DHX Media Ltd.

Consolidated Financial Statements
September 30, 2008 (unaudited) and June 30, 2008
(expressed in Canadian dollars)

November 13, 2008

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.

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

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

DHX Media Ltd.

Consolidated Balance Sheets

As at September 30, 2008 (unaudited) and June 30, 2008

(expressed in Canadian dollars)

	September 30, 2008 $	June 30, 2008 $
Assets		
Current assets		
Cash	6,827,504	8,864,776
Short-term investments	271,564	286,350
Amounts receivable (note 4)	63,191,056	55,158,979
Prepaid expenses and deposits	1,401,202	1,055,065
Current portion of investment in film and television programs (note 5)	29,951,110	31,418,187
	101,642,436	96,783,357
Investment in film and television programs (note 5)	19,016,647	18,563,015
Restricted cash	7,385	457,730
Investment in production companies (note 6)	1,384,330	1,235,167
Property, plant and equipment	7,310,853	6,787,081
Long-term investment, at cost (note 3(b))	2,071,722	2,071,722
Intangible assets	6,471,062	6,822,427
Goodwill	11,153,746	11,153,746
	149,058,181	143,874,245
Liabilities		
Current liabilities		
Bank indebtedness (note 7)	2,765,000	2,670,000
Accounts payable and accrued liabilities	15,033,279	13,421,538
Deferred revenue	11,356,274	14,421,587
Interim production financing (note 8)	53,442,307	47,489,747
Current portion of long-term debt and obligations under capital leases (note 9)	1,055,248	695,904
Current portion of other long-term liabilities	1,275,000	1,275,000
	84,927,108	79,973,776
Long-term debt and obligations under capital leases (note 9)	2,967,874	2,814,447
Future income taxes	1,876,092	2,705,000
Non-controlling interest	195,556	188,129
	89,966,630	85,681,352
Shareholders' Equity		
Share capital and contributed surplus (note 11)	60,111,631	59,743,168
Deficit	(1,020,080)	(1,550,275)
	59,091,551	58,192,893
	149,058,181	143,874,245

DHX Media Ltd.

Consolidated Statements of Income and Comprehensive Income and Deficit

For the three-month periods ended September 30, 2008 and 2007 (unaudited)

(expressed in Canadian dollars)

	For the three-month period ended September 30, 2008 $	For the three-month period ended September 30, 2007 $
Revenues	16,992,837	10,662,702
Direct production costs and amortization of film and television programs produced	11,877,546	7,355,848
	5,115,291	3,306,854
Operating expenses		
Amortization of acquired library	140,576	89,130
Development expenses	7,517	–
Selling, general and administrative	3,556,535	2,322,926
	3,704,628	2,412,056
Income before the following	1,410,663	894,798
Amortization	548,651	258,848
Equity income (loss)	–	(23,264)
Interest expense	108,515	171,514
Interest income	(12,035)	(25,964)
Income from strategic investments	(72,090)	(90,955)
Non-controlling interest	7,427	5,167
Income before income taxes	830,195	599,452
Provision for (recovery of) income taxes		
Large corporation taxes	10,000	25,000
Current income taxes	–	(353,000)
Future income taxes	290,000	553,000
	300,000	225,000
Net income and comprehensive income for the periods	530,195	374,452
Deficit – Beginning of periods	(1,550,275)	(585,460)
Deficit – End of periods	(1,020,080)	(211,008)
Basic earnings per common share (note 14)	0.01	0.01
Fully diluted earnings per common share (note 14)	0.01	0.01

DHX Media Ltd.

Consolidated Statements of Cash Flows

For the three-month periods ended September 30, 2008 and 2007 (unaudited)

(expressed in Canadian dollars)

	For the three-month period ended September 30, 2008 $	For the three-month period ended September 30, 2007 $
Cash provided by (used in)		
Operating activities		
Net income for the periods	530,195	374,452
Charges (credits) to income not involving cash		
Amortization of film and television programs	11,228,552	7,304,822
Amortization of acquired library	140,576	89,130
Amortization of property, plant and equipment	197,287	100,791
Amortization of intangible assets	351,365	158,057
Unrealized gain on short-term investments	(48,844)	(71,455)
Gain on disposal of short-term investments	(16,266)	–
Stock-based compensation	190,123	112,627
Interest on promissory notes	3,340	3,003
Interest	–	89,270
Equity income	–	(23,264)
Non-controlling interest	7,427	5,167
Future income tax expense	290,000	553,000
	12,873,755	8,695,600
Investment in film and television programs	(10,321,213)	(8,766,950)
Net change in non-cash working capital balances related to operations (note 15)	(9,516,587)	(729,182)
	(6,964,045)	(800,532)
Financing activities		
Issuance costs adjusted on shares of a subsidiary	–	(1,400)
Proceeds from bank indebtedness	95,000	–
Proceeds from (repayment of) interim production financing	5,952,560	(1,107,243)
Proceeds from long-term debt and obligations under capital leases	693,531	–
Repayment of long-term debt and obligations under capital leases	(180,760)	(72,798)
Repayment of other long-term liabilities	–	(120,000)
	6,560,331	(1,301,441)
Investing activities		
Business acquisitions	(843,232)	–
Acquisitions of short-term investments	(83,844)	–
Proceeds on disposal of short-term investments	163,740	–
Acquisition of property, plant and equipment	(721,059)	(58,333)
Net cash advances (to) from investees	(149,163)	825,054
	(1,633,558)	766,721
Net change in cash during the periods	(2,037,272)	(1,335,252)
Cash – Beginning of periods	8,864,776	3,433,924
Cash – End of periods	6,827,504	2,098,672

(expressed in Canadian dollars)

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 adjustment, 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, 2008 and should be read in conjunction with the financial statements of the Company for the year ended June 30, 2008, as set out in the 2008 Annual Financial Statements, available at www.sedar.com.

2 Changes in accounting policies and future accounting standard changes

During the three-month period ended September 30, 2008, the Company adopted the following accounting standards:

a) 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 3862, "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 the entity manages those risks. Recommended disclosure from these sections has been included in note 12 of these unaudited interim financial statements.

(expressed in Canadian dollars)

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

a) 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 and provide disclosures including compliance with externally imposed capital requirements. Recommended disclosures from this section of the handbook have been included in note 13 of these unaudited interim 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) Goodwill and intangible assets and research and developments costs

The CICA issued one new accounting standards: Section 3064, *Goodwill and Intangible Assets* will be effective for fiscal years beginning on or after October 1, 2008 and the Company will adopt it on July 1, 2009. The Company is in the process of evaluating the impact on disclosure and presentation of these new standards.

Section 3064, *Goodwill and Intangible Assets,* will replace section 3062, *Goodwill and Other Intangible Assets* and section 3450 *Research and Development costs.* The standard establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. The provision relating to the definition and initial recognition of intangible assets including internally generated intangible assets, are aligned with IFRS IAS 38 *Intangible Assets*.

3 Acquisitions and long-term investment

During the three-months ended September 30, 2008, the following acquisition occurred:

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

- Cash consideration and transaction costs of $873,270, ($855,000 and $18,270 respectively) on the Effective Date;
- 67,552 shares of the Company valued at $100,000; and
- Earnout amount of $75,000 paid by issuance of 50,664 common shares of the Company subject to imX meeting certain performance targets. On October 3, 2008 these targets were achieved and the common shares were issued. Since this earnout has been met, it has been included in the purchase price consideration.

(expressed in Canadian dollars)

3 Acquisitions and long-term investment (continued)

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

	$
Assets acquired	
Cash	30,038
Accounts receivable	2,427
Investments in film and television programs	34,470
Future income tax asset	1,118,908
	1,185,843
Less: liabilities assumed	
Accounts payable and accrued liabilities	137,573
	1,048,270

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

Of the consideration paid for imX, $75,000 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 twelve-months 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 16.77% interest in the company for consideration of $2,071,722 including transaction costs of $71,722. The Company has accounted for the investment using the cost method.

(c) On December 4, 2007 (“the 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 as follows:

- An initial cash payment of $8,000,000 on the Effective Date and transaction costs of $36,125;
- An earnout amount calculated as 4.5 times the average “EBITDA” (as that term is defined in the agreement) for the years ended October 31, 2007 (“Fiscal 2007”) and October 31, 2008 (“Fiscal 2008”) up to a maximum of $20,000,000. The earnout amount is subject to Studio B meeting certain financial performance benchmarks for Fiscal 2007 and Fiscal 2008 and would be paid 30% in cash and 70% in shares of DHX Media.

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 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 as follows:

(expressed in Canadian dollars)

3 Acquisitions and long-term investment (continued)

	$
Assets acquired	
Cash	497,043
Amounts receivable	10,349,292
Investment in production companies	130,274
Prepaids and deposits	9,614
Investment in film and television programs	4,146,656
Property, plant and equipment	1,006,102
Intangible assets	4,898,000
Goodwill	3,607,880
	24,644,861
Less: liabilities assumed	
Bank indebtedness	297,000
Accounts payable and accrued liabilities	2,741,561
Deferred revenue	307,857
Interim production financing	10,759,535
Long-term debt and obligations under capital leases	912,783
Future income tax liabilities	1,590,000
	16,608,736
	8,036,125

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

The purchase agreement includes a contingent payment, based on an earnout amount as described above, consisting of readily available funds and common shares. The purchase consideration and the allocation of the cost of the purchase does not include any amounts related to the earnout amount. The earnout amount is not determinable as the cash component and number of common shares that will be issued and the value attributed to these common shares will only be determined when the earnout amount conditions are met. When the contingency is resolved, any earnout amount due will be attributed to goodwill.

(d) On March 20, 2008 (“the 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 $625,000 on the Effective Date and transactions costs of $6,787;
- 99,333 common shares of the Company valued at $149,993; and
- Earnout amounts payable in cash and common shares of the Company with a maximum potential payout of $1,950,000 and are payable subject to Bulldog Interactive meeting certain financial targets.

(expressed in Canadian dollars)

3 Acquisitions and long-term investment (continued)

The acquisition was accounted for using the purchase method. As such, the results of operations reflect revenue and expenses of the assets of Bulldog Interactive from the 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	5,094
Amounts receivable	32,454
Prepaids and deposits	6,159
Property, plant and equipment	145,950
Intangible assets	431,000
Goodwill	388,325
Future income tax asset	100,000
	1,108,982
Less: liabilities assumed	
Accounts payable and accrued liabilities	168,570
Deferred revenue	85,469
Long-term debt	73,163
	327,202
	781,780

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

The purchase agreement includes a contingent payment, based on earnout amounts as described above, consisting of readily available funds and common shares. The purchase consideration and allocation of the cost of the purchase does not include any amounts related to the earnout amounts. The earnout amount is not determinable as the cash component and number of common shares that will be issued and the value attributed to these common shares will only be determined when the earnout amounts conditions are met. When the contingency is resolved, any earnout amounts due will be attributed to goodwill.

(expressed in Canadian dollars)

4 Amounts receivable

	September 30, 2008 $	**June 30, 2008 $**
Trade	21,571,443	17,988,259
Income taxes receivable	–	59,984
Goods and service taxes recoverable	1,163,996	1,048,043
Federal and provincial film tax credits and other government assistance	40,455,617	36,062,693
	63,191,056	55,158,979

5 Investment in film and television programs

	September 30, 2008 $	**June 30, 2008 $**
Development costs	2,089,627	1,757,410
Theatrical and non-theatrical productions in progress		
Cost, net of government and third party assistance and third party participation	27,070,685	30,792,880
Acquired participation rights – theatrical and non-theatrical		
Cost	5,720,455	5,720,455
Accumulated amortization	(2,349,467)	(2,208,891)
	3,370,988	3,511,564
Non-theatrical productions completed and released		
Cost, net of government and third party assistance and third party participation	93,387,333	79,641,671
Accumulated amortization and accumulated impairment in value of certain investment in film and television programs	(76,950,876)	(65,722,323)
	16,436,457	13,919,348
	48,967,757	49,981,202
Less: Current portion	(29,951,110)	(31,418,187)
	19,016,647	18,563,015

(expressed in Canadian dollars)

5 Investment in film and television programs (continued)

The Company expects that 42% of the costs related to non-theatrical and theatrical productions completed and released will be amortized during the year ending June 30, 2009. The Company expects that 78% of the costs related to non-theatrical productions completed and released will be amortized by June 30, 2011. The Company expects that over 86% of the costs related to productions completed will be amortized by June 30, 2013.

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, 2008, interest of $594,550 (three-months ended September 30, 2007 - $541,961) has been capitalized to investment in film and television.

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.

	For the three-month period ended September 30, 2008 $	For the three-month period ended September 30, 2007 $
The continuity of investment in production companies is as follows:		
Opening balance	1,235,167	1,210,362
Equity income	−	23,264
Net cash advances to (from) investees	149,163	(825,054)
	1,384,330	408,572

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

7 Bank indebtedness

As of September 30, 2008, bank indebtedness was $2,765,000 (June 30, 2008 - $2,670,000). The maximum amount of bank indebtedness for general working capital purposes under the RBC Revolving Credit Facility is $3,500,000 (note 8). A general security agreement over all property of the Company has been pledged as security. The availability of the bank indebtedness portion of the credit facility is subject to the Company maintaining interest and consolidated indebtedness coverage ratios and certain other covenants.

(expressed in Canadian dollars)

8 Interim production financing

	September 30, 2008 $	**June 30, 2008 $**
Revolving production credit facility (“RBC Revolving Credit Facility”), bearing interest at bank prime plus 0.5% - 2.00%. Assignment and direction of specific production financing and licensing contracts receivable, with a net book value of approximately $56,752,093 (June 30, 2008 - $65,485,982)	39,531,611	39,287,627
Interim production credit facilities with various institutions, bearing interest at bank prime plus 0.5%. Assignment and direction of specific production financing and licensing contracts receivable, with a net book value of approximately $13,094,456 (June 30, 2008 - $nil)	9,076,590	–
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 $5,399,795 (June 30, 2008 - $9,369,672)	4,834,106	8,202,120
	53,442,307	47,489,747

During the three-month period ended September 30, 2008, the bank prime rate averaged 4.75% (period ended September 30, 2007 – 6.23%).

On October 26, 2007, the Company closed the RBC Revolving Credit Facility with the Royal Bank of Canada (“Royal Bank”) with a maximum authorized amount of $70,000,000 including bank indebtedness (note 7) reviewable annually from the date of closing. Within the RBC Revolving Credit Facility is a revolving production credit facility with a maximum of $66,500,000 for interim production financing. Substantially all of the Company’s assets and certain of its subsidiaries have been pledged as security for borrowing under the RBC Revolving Credit Facility. The Company is in the process of negotiating an extension of the RBC Credit Facility.

(expressed in Canadian dollars)

9 Long-term debt and obligations under capital leases

	September 30, 2008 $	**June 30, 2008 $**
Loans payable, bearing interest at Business Development Bank of Canada prime plus 0.5%, maturing in April 2010 and May 2021, repayable in monthly principal instalments of $19,880 plus interest. A first mortgage on the land and building having a net book value of $4,834,536 (June 30, 2008 - $4,794,191) and a general assignment of rents	2,841,710	2,901,350
Loan payable, Royal Bank, repaid during the period	–	56,669
Demand loan payable, bearing interest at 11.5%, compounded annually and payable monthly	266,050	254,925
Loan payable, bearing interest at 6.25% per annum, maturing February 2012, repayable in monthly instalments of $334 including principal and interest	12,557	13,354
Loans payable, bearing interest at Business Development Bank of Canada floating base rate plus 3.30%, maturing September 2012, repayable in monthly principal instalments of $1,365 plus interest	49,140	53,235
Obligations under capital leases payable in monthly payments of $9,119, bearing interest at 8.4%, maturing in June 2010; and $2,549, bearing interest at 6.9%, maturing in May 2011	251,875	230,818
Obligations under capital lease, payable drawn to date (maximum of $1,200,000) with an initial payment of $240,710 in December 2008, followed by monthly lease payments of $20,710, bearing interest at 6.38%, maturing November 2012 (assumed $1,200,000 maximum)	601,790	–
	4,023,122	3,510,351
Less: Current portion	(1,055,248)	(695,904)
	2,967,874	2,814,447

(expressed in Canadian dollars)

9 Long-term debt and obligations under capital leases (continued)

The aggregate amount of principal repayments required for the remainder of fiscal year 2009 and in each of the next five years is as follows:

	$
Year ending June 30, 2009	917,176
2010	627,530
2011	285,732
2012	245,574
2013	238,560

A general security agreement covering all assets of a wholly-owned subsidiary (Studio B) along with guarantees and postponements of claims equalling $2,000,000, a second mortgage on the land and building occupied by Studio B and an assignment of rent have been pledged as security for the loans payable, Royal Bank.

10 Other long-term liabilities

	September 30, 2008 $	June 30, 2008 $
Other long-term liabilities include $1,100,000 (June 30, 2008 - $1,100,000) related to the acquisition of distribution rights and a $175,000 (June 30, 2008 - $175,000) amount related to a settlement in relation to a feature film	1,275,000	1,275,000
Less: Current portion	(1,275,000)	(1,275,000)
	–	–

The aggregate amount of payments required during the year ending June 30, 2009 is $1,275,000.

11 Share capital and contributed surplus

a) Authorized

100,000,000 Preferred variable voting shares, redeemable at the option of the Company at any time at a millionth of a cent per share, no entitlement to dividends, voting

10,000,000 Class A preferred shares, convertible to common shares at the option of the holder, redeemable at the option of the holder or the Company on or after June 16, 2010, at 1.5 times the issue price, voting

Unlimited common shares without nominal or par value

(expressed in Canadian dollars)

11 Share capital and contributed surplus (continued)

b) Issued and outstanding

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

	Number	For the three-month period ended September 30, 2008 Amount $	Number	For the three-month period ended September 30, 2007 Amount $
Preferred variable voting shares (note 11(c))	100,000,000	100	100,000,000	100
Common shares (note 11(d))				
Opening balance	42,715,785	55,487,244	32,801,452	40,778,665
Issued as consideration for acquisition of imX Communications	67,552	100,000	–	–
	42,783,337	55,587,244	32,801,452	40,778,665
Common share purchase loans receivable				
Opening balance	–	(431,418)	–	(444,803)
Interest received on notes	–	3,340	–	3,003
	–	(428,078)	–	(441,800)
Warrants (note 11(f))	5,661,163	2,069,908	435,125	217,280
Contributed surplus (note 11(g))				
Stock options				
Opening balance	2,436,547	2,617,334	1,921,547	1,495,819
Options issued during the period	75,000	500	510,000	670
Compensation expense on existing options	–	189,623	–	111,957
Options expired or cancelled	–	–	(100,000)	–
imX earnout	–	75,000	–	–
	2,511,547	2,882,457	2,331,547	1,608,446
		60,111,631		42,162,691

(expressed in Canadian dollars)

11 Share capital and contributed surplus (continued)

c) Preferred variable voting shares

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

d) Common shares

On November 13 and 14, 2007, the Company issued a combined 9,815,000 units ("Unit or Units") from the treasury at a price of C$1.80 per Unit for aggregate gross proceeds of C$17,667,000 (the "Offering"). Each Unit consists of one common share in the capital of the Company and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at a price of C$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 $149,993. The 99,333 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 $100,000. The 67,552 shares were issued to former shareholders of imX in connection with the purchase of imX.

e) Share purchase financing

During the three-month period ended September 30, 2008, the Company issued no amounts for share purchase financing (year ended June 30, 2008 - nil).

The Company accounts for share purchase financing as a reduction of share capital and the benefit of the financing has been estimated using the Black Scholes option pricing model and the following assumptions: risk-free interest rate - 4.25%; expected life two years; expected volatility 50%; and expected dividend yield 0%.

For the three-month period ended September 30, 2008, no compensation expense was recognized (year ended June 30, 2008 - nil). Interest of $3,340 (year ended June 30, 2008 – $13,385) received on these loans are being recorded as a capital contribution.

(expressed in Canadian dollars)

11 Share capital and contributed surplus (continued)

f) Warrants

During the three-month period ended September 30, 2008 nil warrants were granted and nil expired. During the year ended June 30, 2008, 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 expire on May 13 and 14, 2009.

	Number of warrants	Weighted average exercise price
Outstanding at June 30, 2007 and September 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 and September 30, 2008	5,661,163	2.06

The fair value of the broker issued 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:

	For the three-month period ended September 30, 2008 $	For the three-month period ended September 30, 2007 $
Risk-free interest rate	4.06%	4.25%
Expected option life	1.30 years	1 year
Expected volatility	59%	60%
Expected dividend yield	nil	nil

(expressed in Canadian dollars)

11 Share capital and contributed surplus (continued)

g) Stock options

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

	Number of options	Weighted average exercise price
Outstanding at June 30, 2007	1,921,547	2.20
Granted to employees and directors	510,000	1.62
Options cancelled	(100,000)	1.85
Outstanding at September 30, 2007	2,331,547	2.09
Granted to consultants	280,000	1.52
Options cancelled	(175,000)	2.35
Outstanding at June 30, 2008	2,436,547	2.02
Granted to an employee	75,000	0.93
Outstanding at September 30, 2008	2,511,547	1.98
Exercisable at June 30, 2008 and September 30, 2008	642,024	2.19

On September 26, 2007, 510,000 stock options were issued 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 three-month period ending September 30, 2008 and 100,000 stock options at $1.85 were cancelled and 175,000 options at $1.85 were cancelled during the remainder of the year ended June 30, 2008.

During the three-month period ended September 30, 2008, 75,000 stock options were issued at $0.93 per share, vesting over four years and expiring on September 26, 2013. No stock options expired or cancelled during this three-month period.

As at September 30, 2008, 887,724 options to purchase common shares were issued by the Company above the maximum number of options issuable by the Company of 1,623,823. No exercise of these 887,724 additional options shall occur until approval for their issuance and exercise is obtained from holders of common shares. As at September 30, 2008, 362,500 of the options issued, above the maximum number of options issuable, would have vested under all of the terms of the share option plan, however because they are conditional on shareholder approval they have not been included in the 642,024 options exercisable at September 30, 2008. The Company intends to seek the approval of holders of common shares to raise the maximum number of options issuable under the employee share option plan.

(expressed in Canadian dollars)

11 Share capital and contributed surplus (continued)

g) Stock options (continued)

The weighted average grant date value of stock options granted at September 30, 2008 has been estimated at $0.95 (year ended June 30, 2008 - $0.96) using the Black Scholes option pricing model. The following weighted average assumptions were used in the calculations:

	For the three-month period ended September 30, 2008 $	**For the three-month period ended September 30, 2007 $**
Risk-free interest rate	4.10%	4.08%
Expected option life	4 years	4 years
Expected volatility	62%	60%
Expected dividend yield	nil	nil

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

During the three-month period ended September 30, 2008, a total of $190,123 (three-month period ended September 30, 2007 - $112,627) was recognized as compensation expense.

h) Put options

Pursuant to a financing by 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. The put options are automatically exercised on January 15, 2010 (corrected, previously reported January 15, 2009), 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 (corrected, previously reported January 15, 2009) since a listing of the Company has occurred. However, as these 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, 2008, 425,420 (June 30, 2008 - 425,420) shares in Media Fund carried the put option described above.

(expressed in Canadian dollars)

12 Financial instruments

a) Fair value of financial instruments

Management believes that the carrying amounts reported on the financial statements for amounts receivable, accounts payable and accrued liabilities, interim production financing, bank indebtedness, other long-term liabilities and long-term debt all approximate their fair values due to their immediate or short-term maturities or variable interest rates.

b) Credit risk

Amounts receivable from the Canadian federal government and other government agencies in connection with production financing represents 68% of total amounts receivable at September 30, 2008 (June 30, 2008 - 70%). Certain of these amounts are subject to audit by the government agency. Management believes that these amounts are fully collectible. The balance of trade accounts receivable are mainly with Canadian broadcasters and large distribution companies. 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. However, based on management's historical collection experience and based on the fact that management believes no significant balances are outside the normal course of collection, no allowance has been set up.

The Company adjusts amounts receivable from Canadian federal government and other government agencies including federal and provincial tax credits receivables, in connection with production financing, quarterly for any known differences arising from internal or external audit of these balances. An allowance against Federal and Provincial tax credits receivable has been booked based on the Company history of collection of these receivables.

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 long-term debt bear interest at floating rates.

d) Liquidity risk

The Company manages liquidity by forecasting and monitoring operating cash flows and through the use of capital leases and maintaining revolving credit facilities (notes 7, 8 and 9).

e) Currency risk

The Company's activities involve holding foreign currencies and incurring production costs and earning revenues denominated in foreign currencies. These activities result in exposure to fluctuations in foreign currency exchange rates. At the statement date, the Company revalued its financial instruments denominated in a foreign currency at the prevailing exchange rates.

(expressed in Canadian dollars)

12 Financial instruments (continued)

f) Investment in Tribal Nova

Management is continuing to value its investment in Tribal Nova at cost as fair value cannot be measured reliably, it continues to be a private company and, as such, a quoted market price in an active market is not available. The Company does not expect to dispose of this investment in the near term.

g) Contractual maturity analysis for financial liabilities

	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
Bank indebtedness	2,765,000	2,765,000	–	–	–
Long-term debt	3,169,456	524,305	500,783	495,458	1,648,910
Other long-term liabilities	1,275,000	1,275,000	–	–	–
Capital lease obligations	853,666	530,943	322,723	–	–
Operating leases	6,849,845	983,597	2,455,456	1,015,517	2,395,275
	14,912,967	6,078,845	3,278,962	1,510,975	4,044,185

Payments noted above do not include interest.

13 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 will not pay out dividends during the year ended June 30, 2009.

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

	September 30, 2008 $	June 30, 2008 $
Total bank indebtedness, long-term debt and obligations under capital lease and other long-term liabilities	8,063,122	7,455,351
Less: Cash	(6,827,504)	(8,864,776)
Net debt	1,235,618	(1,409,425)
Total shareholders' equity	59,091,551	58,192,893
	60,327,169	56,783,468

(expressed in Canadian dollars)

13 Capital disclosures (continued)

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

The Company monitors capital using a number of financial ratios, specifically for the RBC Revolving Credit Facility (notes 7 and 8) (including but not limited to):

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

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

	Measure Targets	September 30, 2008	June 30, 2008
Coverage ratio	>4.0x	13.29x	10.64x
Net worth ratio	<3.0x	1.2x	1.3x

The Company has been in compliance with these ratios since inception of the RBC Revolving Credit Facility.

14 Earnings per common share

Earnings per common share are calculated as follows:

	For the three-month period ended September 30, 2008 $	For the three-month period ended September 30, 2007 $
Net income for the periods	530,195	374,452
Weighted average number of common shares:		
Basic	42,783,337	32,801,452
Fully diluted	42,783,337	35,972,911
Earnings per common share		
Basic	0.01	0.01
Fully diluted	0.01	0.01

The weighted average number of potentially dilutive instruments, comprised of shares issuable in respect of convertible warrants, stock options, and put options, at September 30, 2008 is $nil (September 30, 2007 – 2,699,455).

(expressed in Canadian dollars)

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

	For the three-month period ended September 30, 2008 $	For the three-month period ended September 30, 2007 $
Decrease (increase) in amounts receivable	(8,029,650)	(1,033,224)
Decrease (increase) in prepaid expenses and deposits	(346,137)	(530,001)
Decrease (increase) in restricted cash	450,345	(5,458)
Increase (decrease) in income taxes payable	(53,151)	–
Increase (decrease) in accounts payable and accrued liabilities	1,527,320	1,181,340
Increase in deferred revenue	(3,065,314)	(341,839)
	(9,516,587)	(729,182)
During the period, the Company paid and received the following:		
Interest paid	947,686	622,664
Interest received	72,239	155,897
Taxes paid	–	–

16 Revenues and segmented information

The Company operates production entities and offices in Canada and the United Kingdom. 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, 2008 $	For the three-month period ended September 30, 2007 $
Production revenue	14,108,017	8,776,502
Distribution revenue	1,455,051	1,413,337
Producer and service fee revenues	1,026,178	–
Other	403,591	472,863
	16,992,837	10,662,702

(expressed in Canadian dollars)

17 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. The Company at times during the initial broadcast of the rights is reliant on the broadcaster financing and budget cycle and at times the license period gets delayed and commences at a later date than originally projected or scheduled.

The Company's film and television revenues are generally highest in the third and fourth fiscal quarters, driven by contracted deliveries with the primary broadcasters. Distribution revenues are contract and demand driven and can fluctuate significantly from period-to-period.

18 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 $2,089,627 at September 30, 2008 (year ended June 30, 2007 - $1,757,410), are likely to result in productions. Development projects which, during the reporting period, have not been assessed as likely to proceed are written off.

b) Leases

Under IFRS total costs to expenses under operating leases must be disclosed. The Company incurred rent expense of $412,422 for the three-month period ended September 30, 2008 (three-month period ended September 30, 2007 - $100,647).

c) Financial instruments

Beginning on July 1, 2007, the Company adopted prospectively new financial instrument handbook sections and on July 1, 2008, the Company adopted the amended and replacement Financial Instrument sections (note 2(a)). Under both new sections of Canadian GAAP standards, assets held for trading are measured at fair market value, which is consistent with IFRS.

(expressed in Canadian dollars)

19 Subsequent event

On October 3, 2008, the Company issued 50,664 common shares in settlement of the imX earnout (note 3(a)).

20 Arrangement agreement

On September 28, 2008, the Company entered into an arrangement agreement with Entertainment One Ltd. (Entertainment One). Under the agreement, Entertainment One proposes to acquire the Company through a reverse takeover. The proposal provides, among other closing transactions, that Entertainment One shareholders will exchange their common shares in Entertainment One for new common shares of the Company on a one-for-one basis. Current shareholders of the Company will then exchange their common shares for either 0.9409 new common shares or 0.7057 new common shares and $0.3975 in cash. After the proposed closing transactions, the Company will own Entertainment One and former shareholders of Entertainment One will own between 79% and 83% of the Company. Completion of the proposed transaction is subject to, among other things, final due diligence, shareholder approval of both the Company and Entertainment One and regulatory approval.