DHX Media Ltd.

Consolidated Financial Statements
September 30, 2007 and 2006 (unaudited) and June 30, 2007
(expressed in Canadian dollars)

November 13, 2007

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 of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting, and is ultimately responsible for reviewing and approving the unaudited interim consolidated financial statements and MD&A. The Board carries out this responsibility through its Audit Committee. The Audit Committee reviews the Company's interim consolidated financial statements and recommends their approval by the Board of Directors.

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

The unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. When alternative methods of accounting exist, management has chosen those it deems most appropriate in the circumstances. The unaudited interim consolidated financial statements and information in the MD&A necessarily include amounts based on informed judgements and estimates of the expected effects of current events and transactions with appropriate consideration to materiality. In addition, in preparing the financial information management must make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information. The MD&A also includes information regarding the impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from our present assessment of this information because future events and circumstances may not occur as expected.

These unaudited interim financial statements have not been reviewed by the external auditors of the Company.

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

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

DHX Media Ltd.

Consolidated Balance Sheets

As at September 30, 2007 (unaudited) and June 30, 2007

(expressed in Canadian dollars)

	September 30, 2007 $	June 30, 2007 $
Assets		
Current assets		
Cash	**2,098,672**	3,433,924
Short-term investments	**1,940,700**	1,869,245
Amounts receivable (note 4)	**34,063,348**	33,030,124
Prepaid expenses and deposits	**901,500**	371,499
Current portion of investment in film and television programs (note 5)	**27,777,756**	30,502,718
	66,781,976	69,207,510
Investment in film and television programs (note 5)	**20,620,585**	16,522,625
Restricted cash	**480,834**	475,376
Investment in production companies (note 6)	**408,572**	1,210,362
Property, plant, and equipment	**5,814,315**	5,856,774
Intangible assets (note 7)	**2,416,885**	2,574,942
Goodwill	**7,157,541**	7,157,541
	103,680,708	103,005,130
Liabilities		
Current liabilities		
Bank indebtedness (note 8)	**500,000**	500,000
Accounts payable and accrued liabilities	**7,954,205**	7,132,866
Deferred revenue	**12,982,721**	13,324,560
Interim production financing (note 9)	**32,011,770**	33,119,013
Current portion of long-term debt (note 10)	**242,946**	256,104
Current portion of other long-term liabilities (note 11)	**840,000**	480,000
Note payable (note 12)	**400,000**	400,000
	54,931,642	55,212,543
Long-term debt (note 10)	**2,841,710**	2,901,350
Other long-term liabilities (note 11)	**961,295**	992,025
Future income taxes	**2,426,000**	1,873,000
Non-controlling interest	**568,378**	564,611
	61,729,025	61,543,529
Shareholders' Equity		
Share capital and contributed surplus (note 13)	**42,162,691**	42,047,061
Deficit	**(211,008)**	(585,460)
	41,951,683	41,461,601
	103,680,708	103,005,130

DHX Media Ltd.

Consolidated Statements of Income and Comprehensive Income and Deficit

For the periods ended September 30, 2007 and 2006

(Unaudited)

(expressed in Canadian dollars)

	For the three-month period ended September 30, 2007 $	For the three-month period ended September 30, 2006 $
Revenues	**10,662,702**	3,199,786
Direct production costs and amortization of film and television programs produced	**7,355,848**	2,120,522
	3,306,854	1,079,264
Operating expenses		
Amortization of acquired library	**89,130**	-
Selling, general, and administrative	**2,322,926**	1,601,898
	2,412,056	1,601,898
	894,798	(522,634)
Income from strategic investments	**19,500**	542,952
Income before the following	**914,298**	20,318
Amortization	**258,848**	270,592
Equity income (note 6)	**(23,264)**	-
Interest expense	**171,514**	20,942
Interest income	**(25,964)**	-
Gain, unrealized	**(71,455)**	-
Non-controlling interest	**5,167**	8,733
Income before income taxes	**599,452**	(279,949)
Provision for (recovery of) income taxes		
Large corporation taxes	**25,000**	20,000
Current income taxes	**(353,000)**	9,000
Future income taxes	**553,000**	(107,000)
	225,000	(78,000)
Net income (loss) and comprehensive income (loss) for the period	**374,452**	(201,949)
Deficit – Beginning of period	**(585,460)**	(1,786,215)
Deficit – End of period	**(211,008)**	(1,988,164)
Basic earnings (loss) per common share (note 14)	**0.01**	(0.01)
Fully diluted earnings (loss) per common share (note 14)	**0.01**	(0.01)

DHX Media Ltd.

Consolidated Statements of Cash Flows

For the periods ended September 30, 2007 and 2006

(Unaudited)

(expressed in Canadian dollars)

	For the three-month period ended September 30, 2007 $	For the three-month period ended September 30, 2006 $
Cash provided by (used in)		
Operating activities		
Net income (loss) for the period	**374,452**	(201,949)
Charges (credits) to income not involving cash		
Amortization of film and television programs	**7,304,822**	1,657,713
Amortization of acquired library	**89,130**	-
Amortization of property, plant, and equipment	**100,791**	112,535
Amortization of intangible assets	**158,057**	158,057
Gain, unrealized	**(71,455)**	-
Stock-based compensation	**112,627**	59,817
Interest on promissory notes	**3,003**	4,025
Interest	**89,270**	-
Equity income	**(23,264)**	-
Non-controlling interest	**5,167**	8,733
Future income tax expense (recovery)	**553,000**	(107,000)
	8,695,600	1,691,931
Investment in film and television programs	**(8,766,950)**	(11,987,064)
Net change in non-cash working capital balances related to operations (note 15)	**(729,182)**	2,435,127
	(800,532)	(7,860,006)
Financing activities		
Proceeds from issuance of common shares, net of issuance costs	**-**	(30,044)
Issuance costs adjusted on shares of a subsidiary	**(1,400)**	-
Proceeds from (repayment of) interim production financing	**(1,107,243)**	6,217,362
Proceeds from long-term debt	**-**	180,029
Repayment of long-term debt	**(72,798)**	(116,658)
Repayment of other long-term liabilities	**(120,000)**	-
	(1,301,441)	6,250,689
Investing activities		
Business acquisitions	**-**	(34,852)
Purchase of short-term investments	**-**	(201,548)
Acquisition of property, plant, and equipment	**(58,333)**	(141,139)
Net cash advances (to) from investees	**825,054**	(116,931)
	766,721	(494,470)
Net change in cash during the period	**(1,335,252)**	(2,103,787)
Cash – Beginning of period	**3,433,924**	6,111,391
Cash – End of period	**2,098,672**	4,007,604

(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) of the London Stock Exchange 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. On March 17, 2006, the Company changed its name from "The Halifax Film Company Limited" to "DHX Media Ltd." The address of the head office is 1478 Queen Street, Halifax, Nova Scotia, Canada, B3J 2H7.

Basis of presentation

The accompanying unaudited interim financial statements have been prepared in accordance with the requirements of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1751 "Interim Financial Statements". Accordingly, certain information and note disclosure normally included in annual financial statements prepared in accordance with Canadian generally accepted accounting principles have been omitted or condensed. In the opinion of management, these statements include all adjustments, consisting of normal accruals, considered necessary by management to present a fair statement of the results of operations, financial position and cash flows. Except as indicated in note 2, these unaudited interim financial statements were prepared using the same accounting principles as were used for the audited consolidated financial statements for the year ended June 30, 2007 and should be read in conjunction with the audited financial statements of the Company for the year ended June 30, 2007, as set out in the 2007 Audited Annual Financial Statements, available at www.sedar.com.

2 Changes in accounting policies

During the three-month period ended September 30, 2007, the Company adopted the following accounting standards:

a) Financial instruments

Effective July 1, 2007, the Company adopted the CICA Handbook Section 1530, "Comprehensive Income", 3251, "Equity", 3855, "Financial Instruments – Recognition and Measurement", 3861, "Financial Instruments – Disclosure and Presentation" and 3865, "Hedges". The Company adopted these standards prospectively and accordingly, comparative amounts for prior periods have not been restated.

Section 1530 "Comprehensive Income" introduces comprehensive income, which consists of net income and other comprehensive income ("OCI"). OCI temporarily presents certain unrealized gains and losses resulting from changes in fair value of certain financial instruments outside of net income.

(expressed in Canadian dollars)

2 Change in accounting policies (continued)

a) Financial instruments (continued)

Section 3251 "Equity" describes the changes in reporting and disclosing equity and changes in equity as a result of the new requirements of Section 1530.

Sections 3855 and 3861 "Financial Instruments – Recognition and Measurement" and "Financial Instruments – Disclosure and Presentation" respectively, prescribe when a financial instrument is to be recognized and derecognized from the balance sheet and at what amount these financial instruments should be recognized. It also specifies how financial instrument gains and losses are accounted for. All financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions

The Company has adopted the following classification for financial assets and financial liabilities:

- Cash, restricted cash and short-term investments are classified as held-for-trading. Changes in fair value for the period are recorded in net earnings.
- Bank indebtedness, interim production financing, accounts payable and accrued liabilities, long-term debt, other long-term liabilities and notes payable are classified as other financial liabilities.
- Accounts receivable are classified as loans and receivables.

The new standards require all derivative financial instruments to be measured at fair value on the consolidated balance sheet, even when they are part of an effective hedging relationship. An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. If certain conditions are met, an embedded derivative is separated from the host contract and accounted for as a derivative in the consolidated balance sheet, and measured at fair value. Upon adoption, entities have the option to recognize as an asset or liability all embedded derivative instruments that are required to be separated from their host contracts or to select the beginning of a fiscal year ending no later than March 31, 2004 as its transition date for embedded derivatives. The Company has selected February 12, 2004, the date of incorporation, as its transition date for embedded derivatives. The Company does not have any material outstanding contracts or financial instruments with embedded derivatives that require bifurcation.

Section 3865 "Hedges" provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline 13 "Hedging Relationships", and the hedging guidance in Section 1650 "Foreign Currency Translation" by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. As at September 30, 2007, the Company had no significant hedging contracts outstanding.

(expressed in Canadian dollars)

2 Change in accounting policies (continued)

b) Variability in variable interest entities ("VIEs")

In September 2006, the Emerging issues Committee of the CICA issued EIC 163, "Determining the Variability to be Considered in Applying AcG-15". EIC 163 provides additional clarification on how to analyze and consolidate VIEs. Effective July 1, 2007, the Company adopted EIC 163 on a prospective basis. The adoption of this standard did not have an impact on the Company's consolidated financial statements.

3 Acquisitions

During the fiscal year ended June 30, 2007, the following acquisitions occurred:

(a) On February 8, 2007 (the "Effective Date"), the Company acquired all of the issued and outstanding shares of Mighty Jungle Productions Inc. and Mighty Jungle 2 Productions Inc., both television production companies, for cash consideration of $150,000.

The acquisition has been accounted for using the purchase method and the results of operations are included in the consolidated statement of operations from the Effective Date.

The following table summarizes the estimated fair value of the net assets acquired as of the Effective Date:

	$
Assets acquired	
Investment in film and television programs	495,496
	495,496
Less: liabilities assumed	
Bank indebtedness	4,073
Accounts payable and accrued liabilities	12,370
Interim production financing	159,851
Deferred revenue	169,202
	345,496
	150,000

(b) On July 1, 2006 (the "Effective Date"), the Company completed a business acquisition and acquired all of the issued and outstanding shares of Electropolis Studios Incorporated, for cash consideration of $31,852.

The acquisition has been accounted for using the purchase method and the results of operations are included in the consolidated statement of operations from the Effective Date.

(expressed in Canadian dollars)

3 Acquisitions (continued)

The following table summarizes the estimated fair value of the net assets acquired as of the Effective Date:

	$
Assets acquired	
Amounts receivable	45,041
Prepaid expenses and deposits	14,787
Future tax asset	48,000
Goodwill	15,513
	123,341
Less: liabilities assumed	
Accounts payable and accrued liabilities	21,313
Long-term debt	70,176
	91,489
	31,852

(c) On December 22, 2006, the Company completed the acquisition of the license for the worldwide distribution rights to 520 half-hours of television programming ("Distribution Rights") for $2,200,000. As of September 30, 2007, the Company has paid cash of $620,000 and is scheduled to pay the remainder through nine quarterly payments of $120,000 ending March 31, 2009 and one lump sum payment of $500,000 due March 31, 2009. The fair value of the purchase price of the distribution rights of $2,076,961 has been included in investment in film and television programs (note 5) under the category Acquired Participation Rights.

4 Amounts receivable

	September 30, 2007 $	**June 30, 2007** $
Trade	**12,145,364**	9,981,200
Income taxes receivable	**492,379**	156,694
Goods and services taxes recoverable	**828,354**	490,607
Federal and provincial film tax credits and other government assistance	**20,597,251**	22,401,623
	34,063,348	33,030,124

(expressed in Canadian dollars)

5 Investment in film and television programs

	September 30, 2007 $	June 30, 2007 $
Development costs	**1,386,278**	1,193,506
Theatrical and non-theatrical productions in progress		
Cost, net of government and third party assistance and third party participation	**26,992,103**	32,732,961
Acquired participation rights – theatrical and non-theatrical		
Cost	**5,701,667**	5,701,330
Accumulated amortization	**(1,373,937)**	(1,343,106)
	4,327,730	4,358,224
Non-theatrical productions completed and released		
Cost, net of government and third party assistance and third party participation	**46,310,969**	36,591,439
Accumulated amortization	**(30,618,739)**	(27,850,787)
	15,692,230	8,740,652
	48,398,341	47,025,343
Less: Current portion	**(27,777,756)**	(30,502,718)
	20,620,585	16,522,625

The Company expects that 37% of the costs related to non-theatrical and theatrical productions completed and released will be amortized during the year ending June 30, 2008. The Company expects that 78% of the costs related to non-theatrical productions completed and released will be amortized during the three-year period ending June 30, 2010. The Company expects that over 83% of the costs related to productions completed will be amortized by June 30, 2012.

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, 2007, interest of $541,961 (year ended June 30, 2007 - $1,689,321) has been capitalized to investment in film and television.

(expressed in Canadian dollars)

6 Investment in production companies

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

	September 30, 2007 $	June 30, 2007 $
The continuity of investment in production companies is as follows:		
Opening balance	**1,210,362**	61,939
Equity income	**23,264**	360,513
Net cash advances to (from) investees	**(825,054)**	787,910
	408,572	1,210,362

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

7 Intangible assets

Intangible assets are as follows:

	September 30, 2007 $	June 30, 2007 $
Production backlog	**150,000**	150,000
Broadcaster relationships	**1,910,000**	1,910,000
Customer/distribution relationships	**545,500**	545,500
Non-compete contracts and brand	**674,000**	674,000
	3,279,500	3,279,500
Less: accumulated amortization	**(862,615)**	(704,558)
	2,416,885	2,574,942

8 Bank indebtedness

As of September 30, 2007, bank indebtedness is $500,000 (June 2007 - $500,000). A general security agreement over all property of the Company has been pledged as security.

(expressed in Canadian dollars)

9 Interim production financing

	September 30, 2007 $	June 30, 2007 $
Revolving demand bank loans, bearing interest at bank prime plus 0.75% - 2.00%. Assignment and direction of specific production financing and licensing contracts receivable, with a net book value of approximately $50,888,909 (year ended June 30, 2007 - $57,627,594), a $1,500,000 guaranteed investment certificate and general security agreements have been pledged as security	**32,011,770**	33,119,013

During the three-month period ended September 30, 2007, the bank prime rate averaged 6.22% (year ended June 30, 2007 - 6.00%).

On October 26, 2007, the Company closed a revolving credit facility with the Royal Bank of Canada ("Royal Bank") with a maximum authorized amount of $70,000,000 reviewable annually from the date of closing. The breakdown for the Royal Bank facility is $66,500,000 for revolving interim production financing and $3,500,000 for general business purposes. Advances under the revolving credit facility bear interest at either the Royal Bank prime rate plus 75 basis points, Royal Bank's US base rate plus 75 basis points or Banker's Acceptance rate or LIBOR plus 225 basis points. Substantially all of the Company's assets and certain of its subsidiaries have been pledged as security for borrowing under the revolving credit facility. The availability of the revolving credit facility is subject to the Company maintaining interest and consolidated indebtedness coverage ratios and certain other covenants.

(expressed in Canadian dollars)

10 Long-term debt

	September 30, 2007 $	June 30, 2007 $
Loans payable, bearing interest at Business Development Bank of Canada prime plus 0.5%, maturing in May 2021, repayable in monthly principal installments of $19,880 plus interest. A first mortgage on land and building having a net book value of $4,916,454 and a general assignment of rents.	**3,080,270**	3,139,910
Loan payable, repayable in monthly principal installments of $4,386, non-interest bearing, maturing October 2007.	**4,386**	17,544
	3,084,656	3,157,454
Less: Current portion	**(242,946)**	(256,104)
	2,841,710	2,901,350

The aggregate amount of principal repayments required for the remainder of fiscal year 2008 and in each of the next four years is as follows:

	$
Year ending June 30, 2008	242,946
2009	238,560
2010	238,560
2011	238,560
2012	238,560

11 Other long-term liabilities

	September 30, 2007 $	June 30, 2007 $
Other long-term liabilities include $1,551,295 related to the acquisition of Distribution Rights as described in note 3 (c) (with a face value of $1,580,000) and a $250,000 amount related to a settlement in relation to a feature film.	**1,801,295**	1,472,025
Less: Current portion	**(840,000)**	(480,000)
	961,295	992,025

(expressed in Canadian dollars)

11 Other long-term liabilities (continued)

The aggregate amount of payments required during the year ending June 30, 2008 and 2009 are $720,000 and $860,000 respectively. The difference between the fair value and the total face value will all be accreted to interest expense, amounting to $28,705 by the year ended June 30, 2009. Interest accreted during the three-month period ended September 30, 2007 was $89,270 (Year ended June 30, 2007-$19,817)

12 Note payable

As of September 30, 2007, the Company had a $400,000 (June 30, 2007-$400,000) promissory note due December 31, 2007 bearing interest at 10% as consideration for the acquisition of Decode.

13 Share capital and contributed surplus

a) Authorized

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

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)

13 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	September 30, 2007 Amount $	Number	June 30, 2007 Amount $
Preferred variable voting shares (note 13 (c))				
Opening balance	**100,000,000**	**100**	100,000,000	100
Issued for cash	**-**	**-**	-	-
	100,000,000	**100**	100,000,000	100
Common shares (note 13 (d))				
Opening balance	**32,801,452**	**40,778,665**	32,576,452	40,499,600
Share issuance costs, net of tax effect	**-**	**-**	-	(38,185)
Issued as consideration for acquisition of Decode	**-**	**-**	225,000	317,250
	32,801,452	**40,778,665**	32,801,452	40,778,665
Common share purchase loans receivable				
Opening balance	**-**	**(444,803)**	-	(460,134)
Interest received on notes	**-**	**3,003**	-	15,331
	-	**(441,800)**	-	(444,803)
Warrants (note 13 (f))				
Opening balance	**435,125**	**217,280**	1,213,859	1,131,888
Expiration of warrants	**-**	**-**	(778,734)	(914,608)
	435,125	**217,280**	435,125	217,280
Contributed surplus (note 13 (g))				
Stock options				
Opening balance	**1,921,547**	**1,495,819**	1,021,547	210,879
Compensation expense on options issued during the period	**395,000**	**670**	1,175,000	79,461
Compensation expense on existing options	**-**	**111,957**	-	290,871
Options expired or cancelled	**(100,000)**	**-**	(275,000)	-
Warrants expired	**-**	**-**	-	914,608
	2,216,547	**1,608,446**	1,921,547	1,495,819
		42,162,691		42,047,061

(expressed in Canadian dollars)

13 Share capital and contributed surplus (continued)

c) Preferred variable voting shares

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

d) Common shares

On May 19, 2006, in connection with the initial public offering (“IPO”) of the Company, the Company issued 8,702,500 common shares for total proceeds of $20,450,875 less offering costs of $3,483,023 net of tax. Immediately prior to the closing of the aforementioned IPO, the Company completed the acquisition of all outstanding shares of Decode Entertainment Inc. (“Decode”).

On December 18, 2006, the Company issued 225,000 common shares at $1.41 per share for the gross amount of $317,250. The 225,000 common shares were issued to two directors and a former shareholder of Decode as partial payment for a note payable owing to them in connection with the purchase of their interest in Decode.

e) Share purchase financing

During the three-month period ended September 30, 2007, the Company issued no amounts for share purchase financing (year ended June 30, 2007 - 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, 2007, no compensation expense was recognized (year ended June 30, 2007 - nil). Interest of $3,003 (year ended June 30, 2007 – $15,331) received on these loans are being recorded as a capital contribution.

(expressed in Canadian dollars)

13 Share capital and contributed surplus (continued)

f) Warrants

During the three-month period ended September 30, 2007 no warrants were granted nor expired.

	Number of warrants	Weighted average exercise price
Outstanding at June 30, 2006	1,213,859	2.19
Warrants expired	(778,734)	2.10
Outstanding at June 30, 2007 and September 30, 2007	**435,125**	**2.35**

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:

	2006
Risk-free interest rate	4.25%
Expected option life	1 year
Expected volatility	50%
Expected dividend yield	nil

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(expressed in Canadian dollars)

13 Share capital and contributed surplus (continued)

g) Stock options

At September 30, 2007 and June 30, 2007, the Company had the following stock options outstanding:

	Number of options	Weighted average exercise price
Outstanding at June 30, 2006	1,021,547	2.14
Granted to employees	1,175,000	2.17
Options expired	(275,000)	1.85
Outstanding at June 30, 2007	**1,921,547**	**2.20**
Granted to directors and officers	395,000	1.62
Options cancelled	(100,000)	1.58
Outstanding at September 30, 2007	**2,216,547**	**2.16**
Exercisable at June 30, 2007 and September 30, 2007	**186,630**	**2.25**

On March 22, 2006, the Board of Directors approved an employee share option plan which provides for the issuance of 1,623,823 common shares, or 5% of the number of common shares issued and outstanding on May 19, 2006, immediately following the Company's initial public offering. On the same date, the Company issued options under this plan to purchase 746,547 shares at $2.25 per share, vesting at various times over four years and expiring on March 22, 2011.

During the fiscal year ended June 30, 2007, 275,000 stock options issued at $1.85 per share expired and 900,000 were issued at $2.35 per share, vesting at various times over four years and expiring on October 3, 2011. On May 14, 2007, 275,000 stock options were issued at $1.58 per share, vesting at various times over four years and expiring on May 14, 2012.

During the three-month period ended September 30, 2007, 395,000 stock options were issued at $1.62 per share, vesting over four years and expiring on September 26, 2012. No stock options expired during this three-month period and 100,000 stock options at $1.85 per share were cancelled.

As at September 30, 2007, 592,724 options to purchase common shares were issued by the Company above the maximum number of options issuable by the Company. No exercise of these 592,724 additional options shall occur until approval for their issuance and exercise is obtained from holders of common

(expressed in Canadian dollars)

13 Share capital and contributed surplus (continued)

g) Stock options (continued)

shares. 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.

The weighted average grant date value of stock options granted at September 30, 2007 has been estimated at $0.97 (year ended June 30, 2007 - $0.95) using the Black Scholes option pricing model. The following weighted average assumptions were used in the calculations:

	September 30, 2007	**June 30, 2007**
Risk-free interest rate	4.08%	4.06%
Expected option life	4 years	4 years
Expected volatility	60%	59%
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, 2007, a total of $112,627 (three-month period ended September 30, 2006 - $59,817) 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, 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, 2009 since a listing of the Company has occurred. However, as these common shares of Media Fund are residual equity in Media Fund, these shares have been presented as non-controlling interest.

The put option was issued for no consideration. At September 30, 2007, 425,420 (June 30, 2006 - 425,420) shares in Media Fund carried the put option described above.

(expressed in Canadian dollars)

14 Earnings (loss) per common share

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

	For the three-month period ended September 30, 2007	**For the three-month period ended September 30, 2006**
	$	**$**
Net income (loss) for the period	374,452	(201,949)
Weighted average number of common shares :		
Basic	32,801,452	32,576,452
Fully diluted	35,500,907	35,237,278
Earnings (loss) 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, 2007 is 2,699,455. (September 30, 2006 - 2,660,826). For the three-month period ended September 30, 2006, the effect of convertible warrants, stock options and put options has been excluded from the calculations because they are anti-dilutive as a result of the net loss.

(expressed in Canadian dollars)

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

	For the three-month period ended September 30, 2007	For the three-month period ended September 30, 2006
	$	$
Decrease (increase) in amounts receivable	(1,033,224)	2,942,704
Increase in prepaid expenses and deposits	(530,001)	(153,897)
Increase in restricted cash	(5,458)	(56,095)
Increase (decrease) in accounts payable and accrued liabilities	1,181,340	(3,067,445)
Increase in income taxes payable	-	108,383
Increase (decrease) in deferred revenue	(341,839)	2,661,477
	(729,182)	2,435,127
During the period, the Company paid and received the following:		
Interest paid	622,664	378,546
Interest received	155,897	-

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, 2007	For the three-month period ended September 30, 2006
	$	$
Production revenue	8,776,502	1,166,168
Distribution revenue	(0)	1,270,948
Producer and service fee revenues	-	321,601
Other	472,862	441,069
	9,249,364	3,199,786

(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 $1,386,278 at September 30, 2007 (year ended June 30, 2007 - $1,193,506) 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 charged to expenses under operating leases must be disclosed. The Company incurred rent expense of $100,647 for the three-month period ended September 30, 2007 (three-month period ended September 30, 2006 - $180,251).

c) Financial instruments

For the three-month period ended September 30, 2007 the Company adopted prospectively new financial instrument handbook sections (note 2 (a)). Under the new Canadian GAAP standards, assets held for trading are measured at fair market value, which is consistent with IFRS.

For the year ended June 30, 2007 under IFRS financial assets held for trading were measured at fair market value, whereas under Canadian GAAP these assets were recorded at the lower of cost or market value. Under IFRS any unrealized gains or losses related to the revaluation of financial assets held for trade were recorded in income for the period.

(expressed in Canadian dollars)

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

c) Financial instruments (continued)

For the year ended June 30, 2007, the Company classified its short-term investments as held for trading. Under IFRS the following adjustments to the financials would have to have been made:

	June 30, 2007 $
Short-term investments under Canadian GAAP	1,869,245
Unrealized gain	79,255
Short-term investments under IFRS	1,948,500
Future income taxes under Canadian GAAP	1,873,000
Add: Taxation impact of the unrealized gain	15,106
Future income taxes under IFRS	1,888,106
Shareholders' equity under Canadian GAAP	41,461,601
Add: Unrealized gain	79,255
Less: Income tax effect	(15,106)
Shareholders' equity under IFRS	41,525,750
Net income (loss) for the year under Canadian GAAP	1,200,755
Add: Unrealized gain	79,255
Less: Income tax effect	(15,106)
Net income (loss) for the year under IFRS	1,264,904
Basic earnings (loss) per common share under IFRS	0.04
Fully diluted earnings (loss) per common share under IFRS	0.04

(expressed in Canadian dollars)

19 Subsequent events

(a) On November 13, 2007, the Company completed an offering with a syndicate of underwriters led by GMP Securities L.P. and including Canaccord Capital Corporation, TD Securities Inc. and Paradigm Capital Inc. (collectively "the Underwriters") to purchase on a bought deal basis 9,700,000 units ("Units") from the Corporation at a price of C$1.80 per Unit for aggregate gross proceeds of C$17,460,000 (the "Offering"). Each Unit consists of one common share in the capital of the Corporation and one-half of one common share purchase warrant. Each whole warrant entitles the holder thereof to purchase one common share of the Corporation until the date that is 36 months after the closing date at a price of C$2.10 per common share.

On November 14, 2007, the Underwriters partially exercised their over-allotment option granted under the Offering, pursuant to which the Company on the same date issued 115,000 common shares and 72,750 common share purchase warrants for gross proceeds of $212,368.

(b) The Company entered into a 50-month lease for a new production facility in Halifax, Nova Scotia, replacing the Company's lease at 5091 Terminal Road in Halifax Nova Scotia, which terminates on November 26, 2007. The Company assumed possession of its new facility on October 31, 2007.

(c) Pursuant to a term sheet dated effective October 30, 2007, the Company paid $100,000 to obtain the option to acquire, for $2 million in cash, a 16.77% equity interest in a Canadian private company that specializes in the production of interactive games for children 3 to 12 years of age and produces a number of games featuring television characters well known to children.