 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 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, was paid to a former shareholder of imX who is also a director and shareholder of the Company.

The Company will finalize the purchase price allocation upon completion of its review of certain working capital balances. Any future adjustments resulting from the review will be recorded as an adjustment to the purchase price allocation.

During the year ended June 30, 2008, the following acquisitions occurred:

(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 this 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"), a privately-owned producer of primarily proprietary children's programming, for the consideration ("Studio B Consideration") as follows:

- An initial cash payment of $8,000 on the Studio B Effective Date and transaction costs of $36; and
- An earnout amount of $1,379 ("Studio B Earnout"): $500 in cash and 1,500,000 common shares of the company accrued at a value of $879. The earnout is included in the purchase price consideration.

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

During the year ended June 30, 2009, the Company finalized the purchase price allocation upon completion of its review of certain working capital balances and adjusted the following: amounts receivable increased by $146 and future income taxes decreased by $984, which resulted in a net decrease in goodwill of $1,130. The Studio B Earnout increased the total purchase price and the amount of goodwill by $1,379.

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

3 Acquisitions and long-term investment (continued)

(d) On March 20, 2008 ("Bulldog Effective Date"), the Company acquired all the outstanding shares in Bulldog Interactive Fitness Inc. ("Bulldog Interactive" or "Bulldog"), a developer of children's entertainment centres, for the consideration as follows:

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

The acquisition was accounted for using the purchase method. The purchase price was 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	5
Amounts receivable	33
Prepaids and deposits	6
Property, plant and equipment	146
Intangible assets	431
Goodwill	388
Future income taxes	100
	1,109
Less: liabilities assumed	
Accounts payable and accrued liabilities	169
Deferred revenue	85
Long-term debt	73
	327
	782

In December 2008, the Company decided to abandon operations of Bulldog. As such, the results of Bulldog Interactive 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. As at June 30, 2009, the assets and liabilities have been written down to fair value (note 9).

4 Short-term investments

	2009 $	2008 $
Investments, at market	272	286

As at June 30, 2009, investments at cost were $230 (2008 - $360).

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

5 Amounts receivable

	2009 $	2008 $
Trade	22,223	17,593
Income taxes receivable	–	60
Goods and service taxes recoverable	1,649	1,048
Federal and provincial film tax credits and other government assistance	48,594	36,063
	72,466	54,764

6 Investment in film and television programs

	2009 $	2008 $
Development costs	1,817	1,758
Theatrical and non-theatrical productions in progress		
Cost, net of government and third party assistance and third party participation	16,337	30,793
Acquired participation rights – theatrical and non-theatrical		
Cost	5,860	5,720
Accumulated amortization	(2,945)	(2,209)
	2,915	3,511
Non-theatrical productions completed and released		
Cost, net of government and third party assistance and third party participation	118,402	79,642
Accumulated amortization	(100,368)	(62,941)
Accumulated impairment in value of certain investment in film and television programs	(3,276)	(2,782)
	14,758	13,919
	35,827	49,981
Less: Current portion	(19,979)	(31,418)
	15,848	18,563

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

6 Investment in film and television programs (continued)

The Company expects that 41% 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 80% 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 90% 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 fiscal year ended June 30, 2009, interest of $2,187 (2008 - $2,425) has been capitalized to investment in film and television programs.

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

	2009 $	**2008 $**
Net opening investment in film and television programs	49,981	47,025
Productions acquired during the year (note 3 (a))	139	4,147
Cost of productions during the year, net of government and third party assistance and third party participation	24,304	36,983
Increase of acquired participation rights (note 3 (a))	33	–
Increase in developments costs	27	564
Amortization	(38,163)	(35,956)
Impairment in value of certain investment in film and television programs	(494)	(2,782)
	35,827	49,981

7 Restricted cash

Restricted cash is the balance of cash on hand in Media Fund (Atlantic) Ltd. The use of this cash is restricted to specified uses related to the production and development of film and television programs.

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

8 Investment in production companies

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

	2009 $	2008 $
The continuity of investment in production companies is as follows:		
Opening balance	1,235	1,210
Equity income	–	44
Acquired on acquisition (note 3 (c))	–	130
Net cash advances to (from) investees	1,237	(149)
	2,472	1,235

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

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:

	2009 $	2008 $
Revenue	165	68
Direct loss	(333)	(141)
Write-down to fair value	1,035	–
Provision for income taxes	100	–
Loss from discontinued operations	(1,468)	(141)

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

9 Discontinued operations (continued)

	2009 $	2008 $
Cash	–	39
Amounts receivable	–	395
Prepaids and deposits	–	7
Property, plant and equipment	6	131
Intangible assets	–	405
Goodwill	–	388
Future income taxes	–	100
Total assets	6	1,465
Bank indebtedness	1	–
Accounts payable and accrued liabilities	12	185
Deferred revenue	–	75
Long-term debt	6	67
Total liabilities	19	327

10 Property, plant and equipment

			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

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

10 Property, plant and equipment (continued)

			2008
	Cost $	Accumulated amortization $	Net $
Land	800	–	800
Buildings	4,329	335	3,994
Furniture, fixtures and other equipment	2,272	1,441	831
Computer equipment	2,187	1,703	484
Post-production equipment	1,259	912	347
Website design	102	58	44
Computer software	505	460	45
Leasehold improvements	888	776	112
	12,342	5,685	6,657

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

	2009 $	2008 $
Net opening balance	6,657	5,858
Acquired in the Studio B acquisition (note 3 (c))	–	1,006
Acquired in the Bulldog acquisition (note 3 (d))	–	146
Transferred to assets related to discontinued operations, net of amortization	–	(131)
Acquisitions and new assets under capital lease	2,640	495
Disposals	(5)	–
Amortization	(1,049)	(717)
	8,243	6,657

11 Intangible assets and goodwill

Intangible assets

			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

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

11 Intangible assets and goodwill (continued)

Intangible assets (continued)

			2008
	Cost **$**	**Accumulated amortization** **$**	**Net** **$**
Production backlog	1,033	319	714
Broadcaster relationships	4,417	729	3,688
Customer and distribution relationships	546	117	429
Non-compete contracts and brand	1,788	550	1,238
Production software	394	45	349
	8,178	1,760	6,418

The continuity of intangible assets is as follows:

	2009 **$**	**2008** **$**
Net opening balance	6,418	2,575
Acquired in the Studio B acquisition (note 3 (c))	–	4,898
Acquired in the Bulldog acquisition (note 3 (d))	–	431
Transferred to assets related to discontinued operations	–	(431)
Amortization	(1,274)	(1,055)
	5,144	6,418

Goodwill

The continuity of goodwill is as follows:

	2009 **$**	**2008** **$**
Net opening balance	10,766	7,158
Acquired on imX acquisition (note 3 (a))	73	–
Acquired on Studio B acquisition (note 3 (c))	–	3,608
Acquired on Bulldog acquisition (note 3 (d))	–	388
Transferred to assets related to discontinued operations	–	(388)
Addition for Studio B earnout (note 3 (c))	1,379	–
Adjustment on finalization of the purchase price allocation (note 3(c))	(1,130)	–
	11,088	10,766

(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, 2009, in accordance with its policy, as described in note 1. As the fair value of the reporting unit is greater than its carrying value, the Company determined there was no impairment of goodwill as at June 30, 2009 and June 30, 2008.

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 rate, 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 2014 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 begun implementing 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, 2009, bank indebtedness (the "RBC Revolving Operating Credit Facility") was $2,750 (2008 - $2,670). 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% (2008 - bank prime plus 0.75%). 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.

Note 21 provides additional disclosure related to the RBC Revolving Operating Credit Facility coverage ratios and certain other covenants.

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

13 Interim production financing

	2009 $	2008 $
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 $55,318 (2008 - $65,486) have been pledged as security	40,401	39,288
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 $15,735 (2008 - $nil) have been pledged as security	10,903	–
Demand production bank loans, assumed on acquisition of Studio B (note 3 (c)), less repayments subsequent to acquisition, 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 $4,459 (2008 - $9,370) have been pledged as security	2,489	8,202
	53,793	47,490

During the fiscal year ended June 30, 2009, the bank prime rate averaged 3.49% (2008 – 5.73%).

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)

14 Long-term debt and obligations under capital leases

	2009 $	2008 $
Loans payable, bearing interest at Business Development Bank of Canada prime plus 0.5%, 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 $4,637 at June 30, 2009 (2008 - $4,794) and a general assignment of rents	2,663	2,900
Obligation under capital lease, payable in monthly instalments of $22 including interest of 4%, maturing in February 2013	893	–
Obligation 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	243	231
Loan payable, Royal Bank, repaid during the year	–	57
Loan payable, other financial institution, repaid during the year	–	255
	3,799	3,443
Less: Current portion	635	676
	3,164	2,767

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

	$
Year ending June 30, 2010	635
2011	542
2012	504
2013	411
2014	239
	2,331

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

15 Other liabilities

	2009 $	2008 $
Other liabilities include $675 (2008 - $1,100) related to the acquisition of distribution rights and $nil (2008 - $175) related to a settlement for a feature film	675	1,275

The aggregate amount of payments required during the year ending June 30, 2010 is $675.

16 Share capital and contributed surplus

a) Authorized

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

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

16 Share capital and contributed surplus (continued)

b) Issued and outstanding

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

	Number	2009 Amount $	Number	2008 Amount $
Preferred variable voting shares (note 16 (c))	100,000,000	–	100,000,000	–
Common shares (note 16 (d))				
Opening balance	42,715,785	55,488	32,801,452	40,779
Issued for cash consideration	–	–	9,815,000	15,940
Share issuance costs, net of tax effect of $nil (2008 - $645)	–	–	–	(1,381)
Issued as consideration for acquisition of Bulldog Interactive (note 3 (d))	–	–	99,333	150
Issued as consideration for acquisition of iMX (note 3 (a))	118,216	175	–	–
Issued in consideration for Studio B Earnout (note 3 (c))	1,500,000	879	–	–
Management bonuses	219,802	300	–	–
Normal course issuer bid shares repurchased and cancelled	(111,092)	(84)	–	–
	44,442,711	56,758	42,715,785	55,488
Share purchase financing (note 16 (e))				
Opening balance	–	(432)	–	(445)
Interest received on notes	–	13	–	13
	–	(419)	–	(432)
Warrants (note 16 (f))				
Opening balance	5,661,163	2,070	435,125	217
Issued for cash consideration	–	–	4,922,750	1,733
Warrant issuance costs, net of tax effect of $nil (2008 - $41)	–	–	–	(103)
Broker warrants issued	–	–	738,413	440
Expiration of warrants	(738,413)	(440)	(435,125)	(217)
	4,922,750	1,630	5,661,163	2,070
Contributed surplus and stock options (note 16 (g))				
Opening balance	2,436,547	2,617	1,921,547	1,496
Compensation expense on options issued during the year	1,910,000	31	790,000	159
Management bonuses for the year ended June 30, 2008	–	(300)	–	300
Management bonuses for the year ended June 30, 2009	–	300	–	–
Compensation expense on existing options	–	668	–	445
Options cancelled	(580,000)	–	(275,000)	–
Warrants expired	–	440	–	217
	3,766,547	3,756	2,436,547	2,617
		61,725		59,743

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

16 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, 109,095 and 1,997 common shares were repurchased for a gross amount of $84 and cancelled on 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)

16 Share capital and contributed surplus (continued)

e) Share purchase financing

During the fiscal year ended June 30, 2009, no compensation expense was recognized (2008 - $nil). Interest of $13 (2008 - $13) received on these loans is being recorded as a capital contribution.

f) Warrants

During the year ended June 30, 2008, 5,661,163 warrants were granted and 435,125 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 entitle the holders to purchase 738,413 common shares for $1.80 and expired on May 13 and 14, 2009.

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, 2007	435,125	2.35
Issued for cash consideration	4,922,750	2.10
Broker warrants issued	738,413	1.80
Warrants expired	(435,125)	2.35
Outstanding at June 30, 2008	5,661,163	2.06
Broker warrants expired	(738,413)	1.80
Outstanding at June 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:

	2009	2008
Risk-free interest rate	4.25%	4.25%
Expected option life	1.5 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)

16 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 June 30, 2009, this amounted to 3,999,843.

At June 30, 2009 and 2008, the Company had the following stock options outstanding:

	Number of options	Weighted average exercise price per stock option
Outstanding at June 30, 2007	1,921,547	2.20
Granted to officers, employees and directors	510,000	1.62
Granted to consultants	280,000	1.52
Options cancelled	(275,000)	2.17
Outstanding at June 30, 2008	2,436,547	2.02
Granted to officers, employees and directors	1,910,000	0.75
Options cancelled	(580,000)	2.11
Outstanding at June 30, 2009	3,766,547	1.36
Exercisable at June 30, 2008	642,024	2.19
Exercisable at June 30, 2009	1,081,160	2.03

During the year ended June 30, 2008, 510,000 stock options were issued to officers, employees and directors at $1.62 per share, vesting over four years and expiring on September 26, 2012. On May 14, 2008, the Company issued 100,000 stock options to consultants at $1.42 per share, vesting at various times over a nine month period and expiring on May 14, 2013. On March 5, 2008, the Company issued 180,000 stock options to consultants at a price of $1.57 per share, vesting at various times over a nine month period and expiring on March 5, 2013. No stock options expired during the year ended June 30, 2008 and 275,000 stock options at $2.17 were cancelled.

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

16 Share capital and contributed surplus (continued)

g) Stock options (continued)

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.

The weighted average grant date value of stock options granted in 2009 has been estimated at $0.74 (2008 - $0.96) using the Black Scholes option pricing model. The following weighted average assumptions were used in the calculations:

	2009	**2008**
Risk-free interest rate	2.92%	4.10%
Expected option life	4 years	4 years
Expected volatility	65%	61%
Expected dividend yield	nil	nil

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

During the year ended June 30, 2009, a total of $999 (2008 - $904) was recognized as compensation expense. Included in the compensation expense for June 30, 2009 was $300 (June 30, 2008 - $300) awarded as bonuses to certain key executives of the Company, paid in common shares of the Company, based on achieving certain financial benchmarks. The actual number of common shares issued is based on the lower of the ten day weighted average closing price at January 31, 2008, or the last day of June 30, 2009. The number of common shares to be issued in relation to the $300 bonus for the period ending June 30, 2009, is 428,538 (2008 – 219,802).

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.

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

16 Share capital and contributed surplus (continued)

i) Put options (continued)

The put option was issued for no consideration. At June 30, 2009, 425,420 (2008 - 425,420) shares in Media Fund carried the put option described above.

17 Government financing and assistance

During the year ended June 30, 2009, investment in film and television programs was reduced by $8,051 (2008 - $6,627) 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 provided. In addition, during the year, investment in film and television programs has been reduced by $17,897 (2008 - $9,530) related to non-repayable contributions from the Canadian Television Fund license fee program. Lastly, during the year, investment in film and television programs has been reduced by $30,241 (2008 - $28,994) in tax credits relating to production activities.

18 Income taxes

Significant components of the Company's future tax assets and liabilities as at June 30, 2009 and 2008 are as follows:

	2009 **$**	**2008** **$**
Foreign tax credits	202	–
Investments	(14)	–
Participation payables and capital lease obligations	335	–
Property, plant and equipment	121	213
Share issuance costs and deferred financing fees	701	1,273
Investment in film and television programs	(1,295)	(2,730)
Intangible assets	(2,740)	(3,455)
Non-capital losses and other	1,274	1,894
Future income taxes	(1,416)	(2,805)

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

	2009 **$**	**2008** **$**
Income tax expense (recovery) based on combined federal and provincial tax rates of 29.82% (2008 - 36.81%)	960	(327)
Income taxes increased (reduced) by		
Stock-based compensation	352	333
Large corporation tax	95	40
Non-deductible expenses, rate changes and other	(6)	(20)
Foreign losses	(16)	17
Non-taxable portion of capital gains	(10)	(3)
Provision for income taxes	1,375	40

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

19 Financial instruments

a) Fair value of financial instruments

Management believes that the carrying amounts reported on the financial statements for cash, amounts receivable, assets related to discontinued operations, accounts payable and accrued liabilities, liabilities related to discontinued operations, other liabilities and long-term debt and obligations under capital leases 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, 2009 to current interest rates and therefore management believes that 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 67% of total amounts receivable at June 30, 2009 (2008 - 66%). Certain of these amounts are subject to audit by the government agencies. Management believes that these amounts are fully collectible. Management believes that it is normal course 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. On a quarterly basis, the Company adjusts amounts receivable from Canadian federal government and other government agencies, including federal and provincial tax credits receivable in connection with production financing, for any known differences arising from internal or external audit of these amounts. An allowance against federal and provincial tax credits receivable has been recorded based on the Company's history of collection of these amounts.

The balance of trade amounts receivable is primarily with Canadian broadcasters and large international distribution companies. The Company has recorded an allowance for doubtful accounts of approximately 1% against the gross amount of trade receivables, and management believes that the net amount of trade 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 and certain loans payable bear interest at floating rates. A 1% fluctuation would have an estimated impact of approximately $200 to $300 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 revolving credit facilities (notes 12, 13 and 14). As at June 30, 2009, the Company had cash on hand of $10,806 (2008 - $8,826).

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

19 Financial instruments (continued)

e) Currency risk

The Company's activities which expose it to currency risk involve the holding of foreign currencies as well as incurring production costs and earning revenues that are denominated in foreign currencies. A 1% change in the USD or Euro exchange rate would have an impact of less than $100 on net income.

f) Long-term investment, at cost

Management is continuing to value its investment in Tribal Nova at cost as fair value cannot be measured reliably. Tribal Nova 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, 2009 and June 30, 2008.

g) Contractual maturity analysis for financial liabilities

	Total $	Less than 1 year $	2 to 3 years $	4 to 5 years $	After 5 years $
Bank indebtedness	2,750	2,750	–	–	–
Long-term debt	2,663	239	478	478	1,468
Other liabilities	675	675	–	–	–
Capital lease obligations	1,136	396	568	172	–
Operating leases	6,411	1,018	1,824	1,015	2,554
	13,635	5,078	2,870	1,665	4,022

Payments noted above do not include interest.

20 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	1,018
2011	1,040
2012	784
2013	494
2014	521

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

21 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, 2009. The Company is not anticipating paying out dividends during the year ended June 30, 2010.

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

	2009 $	2008 $
Total bank indebtedness, long-term debt and obligations under capital leases and other liabilities	7,224	7,388
Less: Cash	10,806	8,826
Net debt	(3,582)	(1,438)
Total Shareholders' Equity	60,670	58,193
	57,088	56,755

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 reviewed by the board of directors.

The Company monitors capital using a number of financial ratios, including the following ratios as specified by the RBC Revolving Operating and Revolving Production Credit Facilities (notes 12 and 13):

- 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	2009	2008
Coverage Ratio	> 4.0x	27.0x	10.6x
Net Worth Ratio	< 3.0x	1.1x	1.3x

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)

22 Earnings (loss) per common share

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

	2009 $	2008 $
Net income (loss) and comprehensive income (loss) before discontinued operations for the year	1,843	(889)
Net income (loss) and comprehensive income (loss)	375	(1,030)
Weighted average number of common shares:		
Basic	43,066,259	39,038,719
Diluted	43,095,742	39,038,719
Earnings (loss) per common share before discontinued operations:		
Basic	0.04	(0.02)
Diluted	0.04	(0.02)
Earnings (loss) per common share		
Basic	0.01	(0.03)
Diluted	0.01	(0.03)

For the year ended June 30, 2008, 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.

For the year ended June 30, 2009, the weighted average number of potentially dilutive instruments, comprised of shares issuable in respect of convertible warrants, stock options and put options, was 29,483 (2008 - nil).

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

	2009 $	2008 $
Decrease (increase) in amounts receivable	(17,554)	(11,353)
Decrease (increase) in prepaid expenses and deposits	618	(676)
Decrease (increase) in restricted cash	450	18
Increase (decrease) in accounts payable and accrued liabilities	1,797	3,553
Increase (decrease) in deferred revenue	(4,239)	629
	(18,928)	(7,829)
During the year, the Company paid and received the following:		
Interest paid	2,689	2,776
Interest received	298	393
Taxes paid	40	1

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

24 Interest in joint ventures

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

	2009 $	2008 $
Statement of income		
Revenues	21	748
Direct production costs and amortization of film and television programs	–	(628)
Selling, general and administrative	(11)	(6)
Recovery of income taxes	–	(2)
Income from joint ventures	10	112
Balance sheet		
Current assets	1,311	3,967
Current liabilities	(1,201)	(3,858)
	110	109
Statement of cash flows		
Operating activities	10	112
Financing activities	(278)	(86)
Net change in cash during the year	(268)	26

25 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:

	2009 $	2008 $
Production revenue	39,438	34,409
Distribution revenue	12,363	14,433
Producer and service fee revenues	7,278	1,714
Other	2,890	1,823
	61,969	52,379

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

26 Seasonality

Results of operations for any year 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 year to year and the results of any one year are not necessarily indicative of results for future years. 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 year to year.

27 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 $1,817 at June 30, 2009 (2008 - $1,758) 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 $1,390 for the year ended June 30, 2009 (2008 - $733).