DHX MEDIA LTD.

Fiscal 2007

Annual Report

Management Discussion and Analysis
of Financial Condition and Results of Operations
For the Years Ended June 30, 2007 and June 30, 2006

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Annual Report
June 30, 2007

MANAGEMENT DISCUSSION AND ANALYSIS

*The following Management Discussion & Analysis ("**MD&A**") prepared as of September 26, 2007, should be read in conjunction with the DHX Media Ltd.'s* (the "**Company**" or "**DHX**") *audited consolidated financial statements and accompanying notes for the years ended June 30, 2007 and 2006. The audited consolidated financial statements and accompanying notes for the years ended June 30, 2007 and 2006 have been prepared in accordance with Canadian generally accepted accounting principles.*

*The audited consolidated financial statements and accompanying notes for the year ended June 30, 2007 include a full year of operations of Decode Entertainment Inc. ("**Decode**") post acquisition (see "Acquisitions" section of this MD&A for further details on the Decode acquisition).*

DHX is a public company incorporated under the Canadian Business Corporations Act and its shares were listed on the TSX and AIM Exchanges on May 19, 2006 (symbol DHX). Additional information relating to the Company can be found on its website at www.dhxmedia.com or on SEDAR at www.sedar.com.

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles. Figures in this MD&A are shown as millions (for example, $100,000 is shown as $0.100 million) and are approximate and have been rounded to the nearest thousand.

This MD&A contains certain forward-looking statements, which reflect DHX management's ("**Management**") expectations regarding the Company's growth, results of operations, performance, and business prospects and opportunities.

Statements about the Company's future plans and intentions, results, levels of activity, performance, goals or achievements or other future events constitute forward-looking statements. Wherever possible, words such as "may," "will," "should," "could," "expect," "plan," "intend," "anticipate," "believe," "estimate," "predict," or "potential" or the negative or other variations of these words, or other similar words or phrases, have been used to identify these forward-looking statements. These statements reflect Management's current beliefs and are based on information currently available to Management.

Forward-looking statements involve significant risk, uncertainties and assumptions. Many factors could cause actual results, performance or achievements to differ materially from the results discussed or implied in the forward-looking statements. These factors should be considered carefully and readers should not place undue reliance on the forward-looking statements. Although the forward-looking statements contained in this MD&A are based on what Management believes to be reasonable assumptions, the Company cannot assure readers that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this MD&A, and the Company assumes no obligation to update or revise them to reflect new events or circumstances. Many factors could cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including: general economic and market segment conditions, competitor activity, product capability and acceptance, international risk and currency exchange rates, and technology changes. An assessment of the risks that could cause actual results to materially differ from current expectations is contained in the "Risk Assessment" section of this MD&A. For a more detailed assessment of the risks that could cause actual results to materially differ from current expectations, see the "Risk Assessment" section of this MD&A.

The foregoing is not an exhaustive list and other risks are detailed from time to time in other continuous disclosure filings of the Company. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated or expected.

Business of the Company

DHX is a leading independent supplier and distributor of television and film productions. The Company is the result of the combination of The Halifax Film Company Limited ("**Halifax Film**") and Decode Entertainment Inc. ("**Decode**") during Fiscal 2006.

The Company produces, distributes and exploits the rights for television and film programming. DHX's primary focus is on children's and youth productions because of the international sales potential and longer-term and multiple revenue streams that this genre of programming provides. Children's programming travels across cultures more easily than other genres and can therefore be sold into numerous markets, typically has a longer lifespan than other genres, and can be leveraged for merchandising and licensing revenues.

DHX's content library includes over 1,750 half-hours of programming and over 45 individual titles produced over the last ten years. The Company has twelve children's series currently in first window broadcast on multiple major cable and broadcast networks in North America and internationally, including, *Bo on the Go!*, *Franny's Feet, The Save-Ums* and *Naturally Sadie*. The Company's prime-time production slate also includes notable achievements in the comedy genre, including the award-winning Canadian prime-time comedy series *This Hour Has 22 Minutes,* which is produced for the CBC and is now heading into its 15th season in the fall of 2007. The Company operates from its offices and production facilities in Halifax and Toronto, producing content for distribution in domestic and international markets which is marketed via its Toronto and London, UK-based sales group.

Revenue Model

The Company historically earns revenues primarily from four categories: production and then distribution of its proprietary productions, producer and service fees from production services for third parties and equity investments, and other revenues which includes rental of studios and office facilities, music and royalty revenue, and new media revenue. The Company is able to generate revenue from productions by licensing its initial broadcast rights and pre-licensing of territories for its programs. Production revenues include the initial broadcast license revenues and any pre-sales or distribution advances included in the initial financing of the production of a film and television program. Once a production is completed and delivered, the program is included in the Company's library of film and television programming. Further revenue from exploitation of the program is included in distribution revenue. The Company also generates revenue from production services for third parties and equity investments. These service and corporate overhead fees are earned for producing productions whose copyright is owned by third parties.

Production Revenue

The Company derives production revenues from the grant of initial broadcast rights for the initial showing of commissioned productions and pre-licensing of territories. These fees are typically earned partially upon commissioning of a production, during production, and finally once a completed production is delivered for broadcast and at some point in time after delivery as a holdback (See "Critical Accounting Policies and Estimates" section of this MD&A for details on revenue recognition).

Distribution Revenue

The Company is able to retain the ownership rights to its proprietary production, which permits the Company to generate further revenues from the distribution of the Company's productions. In addition to generating revenues from the sale of initial broadcast rights, the Company is able to concurrently generate revenues from the sale of broadcast rights in other jurisdictions and on other platforms (such as DVD and video) for specified periods of time.

Producer and Service Fee Revenue

These service and corporate overhead fees are earned for producing productions whose copyright is owned by third parties.

Other Revenue

Other revenue includes rental of studios and office facilities, music and royalty (including merchandising and licensing (**"M&L"**)), and new media revenue.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The summary consolidated financial information set out below for the years ended June 30, 2007, 2006, and 2005 has been derived from the Company's audited consolidated financial statements and accompanying notes for the years ended June 30, 2007, 2006, and 2005 and can be found at www.sedar.com. **The financial information for the year ended June 30, 2007 in the table includes a full year's activity of the Company's Halifax Film division and Decode division, however the comparative period for the year ended June 30, 2006 includes the activity of the Company's Halifax Film division and only 43 days of activity from May 19, 2006 to June 30, 2006 for the Decode division (See "Acquisitions" section of this MD&A for further details on the Decode acquisition). The financial information for the year ended June 30, 2005 includes information prior to the acquisition of Decode. Each reader should read the following information in conjunction with those statements and the related notes.**

	Year Ended June 30,		
	2007	**2006**	**2005**
	$	**$**	**$**
Consolidated Statements of Operations Data:			
Revenue……………………………………………………………	**25,970,619**	15,748,409	20,890,177
Direct production costs and amortization of film and television programs…………………………..…………………………	**16,237,033**	12,928,759	19,885,888
Gross margin…………………………..……………………….	**9,733,586**	2,819,650	1,004,289
Selling, general and administrative……………………………..…	**7,340,714**	2,627,177	1,197,861
Income from strategic investments……………………………….	**1,736,761**	187,230	-
Income (loss) before the following ………………….…………..	**3,118,501**	178,388	(244,573)
Interest and other (expenses), net…….……………………….	**(1,327,746)**	(1,167,278)	3,789
Provison for (recovery of) income taxes…………………………	**590,000**	(74,000)	69,000
Net income (loss)……………………..………………………….	**1,200,755**	(914,890)	(309,784)
Basic earnings (loss) per common share………………………….	**0.04**	(0.06)	(0.02)
Fully diluted earnings (loss) per common share………………….	**0.03**	(0.06)	(0.02)
Weighted average common shares outstanding			
Basic……………………………………………………..	**32,698,508**	15,076,332	12,776,671
Fully Diluted……………………………………………….	**35,732,836**	16,452,346	13,044,595
Consolidated Balance Sheet Data:			
Cash, restricted cash and short-term investments………………..	**5,778,545**	9,572,729	7,588,928
Investment in film and television programs………..…………….	**47,025,343**	21,249,652	6,096,484
Total assets…………………………………………………….	**103,005,130**	77,798,440	26,138,994
Total debts……………………………………………………..	**61,543,529**	38,202,322	19,660,432
Shareholder equity……………………………………………...	**41,461,601**	39,596,118	6,478,562

Year Ended June 30, 2007 (“Fiscal 2007” or “2007”) Compared to Year Ended June 30, 2006 (“Fiscal 2006” or “2006”)

Revenues

Revenues for Fiscal 2007 were $25.971 million, an increase of $10.223 million or 65% over $15.748 million for Fiscal 2006, reflecting increases in the Company’s production, distribution, music royalties, and new media revenues related both to general growth in these areas and the integration of Decode during Fiscal 2007. Management expects this integration to continue into the next fiscal year and to result in further synergies and revenue growth for Fiscal 2008.

Proprietary production revenues for Fiscal 2007 of $13.452 million were down slightly, approximately 1%, over the $13.504 million for Fiscal 2006. The decline included a decrease due to no delivery of feature films for Fiscal 2007 versus $6.295 million for Fiscal 2006. All $13.452 million (2006-$7.209 million) represents an 87% increase of proprietary production revenue related to television production, which remains the Company’s core focus. For the Halifax Film division the amount was $7.669 million, an increase of 6% over $7.209 million for 2006. For the Decode division the amount was $5.783 million for Fiscal 2007 versus no amount in the last 43 days of Fiscal 2006.

For Fiscal 2007 the Company delivered $13.452 million-126 half-hours of proprietary television programs where the license periods have commenced, a 77% increase in half-hours delivered over Fiscal 2006. The breakdown for consolidated entities for Fiscal 2007 totalling $12.907 million was: $0.260 million-26 half-hours of *Naturally Sadie* Season II to SRC in Canada, $1.315 million-13 half-hours of *Naturally Sadie* Season III to The Family Channel of which, 8 of the 13 were also delivered to SRC in Canada respectively, $1.634 million-9 half-hours of *Chop Socky Chooks* Season I, $0.981 million-11 half-hours of *Urban Vermin* Season I, $1.593 million-5 half-hours of *Super Why* Season I, $0.372 million-1 half-hour for the pilot of *The Truth About*, $0.655 million-8 half-hours of *POKO* Season III, $4.502 million-21 half-hours of *This Hour Has 22 Minutes* Season XIV, and $1.595 million-20 half-hours of *Bo on the Go!* Season I. The breakdown for revenue earned for Fiscal 2007 from non-consolidated entities accounted for using the equity method totalling $0.545 million was $0.098 million and $0.447 million-12 half-hours in fees and overhead plus an additional $0.347 million and $0.014 million as equity pickups for *Lunar Jim* Seasons I and II respectively. For Fiscal 2006 the breakdown for consolidated entities totalling $12.966 million-51 half-hours was: $3.507 million-18 half-hours of *This Hour Has 22 Minutes* Season XIII, $1.397 million-14 half-hours of *POKO* Season II, $1.358 million-6 half-hours of *North South* Season I, $0.409 million-5 half-hours of *POKO* Season III, $3.887 million-4 half-hours of *It’s a Boy Girl Thing*, and $2.408 million-4 half-hours of *Intervention (a.k.a. Funny Farm)*. The breakdown for revenue earned for Fiscal 2006 from non-consolidated entities accounted for using the equity method was $0.538 million-20 half-hours in fees and overhead and $0.294 as an equity loss for *Lunar Jim* Season I.

In Fiscal 2007, in addition, the Company delivered $3.440 million-42 half-hours recorded in deferred revenue of proprietary television programs. The license periods had not yet commenced by June 30, 2007, and therefore the revenue recognition criteria have not been met to recognize in Fiscal 2007. The additional proprietary television programs were: $0.584 million-7 half-hours of *Delilah & Julius* Season II, $1.235 million-13 half-hours of *The Latest Buzz* Season I, $0.230 million-2 half-hours of *The Latest Buzz* Season II, $1.216 million-13 half-hours of *Planet Sketch* Season II, and $0.175 million-7 half-hours of *Super Why* (CBC). These license periods are scheduled to commence throughout Fiscal 2008 and early 2009 and will be recognized in the corresponding quarters, when the license periods have commenced and all revenue recognition criteria have been met.

Gross production service revenues not included in the Company’s statement of operations as the Company is not the primary beneficiary of the VIE (See “Variable Interest Entities” section elsewhere in this MD&A) for Fiscal 2007 were $29.854 million up 2151% from Fiscal 2006 of $1.326 million. The breakdown for gross production service revenues was $29.839 million and $0.015 million from the delivery of production services related to the feature films titled *Outlander* and *Slevin* respectively (Fiscal 2006-$1.282 million and $0.044 million of production service revenues for delivery of services on *Slevin* and *Ambition* respectively).

For Fiscal 2007 the Company earned $1.086 million and $0.015 million for net producer and service fee revenues on the feature films *Outlander* and *Slevin* respectively, a decrease of 17% over the net producer and service fees revenue of $1.326 million for Fiscal 2006.

For Fiscal 2007 distribution revenues were up significantly to $9.756 million from $0.650 million for Fiscal 2006. For Fiscal 2007 the Company was successful in integrating the distribution team from the Decode division into the remainder of the Company which was able to place some 20 titles from its current production slate and its library in multiple territories throughout the world. Some of the more significant sales were on the following titles: *Angela Anaconda* Seasons I to III, *Delilah & Julius* Season I, *Franny’s Feet* Seasons I and II, *Naturally Sadie* Seasons I to III, *The SaveUms* Seasons I and II, *Girlstuff-Boystuff* Seasons I and II, *POKO* Seasons I to III, and *Planet Sketch* Season I. The Company anticipates further revenue growth in distribution revenue for Fiscal 2008.

For Fiscal 2007 music and royalty and new media revenues were up to $0.876 million (Fiscal 2006-$0.057 million) and $0.435 million (Fiscal 2006-$0.212 million) respectively. These revenue streams have increased as Fiscal 2007 includes a full year of these revenue streams for the Decode division whereas Fiscal 2006 included only the last 43 days of the fiscal year for Decode. The Company anticipates further revenue growth, specifically in the category of music and royalty revenues, as it embarks upon its M&L relationships with PLAYSKOOL, a division of Hasbro, Inc., for the Company's preschool property *Franny's Feet* and Alliance Atlantis Communications Inc. on another preschool property, *Lunar Jim*. The Company is also focused on expanding into other M&L relationships for other existing proprietary properties.

For Fiscal 2007 rental revenues were $0.351 million (Fiscal 2006-nil) from the rental of studio and office facilities to third parties as a result of the Company's purchase of Electropolis (See "Acquisitions" section of this MD&A for further details) and from rental of currently unused office space in the Company's headquarters in Halifax, Nova Scotia.

Gross Margin

Gross Margin for Fiscal 2007 was $9.734 million, an overall 37% of revenue versus $2.820 million or 18% of revenue for Fiscal 2006, an increase of 109% or $6.914 million in absolute margin dollars. The gross margin for Fiscal 2007 was higher than Fiscal 2006 as there were significant increases in the following four revenue categories: production, distribution, music and royalties and new media as a result of organic growth and the inclusion of activities for Decode for the entire Fiscal 2007 versus only the last 43 days of Fiscal 2006. These revenue streams for Fiscal 2007 have much higher margins than the Company's historic production revenues when comparing to Fiscal 2006.

For Fiscal 2007 the margins for each revenue category in absolute dollars and as a margin percentage are as follows: production revenue margin $4.076 million or 28%, distribution revenue margin of $4.505 million or 46% ($3.897 million or 40% when you remove $0.608 million for the amortization of acquired libraries), music and royalty revenue margin $0.661 million or 75%, new media revenue margin of $0.141 million or 32%, and rental revenue margin of $0.351 million or 100%. All revenue streams were significant contributors to the margin increase for Fiscal 2007.

In particular, production and distribution in terms of absolute dollars contributed $4.076 million and $4.505 million respectively or 88% of the total margin. Production margin at 28% is in line with Management's expectations. Distribution margin can fluctuate greatly from title-to-title and at 46% is at the high end of the range of Management's expectations. This is a result of a few key sales on older titles that have a relatively low book value resulting in higher margins for Fiscal 2007. Going forward Management would expect the range on distribution margin to be from 30 to 45%. Music and royalty margin at 75% was in line with Management's expectations and are generally already on a net basis as the Company's license arrangements call for the deducting of third party commissions and expenses prior to the receipt of the royalty stream to the Company. Therefore, Management would expect this revenue stream to have a low cost of goods sold going forward with margins in the 70-90% range. New media margins at 32% are in line with Management's expectations. Rental revenue at this time requires no dedicated cost of goods sold associated with the earning of the revenue, so predominately all rental and other management fee revenues will fall to the bottom line with the exception of nominal administrative charges of up to 5%.

Overall gross margin for Fiscal 2007 at 37% was higher than Management's projected margin and we would expect that future periods' gross margin to be more in the line with a 25 to 35% range.

Operating Expenses

Operating expenses for Fiscal 2007 were $8.352 million compared to $2.828 million for Fiscal 2006, an increase of 195%. The increase for Fiscal 2007 is mainly due to a 179% increase in SG&A to $7.341 million up from $2.627 million for Fiscal 2006. SG&A costs have increased as a result of the Company adding key personnel and expanding facilities as a result of increased activities and increased regulatory requirements from being public and twelve months of SG&A related to the Company's Decode division versus only activities for the last 43 days of Fiscal 2006. For Fiscal 2007, included in Operating Expenses is $0.608 million for amortization of acquired library versus no amounts for Fiscal 2006 (see "Amortization" section in this MD&A for further details).

Income from Strategic Investments

For Fiscal 2007 income from strategic investments relating to realized gains on disposals of strategic industry investments and receipt of distributions of capital was $1.737 million versus $0.187 million for Fiscal 2006. All investments were strategic in nature and were in the same or similar businesses as the business of the Company.

EBITDA

In Fiscal 2007 EBITDA was positive at $4.500 million ($1.737 million-from income from strategic investments, see "Income from strategic investments" section in this MD&A for further details), a significant improvement as compared to a positive of $0.516 million ($0.187 million-income from strategic investments) for Fiscal 2006. For Fiscal 2007 this was due to the increase in gross margin dollars of $6.914 million and adding back of non-cash stock-based compensation expense of $0.234 million and was offset by the increase in SG&A, net of income from strategic investments of $3.164 million for a positive total dollar change of $3.984 million.

Amortization

Amortization includes amortization of acquired libraries, property, plant, and equipment ("**PP&E**"), and intangible assets. For Fiscal 2007 amortization was $1.693 million (Fiscal 2006-$0.130 million). The breakdown for amortization was $0.608 million, $0.458 million, and $0.627 million for amortization of acquired libraries, PP&E, and intangible assets respectively. For Fiscal 2007 the amortization of acquired libraries was $0.608 million (Fiscal 2006-nil) which relates to the library acquired as part of the acquisition of Decode (see "Acquisitions" section in the MD&A for further details). For Fiscal 2007 amortization of PP&E was $0.458 million (Fiscal 2006-$0.052 million) due to the significant additions to PP&E, specifically the building purchase and construction of the Company's headquarters in Halifax, Nova Scotia and the inclusion of the Decode PP&E for the entire Fiscal 2007 while Fiscal 2006 only included the last 43 days. For Fiscal 2007 amortization of intangible assets was $0.627 million (Fiscal 2006-$0.078 million) which relates to the intangible assets acquired as part of the acquisition of Decode (see "Acquisitions" section in this MD&A for further details).

Interest

Interest expense, net of interest revenue, for Fiscal 2007 was $0.293 million versus net interest expense of $0.731 million for Fiscal 2006. Net interest expense consists of $0.281 million, $0.069 million, and $0.106 million for interest expense on long-term debt, interest on notes payable related to the Decode acquisition, and interest and bank charges respectively, offset by interest revenue in Fiscal 2007 of $0.163 million (Fiscal 2006-nil, nil, $0.006 million and $0.175 million respectively). For Fiscal 2007 there were no amounts (Fiscal 2006-$0.731 million) for interest accreted on the Class A Preferred Shares and amortization and deferred financing fees (Fiscal 2006-$0.169 million).

Equity Income (Loss), Loss on Abandoned Acquisition, and Non-Controlling Interest

For Fiscal 2007 the Company recorded equity income of $0.361 million (Fiscal 2006-$0.294 million equity loss) for its investment in production companies, a loss on abandoned acquisition of $0.288 million in relation to an abandoned production entity in the UK (Fiscal 2006-nil), and $0.021 million expense for non-controlling interest (Fiscal 2006-$0.013 million).

Income Taxes

Income tax expense for Fiscal 2007 was $0.590 million (Fiscal 2006- $0.074 million income tax recovery) made up from provisions of $0.113 million (Fiscal 2006-$0.150 million) for large corporation taxes, $0.268 million recovery (Fiscal 2006-$0.073 million recovery) for current income taxes, and future income taxes of $0.745 million (Fiscal 2006-$0.151 million recovery).

Net Income (Loss)

Net Income for Fiscal 2007 was $1.201 million, a significant improvement compared to a net loss of $0.915 million for Fiscal 2006, totalling an improvement of $2.116 million in absolute dollars. For Fiscal 2007 the overall improvement of $2.116 million was due to changes over Fiscal 2006 of the following amounts: a gross margin increase of $6.914 million, offset by an increase in operating expenses, net of income from strategic investments, of $3.974 million, and further offset by a $0.160 million increase in net interest and other expenses and by a $0.664 million increase in income taxes.

SELECTED CONSOLIDATED QUARTERLY FINANCIAL INFORMATION

The following table sets out selected consolidated financial information for each of the last eight quarters with the last one being the most recent quarter ended June 30, 2007. In the opinion of Management, this information has been prepared on the same basis as the audited consolidated financial statements for the years ended June 30, 2007 and 2006 as filed on www.sedar.com, and all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly the unaudited quarterly results when read in conjunction with the audited consolidated financial statements and the notes to those statements. The financial information in the table below for Q1, Q2, and Q3 Fiscal 2006 ended September 30, 2005, December 31, 2005, and March 31, 2006, are for periods prior to the acquisition of Decode Entertainment Inc. (see "Acquisitions" section of this MD&A for further details on the Decode acquisition). The operating results for any quarter should not be relied upon as any indication of results for any future period.

	Fiscal 2007				**Fiscal 2006**			
	Q4 30-Jun $	**Q3 31-Mar $ *Revised* [2]**	**Q2 30-Dec $**	**Q1 30-Sep $**	**Q4 30-Jun $**	**Q3 31-Mar $**	**Q2 31-Dec $**	**Q1 30-Sep $**
Revenue	**10,699,693**	5,366,329	6,704,811	3,199,786	9,225,120	1,889,194	3,154,716	1,479,379
Gross Margin[1]	**4,180,294**	2,112,998	2,361,030	1,079,264	1,643,909	277,318	690,148	208,275
EBITDA[1]	**2,837,585**	631,386	950,859	80,135	687,578	(77,697)	112,606	(206,047)
Net Income (Loss)	**1,034,649**	133,890	234,165	(201,949)	416,008	(359,743)	(402,499)	(568,656)
Basic Earnings (Loss) Per Share	**0.03**	0.00	0.01	(0.01)	0.02	(0.03)	(0.03)	(0.04)
Diluted Earnings (Loss) Per Share	**0.03**	0.00	0.01	(0.01)	0.02	(0.03)	(0.03)	(0.04)

[1]Certain of the comparative Non-GAAP Financial Measures ("**NGFM**") are adjusted for all necessary adjustments, consisting of normal recurring adjustments and any changes in the current definition of NGFM (see "Use of Non-GAAP Financial Measures" section of this MD&A for further details).

[2]Q3 2007 figures were revised to reflect the reversal of revenue previously recorded during the quarter relating to 6.5 half-hours or $0.608 million of revenue and $0.286 million in Gross Margin, EBITDA, and $0.177 million (net of $0.109 million in income tax expense) in Net Income as the license period had not yet commenced and therefore the revenues should not have been recognized. The license period commences in Fiscal 2008 and these revenues will be recognized at that time.

Results for the three months ended June 30, 2007 (“Q4 2007”) compared to the three months ended June 30, 2006 (“Q4 2006”)

Revenues

Revenues for Q4 2007 were $10.700 million, up from $9.225 million for Q4 2006, an increase of 16%. The increase is due to increases in the Company’s distribution and music and royalty revenue categories. Management was pleased with the growth in revenue given that Q4 2007 was only the fourth full quarter of integrating the Decode activities into the results of the Company. The Company also expects double digit revenue growth for Fiscal 2008 as some of the Company’s Q3 and Q4 television programs with projected license periods commencing in those quarters have now been scheduled for the license periods to commence during Fiscal 2008 and will have at that time met all revenue recognition criteria (See “Seasonality” section of this MD&A for further details).

Proprietary production revenues for Q4 2007 of $5.281 million were down 37% over the $8.441 million for Q4 2006. The decline included a 78% decrease to $1.860 million (Q4 2006-$8.441 million) in proprietary production revenue for the Halifax Film division and the inclusion of $3.421 million for Q4 2007 (Q4 2006-nil, as this was prior to the acquisition) for the Decode division. The decline in the Halifax Film division related entirely to no deliveries of feature films during Q4 2007 versus $6.295 million in deliveries for Q4 2006.

For Q4 2007 the Company delivered $5.281 million-40 half-hours of proprietary television programs where the license periods have commenced. The breakdown for consolidated entities for Q4 2007 was: $1.593 million-5 half-hours of *Super Why* Season I, $0.767 million-2 half-hours of *Chop Socky Chooks* Season I, $0.981 million-11 half-hours of *Urban Vermin* Season I, $0.080 million for *Naturally Sadie* Season III for SRC in Canada, $0.127 million for *The Truth About*, $0.957 million-12 half-hours of *Bo on the Go!* Season I, and $0.380 million-2 half-hours of *This Hour Has 22 Minutes* Season XIV. The breakdown for revenue earned for Q4 2007 from non-consolidated entities accounted for using the equity method was $0.098 million and $0.298 million-8 half-hours in fees and overhead plus an additional $0.347 million and $0.014 million as an equity pickup for *Lunar Jim* Seasons I and II respectively. The breakdown of $8.441 million-21 half-hours for consolidated entities for Q4 2006 was: $0.369 million-2 half-hours of *This Hour Has 22 Minutes* Season XIII, $1.358 million-6 half-hours of *North South* Season I, $0.409 million-5 half-hours of *POKO* Season III, and $3.887 million-4 half-hours of *It’s A Boy Girl Thing*. The breakdown for revenue earned for Q4 2006 from non-consolidated entities accounted for using the equity method was $0.010 million in fees and overhead plus an additional $0.294 million as an equity loss for *Lunar Jim* Season I.

In addition, during Q4 2007 the Company delivered $2.832 million-35.5 half-hours recorded in deferred revenue of proprietary television programs, however the license periods had not yet commenced by June 30, 2007, and therefore the revenue recognition criteria have not been met to recognize in Q4 2007. The additional proprietary television programs were: $0.584 million-7 half-hours of *Delilah & Julius* Season II, $1.235 million-13 half-hours of *The Latest Buzz* Season I, $0.230 million-2 half-hours of *The Latest Buzz* Season II, $0.608 million-6.5 half-hours of *Planet Sketch* Season II, and $0.175 million-7 half-hours of *Super Why* (CBC). These license periods are scheduled to commence throughout Fiscal 2008 and early 2009 and will be recognized in the corresponding quarters, when the license periods have commenced and all revenue recognition criteria have been met.

For Q4 2007 distribution revenues were up significantly to $5.093 million from $0.636 million for Q4 2006. For Q4 2007 the Company was successful in placing a multitude of titles from its current production slate and its library in multiple territories throughout the world and the license period commenced for a number of previously delivered programs. Some of the more significant sales were on the following titles: *Angela Anaconda* Seasons I to III, *Delilah & Julius* Season I, *Franny’s Feet* Seasons I and II, *Naturally Sadie* Seasons I to III, *Girlstuff-Boystuff* Seasons I and II, *POKO* Seasons I to III, and *Planet Sketch* Season I.

For Q4 2007 music and royalty and new media revenues were up to $0.168 million (Q4 2006-$0.057 million) and dropped to $0.042 million (Q4 2006-$0.212 million) respectively. These revenue streams have remained strong and are expected to grow moderately for Fiscal 2008.

For Q4 2007 rental revenues were $0.116 million (Q4 2006-nil) from the rental of studio and office facilities to third parties as a result of the Company’s purchase of Electropolis (See “Acquisitions” section of this MD&A for further details) and from rental of currently unused office space in the Company’s headquarters in Halifax, Nova Scotia.

Gross Margin

Gross margin for Q4 2007 was $4.180 million an overall 39% of revenue versus $1.644 million or 18% of revenue for Q4 2006, an increase of 119% or $2.536 million in absolute margin dollars. The gross margin for Q4 2007 was higher than Q4 2006 as there were significant increases in two revenue categories: distribution and music and royalties as a result of the fourth full quarter’s activities for Decode for Q4 2007 over 43 days activity for Q4 2006 and other organic growth. These revenue streams for Q4 2007 have much higher margins than the Company’s historic production revenues when comparing to Q4 2006.

In particular, production and distribution in terms of absolute dollars contributed $1.5729 million and $2.467 million respectively or 97% of the total margin. Production margin at 30% is in line with Management's expectations. Distribution margin can fluctuate greatly from title-to-title and at 48% is at the high end of the range of Management's expectations. This is a result of a few key sales on older titles that have a relatively low book value resulting in higher margins for Q4 2007. Going forward Management would expect the range on distribution margin to be from 30 to 45%. Music and royalty margin was in line with Management's expectations and is generally already on a net basis as the Company's license arrangements call for the deducting of third party commissions and expenses prior to the receipt of the royalty stream to the Company. Therefore, Management would expect this revenue stream to have a low cost of goods sold going forward with margins in the 70-90% range. New media margins are in line with Management's expectations. Rental revenue at this time requires no dedicated cost of goods sold associated with the earning of the revenue, so predominately all rental revenues will fall to the bottom line with the exception of nominal administrative charges of up to 5%.

Overall gross margin for Q4 2007 at 39% was higher than Management's projected margin and we would expect that future periods' gross margin will be more in the line with a 25 to 35% range.

Operating Expenses

Operating expenses for Q4 2007 were $3.924 million compared to $1.279 million for Q4 2006, an increase of 207%. The increase for Q4 2007 is mainly due to a 36% increase in SG&A to $1.742 million up from $1.280 million for Q4 2006. SG&A costs have increased as a result of the Company adding key personnel and expanding facilities as a result of increased activities and increased regulatory requirements from being public and the fourth full quarter of SG&A related to the Company's Decode division which was not included in the Q4 2006 total. For Q4 2007, included in Operating Expenses is $0.381 million for amortization of acquired library versus no amount for Q4 2006 (see "Amortization" section in this MD&A for further details).

Income from Strategic Investments

For Q4 2007 income from strategic investments activities relating to realized gains on disposals of strategic industry investments and receipt of distributions of capital was $0.273 million versus $0.187 million for Q4 2006. All investments were strategic in nature and were in the same or similar businesses as the business of the Company.

EBITDA

In Q4 2007 EBITDA was positive at $2.838 million, a significant improvement as compared to $0.688 million for Q4 2006. For Q4 2007 this was due to the increase in gross margin dollars of $2.536 million, offset by the increase in SG&A, net of income from strategic investments of $0.374 million, and offset by non-cash stock-based compensation expense of $0.011 million, for a positive total dollar change of $2.151 million.

Amortization

Amortization includes amortization of acquired libraries , PP&E, and intangible assets. For Q4 2007 amortization was $0.658 million (Q4 2006-$0.125 million). The breakdown for amortization was $0.381 million, $0.121 million, and $0.156 million for amortization of acquired libraries, PP&E, and intangible assets respectively. For Q4 2007 the amortization of acquired libraries was $0.381 million (Q4 2006-nil) which relates to the library acquired as part of the acquisition of Decode (see "Acquisitions" section in the MD&A for further details). For Q4 2007 amortization of PP&E was $0.121 million (Q4 2006-$0.047 million) due to slight changes to PP&E. For Q4 2007 amortization of intangible assets was $0.156 million (Q4 2006-$0.078 million) which relates to the intangible assets acquired as part of the acquisition of Decode (see "Acquisitions" section in this MD&A for further details).

Interest

Interest expense, net of interest revenue, for Q4 2007 was $0.189 million versus interest expense of $0.040 million for Q4 2006. Net interest expense consists of $0.069 million, $0.069 million, and $0.090 million for interest expense on long-term debt, interest on notes payable related to Decode acquisition, and interest and bank charges (Q4 2006-nil, nil, and $0.006 million) offset by interest revenue in Q4 2007 of $0.039 million (Q4 2006-$0.102 million). For Q4 2007 there were no amounts (Q4 2006-$0.109 million) for interest accreted on the Class A Preferred Shares and amortization of deferred financing charges (Q4 2006-$0.027 million).

Equity Income (Loss), Loss on Abandoned Acquisition, and Non-Controlling Interest

For Q4 2007 the Company recorded equity income of $0.361 million (Fiscal 2006-$0.072 million equity loss) for its investment in production companies, a loss on abandoned acquisition of $0.273 million in relation to an abandoned production entity in the UK (Fiscal 2006-nil), and $0.005 million expense for non-controlling interest (Fiscal 2006-$0.005 million).

Income Taxes

Income tax expense for Q4 2007 was a net provision for income taxes of $0.573 million (Q4 2006-$0.106 million income tax recovery).

Net Income (Loss)

Net Income for Q4 2007 was $1.035 million, a significant improvement compared to a net income of $0.416 million for Q4 2006, totalling an improvement of $0.619 million in absolute dollars. For Q4 2007 the overall improvement of $0.619 million was due to changes over Q4 2006 of the following amounts: a gross margin increase of $2.536 million, offset by an increase in operating expenses, net of income from strategic investments of $1.094 million, a $0.144 million increase in net interest and other expenses, and further reduced by $0.679 million change in provision for income taxes.

Results for the three months ended March 31, 2007 ("Q3 2007") compared to the three months ended March 31, 2006 ("Q3 2006")

Revenues

Revenues for Q3 2007 were $5.366 million, up from $1.889 million for Q3 2006, an increase of 184%. The increase is due to increases in the Company's production, distribution, music and royalties, and new media revenue categories. Management was pleased with the growth in revenue given that Q3 2007 was only the third quarter of integrating the Decode activities into the results of the Company.

Proprietary production revenues for Q3 2007 of $3.526 million were up 73% over the $2.038 million for Q3 2006. The increase for Q3 2007 is consistent with the Company's strategic goal to increase production revenue generated from home grown productions both in absolute dollars and as a percentage of the total production revenues earned. The growth included a 30% increase to $2.659 million (Q3 2006 -$2.038 million) in proprietary production revenue for the Halifax Film division and the inclusion of $0.867 million for Q3 2007 (Q3 2006-nil, as this was prior to the acquisition) for the Decode division.

For Q3 2007 the Company delivered $3.526 million-27 half-hours of proprietary television programs where the license periods have commenced. The breakdown for consolidated entities for Q3 2007 was: $0.867 million-7 half-hours of *Chop Socky Chooks* Season I, $0.558 million-7 half-hours of *Bo on the Go!* Season I, and $1.952 million-9 half-hours of *This Hour Has 22 Minutes* Season XIV. The breakdown for revenue earned for Q3 2007 from non-consolidated entities accounted for using the equity method was $0.149 million-4 half-hours in fees and overhead for *Lunar Jim* Season II. The breakdown for consolidated entities of $1.510 million-9 half-hours for Q3 2006 was $1.510 million-9 half-hours of *This Hour Has 22 Minutes* Season XIII. The breakdown for revenue earned for Q3 2006 from non-consolidated entities accounted for using the equity method was $0.528 million-8 half-hours in fees and overhead for *Lunar Jim* Season I.

In addition, during Q3 2007 the Company delivered $0.608 million-6.5 half-hours of *Planet Sketch* Season II recorded in deferred revenue of proprietary television program, however the license period had not yet commenced by March 31, 2007, and therefore the revenue recognition criteria has not been met to recognize in Q3 2007. This license period is scheduled to commence in Fiscal 2008 and will be recognized in the corresponding quarter, when the license period has commenced and all revenue recognition criteria have been met.

For Q3 2007 distribution revenues were up significantly to $1.343 million from no amounts for Q3 2006. For Q3 2007 the Company was successful in placing a multitude of titles from its current production slate and its library in multiple territories throughout the world. Some of the more significant sales were on the following titles: *Angela Anaconda* Seasons I to III, *Delilah & Julius* Season I, *Franny's Feet* Seasons I and II, *Naturally Sadie* Seasons I to III, *Girlstuff-Boystuff* Seasons I and II, *POKO* Seasons I to III, and *Planet Sketch* Season I.

For Q3 2007 music and royalty and new media revenues were up to $0.327 million (Q3 2006-nil) and $0.058 million (Q3 2006-nil) respectively. These revenue streams have increased as Q3 2007 includes these revenue steams for the Decode division whereas Q3 2006 did not include the activities of Decode.

For Q3 2007 rental revenues were $0.112 million (Q3 2006-nil) from the rental of studio and office facilities to third parties as a result of the Company's purchase of Electropolis (See "Acquisitions" section of this MD&A for further details) and from rental of currently unused office space in the Company's headquarters in Halifax, Nova Scotia.

Gross Margin

Gross margin for Q3 2007 was $2.113 million an overall 39% of revenue versus $0.277 million or 15% of revenue for Q3 2006, an increase of 169% or $1.835 million in absolute margin dollars. The gross margin for Q3 2007 was higher than Q3 2006 as there were significant increases in the following four revenue categories: production, distribution, music and royalties, and new media as a result of the third full quarter's activities for Decode for Q3 2007 over no amounts for Q3 2006 and other organic growth. These revenue streams for Q3 2007 have much higher margins than the Company's historic production revenues when compared to Q3 2006.

In particular, production and distribution in terms of absolute dollars contributed $0.999 million and $0.629 million respectively or 77% of the total margin. Production margin at 28% is in line with Management's expectations. Distribution margin can fluctuate greatly from title-to-title and at 47% is at the high end of the range of Management's expectations. This is a result of a few key sales on older titles that have a relatively low book value resulting in higher margins for Q3 2007. Music and royalty margin at 98% was in line with Management's expectations and are generally already on a net basis as the Company's license arrangements call for the deducting of third party commissions and expenses prior to the receipt of the royalty stream to the Company. New media margins are in line with Management's expectations. Rental revenue at this time requires no dedicated cost of goods sold associated with the earning of the revenue, so predominately all rental revenues will fall to the bottom line with the exception of nominal administrative charges of up to 5%.

Overall gross margin for Q3 2007 at 39% was higher than Management's projected margin and we would expect that future periods' gross margin will be more in the line with a 25 to 35% range.

EBITDA

In Q3 2007 EBITDA was positive at $0.631 million, a significant improvement as compared to a loss of $0.078 million for Q3 2006. For Q3 2007 this was due to the increase in gross margin dollars of $1.836 million and was offset by the increase in SG&A, net of income from strategic investments of $1.207 and adding back of non-cash stock-based compensation expense of $0.080 million for a positive total dollar change of $0.709 million.

Net Income

Net Income for Q3 2007 was $0.134 million, a significant improvement compared to a net loss of $0.360 million for Q3 2006, totalling an improvement of $0.494 million in absolute dollars. For Q3 2007 the overall improvement of $0.494 million was due to changes over Q3 2006 of the following amounts: a gross margin increase of $1.835 million, offset by an increase in operating expenses, net of income from strategic investments of $1.253 million, offset by a $0.032 million improvement in net interest and other expenses, and further reduced by $0.056 million change in provision for income taxes.

Results for the three months ended December 31, 2006 ("Q2 2007") compared to the three months ended December 31, 2005 ("Q2 2006")

Revenues

Revenues for Q2 2007 were $6.705 million, up from $3.155 million for Q2 2006, an increase of 113%. The increase is due to increases in the Company's production, distribution, music and royalties, and new media revenue categories. Management was pleased with the growth in revenue given that Q2 2007 was only the second quarter of integrating the Decode activities into the results of the Company.

Proprietary production revenues for Q2 2007 of $3.478 million were up 50% over the $2.326 million for Q2 2006. The increase for Q2 2007 was consistent with the Company's strategic goal to increase production revenue generated from home grown productions both in absolute dollars and as a percentage of the total production revenues earned. For Q2 2007 the Company earned from consolidated entities and delivered $3.478 million-46 half-hours of proprietary television programs ($0.260 million-26 half-hours of *Naturally Sadie* Season II to SRC in Canada, $0.855 million-9 half-hours of *Naturally Sadie* Season III, $0.245 million-1 half-hour for the pilot of *The Truth About*, and $2.118 million-10 half-hours of *This Hour Has 22 Minutes* Season XIV) versus the delivery of $2.326 million-14 half-hours ($0.698 million-7 half-hours of *POKO* Season II and $1.628 million-7 half-hours of *This Hour Has 22 Minutes* Season XIII) for Q2 2006.

Production service revenues for Q2 2007 were $0.780 million, down 4% from Q2 2006 of $0.816 million. The breakdown for net production service revenues was $0.780 million from the delivery of production services related to the feature film titled *Outlander* (Q2 2006-$0.705 million and $0.111 million of production service revenues for delivery of services on *Slevin* and *Ambition* respectively).

For Q2 2007 distribution revenues were up significantly to $2.049 million from $0.013 million for Q2 2006. For Q2 2007 the Company was successful in placing a multitude of titles from its current production slate and its library in multiple territories throughout the world.

For Q2 2007 music and royalty and new media revenues were up to $0.136 million (Q2 2006-nil) and $0.139 million (Q2 2006-nil) respectively. These revenue streams increased as Q2 2007 includes these revenue steams for the Decode division whereas Q2 2006 did not include the activities of Decode.

For Q2 2007 rental revenues were $0.123 million (Q2 2006-nil) from the rental of studio and office facilities to third parties as a result of the Company's purchase of Electropolis (See "Acquisitions" section of this MD&A for further details) and from rental of currently unused office space in the Company's headquarters in Halifax, Nova Scotia.

Gross Margin

Gross margin for Q2 2007 was $2.361 million, an overall 35% of revenue versus $0.690 million or 22% of revenue for Q2 2006, an increase of 61% or $1.671 million in absolute margin dollars. The gross margin for Q2 2007 was higher than Q2 2006 as there were significant increases in the following four revenue categories: production, distribution, music and royalties, and new media as a result of the second full quarter's activities for Decode for Q2 2007 over no amounts for Q2 2006 and other organic growth. These revenue streams have higher margins than the Company's historic production revenues when comparing Q2 2007 to Q2 2006.

In particular, production and distribution in terms of absolute dollars contributed $1.044 million and $1.004 million respectively or 88% of the total margin. Production margin at 25% was in line with Management's expectations. Distribution margin can fluctuate greatly from title-to-title and at 49% is at the high end of the range of Management's expectations. This is as a result of a few key sales on older titles that have a relatively low book value resulting in higher margins for Q2 2007. Music and royalty margin was in line with Management's expectations. New media margin at 25% was in line with Management's expectations. Rental revenue for Q2 2007 required no dedicated cost of goods sold associated with the earning of the revenue.

EBITDA

In Q2 2007 EBITDA was positive at $0.951 million, as compared to $0.113 million for Q2 2006, an improvement of 742%. For Q2 2007 this was due to the increase in gross margin dollars of $1.671 million, was offset by the increase in SG&A, net of income from strategic investments of $0.938 million, and adding back of non-cash stock-based compensation expense of $0.105 million for a positive total dollar change of $0.838 million.

Net Income (Loss)

Net Income for Q2 2007 was $0.234 million, an improvement of 158% from a net loss of $0.402 million for Q2 2006. For Q2 2007 the overall improvement of $0.636 million was due to changes over Q2 2006 of the following amounts: a gross margin increase of $1.671 million, offset by an increase in operating expenses, net of income from strategic investments of $1.184 million, helped by a $0.156 million improvement in net interest and other expenses, and further offset by $0.007 million change in provision for income taxes.

Results for the three months ended September 30, 2006 ("Q1 2007") compared to the three months ended September 30, 2005 ("Q1 2006")

Revenues

Revenues for Q1 2007 were $3.200 million, up from $1.479 million for Q1 2006, an increase of 116%. The increase was due to increases in the Company's major revenue categories. The revenue growth for Q1 2007 was also encouraging given that Q1 is typically a slower quarter in the Canadian film and television industry as the majority of television deliveries occur in the winter and spring seasons, which for the Company is its third and fourth quarter (See "Seasonality" section of this MD&A for further details).

Proprietary production revenues for Q1 2007 of $1.115 million were up 60% over the $0.699 million for Q1 2006. For Q1 2007 the Company delivered $1.115 million-13 half-hours of proprietary television programs ($0.380 million-4 half-hours of *Naturally Sadie* Season III, $0.655 million-8 half-hours of *POKO* Season III, and $0.080 million-1 half hour of *Bo on the Go!* Season I versus the delivery of $0.699 million-7 half-hours of *POKO* Season II for Q1 2006.

Production service revenues for Q1 2007 were $0.373 million down 52% from Q1 2006 of $0.780 million. The breakdown for production service revenues was $0.373 million from the delivery of production services related to the feature film titled *Outlander* (Q1 2006-$0.770 million and $0.010 million of production service revenues for delivery of services on *Slevin* and *Ambition* respectively).

For Q1 2007 distribution, music and royalty, and new media revenues were up to $1.271 million (Q1 2006-nil), $0.245 million (Q1 2006-nil), and $0.196 million (Q1 2006-nil) respectively. These revenue streams have increased from nil amounts in Q1 2006 as Q1 2007 includes these revenue streams for the Decode division whereas Q1 2006 includes no activities for Decode.

Gross Margin

Gross margin for Q1 2007 was $1.079 million, an overall 34% of revenue versus $0.208 million or 14% of revenue for Q1 2006, an increase of 140% or $0.871 million in absolute margin dollars. The gross margin for Q1 2007 was higher than Q1 2006 as there were significant increases in the following three revenue categories: distribution, music royalties, and new media as a result of a full three months of activities for Decode. These revenue streams have much higher margins than the Company's historic production revenues when comparing Q1 2007 to Q1 2006. For Q1 2007 the margins for each revenue category in absolute dollars and as a percentage of revenue earned for each category are as follows: production revenue margin $0.333 million or 28%, net production service revenue margin of $0.095 million or 30%, distribution revenue margin of $0.405 million or 32%, music royalty revenue margin $0.128 million or 52%, and new media revenue margin of $0.118 million or 60%.

EBITDA

In Q1 2007 EBITDA was $0.080 million, as compared to a loss of $0.206 million for Q1 2006; an improvement of 139%. For Q1 2007 this was due to the increase in gross margin dollars of $0.871 million, was offset by the increase in net operating expenses and other expenses of $0.645 million, and adding back of non-cash stock-based compensation of $0.060 million for a total dollar change of $0.286 million.

Net Income (Loss)

Net loss for Q1 2007 was $0.202 million, an improvement of 64% from a net loss of $0.569 million for Q1 2006. For Q1 2007 the overall decrease in the loss of $0.367 million was due to changes over Q1 2006 of the following amounts: a gross margin increase of $0.871 million offset by an increase in net operating expenses of $0.443 million and $0.269 million in amortization, and helped by a $0.130 million improvement in net interest expense and non-controlling interest and $0.078 million recovery of income taxes.

Liquidity and Capital Resources

	June 30, 2007 $	June 30, 2006 $
	(Amounts in Thousands, Except Balance Sheet Ratios)	
Key Balance Sheet Amounts and Ratios:		
Cash, restricted cash [(1)] and short-term investment…………….	**5,779**	9,573
Long-term assets …………………………………………….….	**33,798**	25,910
Working capital…………………………………………….…	**13,995**	18,370
Long-term liabilities…………………………………………..	**6,331**	4,684
Working capital ratio [(2)]…………………………………………	**1.25**	1.55
Cash Inflows and (Outflows) by Activity:		
Operating activities…………………………………………..	**(20,682)**	(4,524)
Investing activities………………………………………………	**932**	(5,913)
Financing activities……………………………………………	**17,073**	9,985
Net cash inflows (outflows)……………………………………	**(2,677)**	(452)

(1) 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.

(2) Working capital ratio is current assets divided by current liabilities.

Changes in Cash

Cash at June 30, 2007 was $3.434 million compared to $6.112 million as of June 30, 2006. For Fiscal 2007 the cash balance decreased $2.677 million when comparing the cash balance to Fiscal 2006.

For Fiscal 2007 cash flows from operating activities were a use of cash of $20.682 million. Cash flows from operating activities resulted from net income of $1.201 million and adding back non-cash items of amortization of film and television programs, PP&E, acquired library and intangible assets, stock-based compensation, interest on promissory notes, non-controlling interest, future income tax, and net change in non-cash working capital balances related to operations of $15.229 million, $0.458 million, $0.608 million, $0.627 million, $0.370 million, $0.015 million, $0.021 million, $0.745 million, and $3.210 million respectively. Cash flows were reduced by credits not involving cash of $1.689 million for gain on disposal of short-term investments, $41.116 million for investments in film and television programs, and $0.361 million for equity income.

For Fiscal 2007 cash flows generated from financing activities were $17.073 million. Cash flows from financing activities resulted primarily from cash generated from new borrowings of $16.590 million from interim financing, $0.127 million from proceeds from long-term debt, an increase of $1.472 million in other long-term liabilities, and a $0.496 million increase in bank indebtedness. This was offset by uses of cash of $0.291 million, $0.038 million, and $1.283 million respectively from adjustments to repayments of long-term debt, issuance costs on common shares, and repayment of note payable.

For Fiscal 2007 cash flows generated from investing activities were a use of cash of $0.932 million. Cash flows used in investing activities were $0.147 million, $0.683 million, $0.612 million, and $0.788 million for business acquisitions, purchase of short-term investments, PP&E acquisitions, and advances to investees offset by $3.162 million cash provided by a decrease in short-term investments.

Working Capital

Working capital ("**Working Capital**") represents the Company's current assets less current liabilities. Decreases of working capital of $4.375 million as at June 30, 2007 over June 30, 2006 were predominantly driven by increases in deferred revenue, bank indebtedness and interim production financing, decreases in short-term investments, and were offset by increases in current portion of investment in film and television programs, amounts receivable, and decreases in accounts payable. The working capital ratio remained strong at 1.25 for June 30, 2007.

Based on the Company's current revenue expectations for Fiscal 2008, which are based on contracted and expected production and distribution revenue, the Company believes cash generated from operations will be sufficient to satisfy working capital needs for at least the next twelve months. Management believes the current working capital surplus totalling $13.995 million, is sufficient to execute its current business plan. If the Company proceeds with one or any of the strategic acquisitions it is currently exploring there may be a capital requirement to go back to the public markets and raise additional financing to complete such acquisitions.

Contractual Obligations

As of June 30, 2007

Payments Due by Period	**Total**	**Fiscal 2008**	**Fiscal 2009-2011**	**Fiscal 2012-2013**	**After Fiscal 2013**
	$	**$**	**$**	**$**	**$**
Purchase Obligations					
Rights purchase for POKO [(1)]	546,701	333,332	213,369	-	-
Acquisition of library license rights [(2)]	1,340,000	480,000	860,000	-	-
Feature film settlement[(3)]	250,000	-	250,000	-	-
Note payable [(4)]	400,000	400,000	-	-	-
Long-term debt payments (principal and interest) [(5)]	4,734,545	520,409	943,108	859,612	2,411,416
Total Contractual Obligations	7,271,246	1,733,741	2,266,477	859,612	2,411,416

(1) Pursuant to an agreement whereby the Company acquired the right to develop, produce, distribute, and otherwise exploit future seasons of the television series titled "*POKO*". The amount remaining as at June 30, 2007 was $500,002.

(2) Pursuant to an agreement whereby the Company acquired the distribution rights ("**Distribution Rights**") to 520 half-hours of television programming. The amount remaining as of June 30, 2007 was $1,340,000.

(3) Pursuant to a settlement on a feature film, the Company agreed to pay $75,000 by the earlier of July 31, 2008 or date of receipt of Provincial Tax Credits relating to the film and $175,000 by October 31, 2008.

(4) As consideration for the acquisition of Decode, the Company has a $400,000 promissory note payable December 31, 2007 bearing interest at 10%.

(5) Long-term debt, bearing interest at Business Development Bank of Canada's floating base rate plus 0.5%, maturing in May 2021. Amounts repayable in monthly payments of principal of $19,900 plus interest and monthly principal installments of $4,386, non-interest bearing.

Outlook

Coming off Fiscal 2007 the Company's balance sheet remains strong and we are in a solid position for Fiscal 2008. Management continues to focus on its core values and using its strengths to take advantage of present opportunities and to create further value for shareholders. Management remains focused on increasing shareholder value through further organic growth and acquisitions. In that light, during Fiscal 2007 the Company added strength in this regard by vertically adding Electropolis Studios Inc., acquiring 520 half-hours of television programming distribution rights, and by acquiring 100% of the equity in one of its current productions *Mighty Jungle*, which is commissioned by the CBC (See "Acquisitions" section of this MD&A for details). All these acquisitions are squarely on target and will add significant new revenue streams in the coming years.

This is clearly evident in the case of the Distribution Rights as the Company announced a deal on August 10, 2007 to license the first twelve seasons of *This Hour Has 22 Minutes*, representing 258 half-hours of the distribution rights package, to The Comedy Network in Canada and exhibits DHX's ability to exploit these rights across multiple platforms by leveraging its existing distribution capabilities. Revenues earned on this licensing deal in Q4 Fiscal 2007 were $0.420 million and are projected for Fiscal 2008 at $0.420 million and Fiscal 2009 at $1.000 million.

In particular, the Company believes it is well on its way to carrying forward its contemplated strategic initiatives, including revenue growth in production and distribution, increasing profitability metrics, expanding the Company's presence in international markets, leveraging the Company's experience to focus on children, youth, and family content and merchandising, and undertaking further potential synergistic acquisitions. In this regard, for Fiscal 2008, the Company remains focused on organic growth and growth through acquisitions and is currently exploring a number of opportunities to expand production and distribution revenue streams and further expand its revenue platform. The Company anticipates moving forward on the acquisition front in Fiscal 2008 and expects to be in a position to report on this in the coming quarters.

In Fiscal 2007, the Company has taken an important first step as was exhibited by the 65% and 14% revenue growth for Fiscal 2007 and Q4 2007 respectively. Management was pleased with the growth in revenue considering Fiscal 2007 was the first full year of integrating the Decode activities into the results of the Company. Management was particularly pleased with distribution revenue growth which included the integration of the Halifax Film proprietary properties being funnelled through the Decode distribution pipeline. After only one year the Company has realized some significant successes on this front as evidenced by distribution revenues of $9.756 million for Fiscal 2007. Along with further penetration of the Decode library, the distribution team has been able to successfully place more than 20 titles from the Company's current production slate and library in multiple territories throughout the world. The Company expects its growth in this area to continue and anticipates double-digit distribution revenue growth for Fiscal 2008, perhaps in the 10-30% range.

For the first half of 2008 the Company is expecting, somewhat based on contracted sales delivered and awaiting their licensing periods to commence (See "Critical Accounting Policies- Revenue Recognition" section of this MD&A for further details), further distribution revenue penetration on a number of additional titles in the current slate and from the library representing expected double-digit growth, perhaps in the range of 10-30% over the distribution totals for Fiscal 2007. For Fiscal 2008 other revenues, including music and royalty and new media revenues, are expected to have moderate growth.

For Fiscal 2008 the Company has over 200 half-hours of contracted proprietary programs (plus 50-100 half-hours of additional potential proprietary programs currently in negotiation with various broadcasters), made up of over 15 different episodic television series and a feature film titled "*Shake Hands with the Devil*", which are scheduled for delivery and for the license periods to commence. For the first half of 2008, the Company also expects double-digit production revenue growth, perhaps in the 10-40% range, as some of the Company's Q3 and Q4 2007 television deliveries are simply awaiting their license periods to commence (See "Year Ended Fiscal 2007 compared to Fiscal 2006" and "Seasonality" sections of this MD&A for further details). For the first six months of Fiscal 2008, the Company has over 75 half-hours of contracted proprietary programs, made up of 11 different episodic television series and its feature film titled *Shake Hands With the Devil*, which are scheduled for delivery and for the license periods to commence. The Company's historic average production revenue value (once the license period has commenced) per half-hour of television programs is approximately $0.100-$0.175 million and Management expects the average production revenue value per half-hour actually delivered with the license periods commenced for Fiscal 2008 to be in this range.

Further synergies from the acquisition of Decode are demonstrated through healthier Gross Margins as shown by margin increases to 38% and 40% for Fiscal 2007 and Q4 2007 respectively. For Fiscal 2008, Gross Margin is expected to be in the 25-40% range. For Fiscal 2008, Management expects the integration of Decode to continue to result in further synergies and revenue growth in all categories.

In the last half of Fiscal 2008, the Company anticipates further revenue growth, specifically in the category of music and royalty revenues, as it embarks upon its M&L relationships with PLAYSKOOL, a division of Hasbro Inc., for the Company's preschool property *Franny's Feet* and Alliance Atlantis on another preschool property *Lunar Jim*. The Company is also focused on leveraging other existing proprietary properties for additional M&L revenues.

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 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 are generally highest in the third and fourth fiscal quarters, driven by contracted deliveries with the primary broadcasters. Although with the Company's recent diversification of its revenue mix, particularly in the strengthening of the distribution revenue stream, some of the quarterly lumpiness is improving slightly and becoming more predictable. Distribution revenues are contract and demand driven and can fluctuate significantly from period-to-period.

Capital Stock Issuances During Fiscal 2007

On December 18, 2006, the Company issued 225,000 common shares from treasury at the five day volume weighted average price of $1.41 per share for the gross amount of $0.317 million. 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.

Distribution Arrangement

In Q2 2007, the Company cancelled its distribution arrangement with a European distributor of television productions. The distribution arrangement had provided the Company the opportunity to underwrite production distribution advances in exchange for a share of the sales commissions and certain exclusive distribution rights to these productions (see "Material Contracts – Distribution Arrangement" in the Company's Final Prospectus filed on May 11, 2006 on www.sedar.com for more details).

During Fiscal 2007 the Company recorded $1.019 million and $0.592 million for revenues and amortization expense respectively from this distribution arrangement. At June 30, 2007 the Company had no amounts recorded in amounts receivable. All costs associated with the cancelling of the agreement have been recorded in the results for the Fiscal 2007. As of June 30, 2007 the Company has amortized all amounts originally recorded under the category of acquired participation rights included in investment in film and television programs for any properties licensed under this distribution arrangement. Since this distribution arrangement has now been cancelled the Company expects to make no further licensing commitments and as a result expects no further revenues or expenses from this arrangement.

Acquisitions

During Fiscal 2007, the following acquisitions occurred:

(a) 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 ("**Electropolis**") for cash consideration of $0.032 million.

Electropolis holds the lease, set to mature November 30, 2007, on a sound stage studio in Halifax, Nova Scotia and is in the business of renting these facilities to film and television productions.

The acquisition of Electropolis allows the Company to vertically integrate and recapture some office and facility rental expenses and also offers new net rental revenue streams for third party productions. For Fiscal 2007 the Company has recorded $0.351 million for rental revenue.

(b) 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 million. As of June 30, 2007, the company has paid cash of $0.500 million and is scheduled to pay the remainder through ten quarterly payments of $0.120 million ending March 31, 2009 and one lump sum payment of $0.500 million due March 31, 2009.

(c) 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 $0.150 million This acquisition fits nicely with the Company's overall strategy to retain ownership of as many of the underlying rights to its programs as possible.

Subsequent Events

On September 24, 2007, the Company closed a revolving credit facility ("**RBC Facility**") with the Royal Bank of Canada ("**Royal Bank**") with a maximum authorized amount of $70.000 million reviewable annually from the date of closing. 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.

The breakdown for the RBC Facility is approximately $66.500 million for revolving interim production financing and approximately $3.500 million for general business purposes.

Critical Accounting Policies and Estimates

The preparation of the financial statements in conformity with Canadian GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting period. Management of the Company regularly reviews its estimates and assumptions based on historical experience and various other assumptions that it believes would result in reasonable estimates given the circumstances. Actual results could differ from those estimates under different assumptions. The following is a discussion of accounting policies that require significant Management judgments and estimates. For a discussion of all of the Company's accounting policies, including the items outlined below, refer to note 1 of the consolidated financial statements.

Revenue Recognition

Production and Distribution Revenue

The Company recognizes revenues from the licensing of film and television programs when: a) the Company has persuasive evidence of a contractual arrangement; b) the production has been completed; c) the contractual delivery arrangements have been satisfied; d) the licensing period has commenced; e) the fee is fixed or determinable; and f) collectibility of proceeds is reasonably assured.

Cash payments received or advances currently due pursuant to a broadcast license or distribution arrangement are recorded as deferred revenue until all of the foregoing conditions of revenue recognition have been met.

Producer and Service Fee Revenue

Revenues from production services for third parties are recognized on a percentage-of-completion basis. 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 production-in-progress.

Variable Interest Entities

The Company follows Accounting Guideline 15 – Consolidation of Variable Interest Entities ("**AcG 15**"). AcG 15 provides criteria for the identification of Variable Interest Entities (**"VIEs"**) and further criteria for determining what entity, if any should consolidate them. AcG 15 defines a VIE as an entity that either does not have sufficient equity at risk to finance its activities without subordinated financial support or where the equity investors lack the characteristic of a controlling financial interest. VIEs are subject to consolidation by a company if that 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 VIEs' activities or is entitled to receive a majority of the VIEs' residual returns or both (For a more detailed discussion of VIEs see note 2 to the Financial Statements for years ended June 30, 2007 and 2006).

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. Investment in film and television programs also includes acquired film and television libraries. 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, the cost of overall deals, 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. Film and television programs in progress represent the accumulated costs of productions, which have not been completed by the Company. 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.

Revenue estimates are prepared on a title-by-title basis and are reviewed periodically based on current market conditions. For film, revenue estimates include net theatrical receipts, sale of videocassettes and DVDs, licensing of television broadcast rights and licensing of other ancillary film rights to third parties. For television programs, 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.

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.

The valuation of investment in film and television programs 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 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.

Stock-based Compensation

The Company follows the Canadian Institute of Chartered Accountants Handbook Section 3870 ("**CICA 3870**"), "Stock-based Compensation and Other Stock-based Payments". Under the amended standards of this Section, the fair value of all stock options granted to employees are recorded in operations or production costs, as applicable over their 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 is credited to share capital.

Investment in Production Companies

The valuation of equity accounted investments is regularly reviewed by Management to ensure that any decline in market value that is considered other than temporary has been reflected in the related carrying value of the investment. In making that assessment, several factors are considered, including the amount by which the market value exceeds carrying value and investees' expected future cash flows and earnings. The Company recorded in the equity investment income line on the statement of earnings an amount of $0.361 million (2006-$0.294 million equity loss) and $0.288 million for loss on abandoned acquisition for the year ended June 30, 2007.

Goodwill

The Company implements the recommendations of the Canadian Institute of Chartered Accounts (''CICA'') Handbook Section 3062, "Goodwill and Other Intangible Assets". Based on this standard, goodwill of the Company is tested for impairment annually on June 30, or more frequently if impairment indicators arise, to determine if an impairment loss should be recognized. Impairment indicators include the existence of significant restructuring plans, the existence of significant adverse changes in the business climate, and the existence of significant write downs of assets. During the year ended June 30, 2007, the Company recorded no amounts for impairment of goodwill (2006-nil).

Provisions

Balance sheet provisions for amounts receivable and legal issues all require estimates and assumptions by Management that could be significant.

In certain instances, the provision for amounts receivable is based on specifically identified accounts where Management believes that collection is doubtful. These accounts are identified based on customer knowledge and past experience. In other instances, the provision for amounts receivable is based on an allowance for Federal and Provincial government tax credits receivable and is based on historic collection, excluding accounts that have been specifically provided for. Historically, Management's estimate of the required provision has been adequate.

Provisions for legal issues are based on Management's best estimate of the probable outcome and resolution of legal matters.

Future Tax Assets and Liability

Management's assessment of the Company's ability to realize future income tax assets is performed on a legal entity basis and is based on existing tax laws and estimates of future taxable income. Where, in the opinion of Management, the value of future income tax assets exceeds the estimate of amounts expected to be realized, a valuation allowance is recorded to reduce the future income tax asset. If the Company's assessment changes in the future, the valuation allowance will increase or decrease accordingly, resulting in corresponding decreases or increases in income, respectively, in that period. The valuation allowance is in no way indicative of the availability of income tax losses or other timing differences to offset future profits earned. Rather, the valuation allowance reduces the future income tax asset to Management's estimate of the future tax asset that will be realized as a reduction of cash income taxes paid in the future.

The above estimates are revised accordingly as new or different circumstances arise. While Management believes the balance sheet provisions are adequate, using different assumptions or estimates could have a significant impact on the Company's results of operations, prospects, or financial condition.

Recent Accounting Pronouncements

Financial Instruments, Comprehensive Income and Hedges

In January 2005, the CICA issued Handbook Sections 3855, ''Financial Instruments — Recognition and Measurement'', 1530, ''Comprehensive Income'', 3251, ''Equity'', and 3865, ''Hedges''. These new standards are effective for interim and annual financial statements relating to fiscal years commencing on or after October 1, 2006 on a prospective basis. The Company will adopt these new standards effective July 1, 2007.

Section 3855 prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be presented. This Section requires that:

- All financial assets be measured at fair value on initial recognition and certain financial assets to be measured at fair value subsequent to initial recognition;

- All financial liabilities be measured at fair value if they are classified as held for trading purposes. Other financial liabilities are measured at amortized cost using the effective interest method; and

- All derivative financial instruments be measured at fair value on the balance sheet, even when they are part of an effective hedging relationship.

Section 1530 introduces a new requirement to temporarily present certain gains and losses from changes in fair value outside net income. It includes unrealized gains and losses, such as changes in the currency translation adjustment relating to self-sustaining foreign operations, unrealized gains or losses on available-for-sale investments, and the effective portion of gains or losses on derivatives designated as cash flow hedges or hedges of the net investment in self-sustaining foreign operations.

Section 3251 describes the changes in how to report and disclose equity and changes in equity as a result of the new requirements of Section 1530. Upon adoption of these standards, the Company will report the following items in the consolidated financial statements:

- Comprehensive income and its components

- Accumulated other comprehensive income and its components.

Section 3865 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.

The Company is currently assessing the impact of these new standards on its consolidated financial statements.

Variability in Variable Interest Entities

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. EIC 163 will be effective July 1, 2007 on a prospective basis however retrospective application to the date of the initial adoption of AcG-15 is permitted. The Company does not expect that this new standard will have a material impact on its consolidated financial statements.

Capital Disclosures

In December 2006, the CICA issued Handbook Section 1535, ‘‘Capital Disclosures’’. This Section establishes standards for disclosing information about an entity’s objectives, policies, and processes for managing capital. This standard is effective for interim and annual financial statements relating to fiscal years commencing on or after October 1, 2007 on a prospective basis. The Company will adopt this new standard effective July 1, 2008.

Financial Instruments — Disclosures and Presentation

In December 2006, the CICA issued Handbook Sections 3862, ‘‘Financial Instruments — Disclosures’’ and 3863, ‘‘Financial Instruments — Presentation’’. These standards enhance existing disclosures in previously issued Section 3861 ‘‘Financial Instruments — Disclosures and Presentation’’. Section 3862 places greater emphasis on disclosures about risks related to recognized and unrecognized financial instruments and how those risks are managed. Section 3863 carries forward the same presentation standards as Section 3861. These new standards are effective for interim and annual financial statements relating to fiscal years commencing on or after October 1, 2007 on a prospective basis. The Company will adopt these new standards effective July 1, 2008.

Financial Instruments

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, demand loan, note payable, and long-term debt all approximate their fair values due to their immediate or short-term maturities or variable interest rates.

Credit Risk

Accounts receivable from the Canadian federal government and other government agencies in connection with production financing represents 68% of total accounts receivable at June 30, 2007 (June 30, 2006-66%). 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. An allowance for doubtful accounts, specifically an allowance on Federal and Provincial tax credits receivable, has been recorded based on the Company’s collection history.

Interest Rate Risk

The Company is exposed to interest rate risk arising from fluctuations in interest rates as its interim production financing and its long-term debt bear interest at floating rates. Management believes this exposure to be minimal. As an example, as of June 30, 2007, even a 1% rate increase would only result in an annualized increase of approximately $0.200 million in interest expense.

Risk Assessment

The following are the specific and general risks that could affect the Company that each reader should carefully consider. Additional risks and uncertainties not presently known to the Company or that the Company does not currently anticipate will be material, may impair the Company’s business operations and its operating results and as a result could materially impact its business, results of operations, prospects, and financial condition.

Risks Related to the Nature of the Entertainment Industry

The entertainment industry involves a substantial degree of risk. Acceptance of entertainment programming represents a response not only to the production’s artistic components, but also the quality and acceptance of other competing programs released into the marketplace at or near the same time, the availability of alternative forms of entertainment and leisure time activities, general economic conditions, public tastes generally and other intangible factors, all of which could change rapidly or without notice and cannot be predicted with certainty. There is a risk that some or all of the Company’s programming will not be purchased or accepted by the public generally, resulting in a portion of costs not being recouped or anticipated profits not being realized. There can be no assurance that revenue from existing or future programming will replace loss of revenue associated with the cancellation or unsuccessful commercialization of any particular production.

Risks Related to Television and Film Industries

Because the performance of television and film programs in ancillary markets, such as home video and pay and free television, is often directly related to reviews from critics and/or television ratings, poor reviews from critics or television ratings may negatively affect future revenue. The Company's results of operations will depend, in part, on the experience and judgment of its Management to select and develop new investment and production opportunities. The Company cannot make assurances that the Company's films and television programs will obtain favourable reviews or ratings, that its films will perform well in ancillary markets or that broadcasters will license the rights to broadcast any of our film and television programs in development or renew licenses to broadcast film and television programs in our library. The failure to achieve any of the foregoing could have a material adverse effect on the Company's business, results of operations or financial condition.

Licensed distributors' decisions regarding the timing of release and promotional support of the Company's films, television programs and related products are important in determining the success of these films, programs, and related products. The Company does not control the timing and manner in which our licensed distributors distribute our films, television programs, or related products. Any decision by those distributors not to distribute or promote one of the Company's films, television programs, or related products or to promote competitors' films, programs, or related products to a greater extent than they promote the Company's could have a material adverse effect on the Company's business, results of operations, or financial condition.

Risks Related to Doing Business Internationally

The Company distributes films and television productions outside Canada through third party licensees and derives revenues from these sources. As a result, the Company's business is subject to certain risks inherent in international business, many of which are beyond its control. These risks include: changes in local regulatory requirements, including restrictions on content; changes in the laws and policies affecting trade, investment and taxes (including laws and policies relating to the repatriation of funds and to withholding taxes); differing degrees of protection for intellectual property; instability of foreign economies and governments; cultural barriers; wars and acts of terrorism; and the spread of avian flu or other widespread health hazard.

Loss of Canadian Status

The Company could lose its ability to exploit Canadian government tax credits and incentives described above if it ceases to be "Canadian" as defined under the *Investment Canada Act*. In particular, the Company would not qualify as a Canadian if Canadian nationals cease to beneficially own shares of the Company having more than 50% of the combined voting power of its outstanding shares. In Canada and under international treaties, under applicable regulations, a program will qualify as a Canadian-content production if, among other things: (i) it is produced by Canadians with the involvement of Canadians in principal functions; and (ii) a substantial portion of the budget is spent on Canadian elements. As well, substantially all of the Company's programs are contractually required by broadcasters to be certified as "Canadian". In the event a production does not qualify for certification as Canadian, the Company would be in default under any government incentive and broadcast licenses for that production. In the event of such default, the broadcaster could refuse acceptance of the Company's productions.

Competition

Substantially all of the Company's revenues are derived from the production and distribution of television and film programs. The business of producing and distributing television and film programs is highly competitive. The Company faces intense competition with other producers and distributors, many of whom are substantially larger and have greater financial, technical, and marketing resources than the Company. The Company competes with other television and film production companies for ideas and storylines created by third parties as well as for actors, directors, and other personnel required for a production. The Company may not be successful in any of these efforts which may adversely affect business, results of operations, or financial condition.

The Company intends to increase its penetration of the prime-time television network market. The Company competes for time slots with a variety of companies which produce televised programming. The number of network prime-time slots remains limited (a "slot" being a broadcast time period for a program), even though the total number of outlets for television programming has increased over the last decade. Competition created by the emergence of new broadcasters has generally caused the market shares of the major networks to decrease. Even so, the license fees paid by the major networks remain the most lucrative. As a result, there continues to be intense competition for the time slots offered by those networks. There can be no assurance that the Company will be able to increase its penetration of the prime-time network market or obtain favourable stats, the failure to do so may have a negative impact on the Company's business.

Limited Ability to Exploit Filmed and Television Content Library

The Company depends on a limited number of titles for the majority of the revenues generated by its film and television content library. In addition, many of the titles in its library are not presently distributed and generate substantially no revenue. If the Company cannot acquire new products and rights to popular titles through production, distribution agreements, acquisitions, mergers, joint ventures, or other strategic alliances, it could have a material adverse effect on its business, results of operations or financial condition.

Protecting and Defending Against Intellectual Property Claims

The Company's ability to compete depends, in part, upon successful protection of its intellectual property. Furthermore, the Company's revenues are dependent on the unrestricted ownership of its rights to television and film productions. Any successful claims to the ownership of these intangible assets could hinder the Company's ability to exploit these rights. The Company does not have the financial resources to protect its rights to the same extent as its competitors. The Company attempts to protect proprietary and intellectual property rights to its productions through available copyright and trademark laws in a number of jurisdictions and licensing and distribution arrangements with reputable international companies in specific territories and media for limited durations. Despite these precautions, existing copyright and trademark laws afford only limited practical protection in certain countries in which the Company may distribute its products and in other jurisdictions no assurance can be given that challenges will not be made to the Company's copyright and trade-marks. In addition, technological advances and conversion of motion pictures into digital format have made it easier to create, transmit, and share unauthorized copies of motion pictures, DVDs, and television shows. Users may be able to download and distribute unauthorized or "pirated" copies of copyrighted material over the Internet. As long as pirated content is available to download digitally, some consumers may choose to digitally download material illegally. As a result, it may be possible for unauthorized third parties to copy and distribute the Company's productions or certain portions or applications of its intended productions, which could have a material adverse effect on its business, results of operations, or financial condition.

Litigation may also be necessary in the future to enforce the Company's intellectual property rights, to protect its trade secrets, or to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement or invalidity. Any such litigation could result in substantial costs and the diversion of resources and could have a material adverse effect on the Company's business, results of operations, or financial condition. The Company cannot provide assurances that infringement or invalidity claims will not materially adversely affect its business, results of operations, or financial condition. Regardless of the validity or the success of the assertion of these claims, the Company could incur significant costs and diversion of resources in enforcing its intellectual property rights or in defending against such claims, which could have a material adverse effect on the Company's business, results of operations, or financial condition.

Fluctuating Results of Operations

Results of operations for any period are significantly dependent on the number and timing of television programs and films delivered or made available to various media. Consequently, the Company's results of 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. Although traditions are changing, due in part to increased competition from new channels, industry practice is that broadcasters make most of their annual programming commitments between February and June in order that new programs can be ready for telecast at the start of the broadcast season in September, or as mid-season replacements in January. Because of this annual production cycle, the Company's revenues are not earned on an even basis throughout the year. Results from operations fluctuate materially from quarter to quarter and the results for any one quarter are not necessarily indicative of results for future quarters.

Raising Additional Capital

The Company is likely to require capital in the future, as to meet additional working capital requirements or capital expenditures or to take advantage of investment or acquisition opportunities. Accordingly, it may need to raise additional capital in the future. The Company's ability to obtain additional financing will be subject to a number of factors including market conditions and its operating performance. These factors may make the timing, amount, terms and conditions of additional financing unattractive or unavailable for the Company. If the Company raises additional funds by issuing equity securities, the relative equity ownership of its existing investors could be diluted or new investors could obtain terms more favourable than previous investors. If the Company raises additional funds through debt financing it could incur significant borrowing costs. If the Company is unable to raise additional funds when needed, or on terms acceptable to the Company, its ability to operate and grow its business could be impeded.

Concentration Risk

Revenue may originate from disproportionately few productions and broadcasters. The value of the Common Shares may be substantially adversely affected should the Company lose the revenue generated by any such production or broadcaster.

Reliance on Key Personnel

The Company is substantially dependent upon the services of certain key personnel, particularly Michael Donovan and Charles Bishop, Steven DeNure and Neil Court. The loss of the services of any one or more of such individuals could have a material adverse effect on the business, results of operations or financial condition of the Company. The Company maintains key man life insurance in respect of each of Michael Donovan, Charles Bishop, Steven DeNure and Neil Court pursuant to which the Company will receive $8.0 million, $3.5 million, $4.0 million and $4.0 million, respectively, upon the death of the relevant individual. Each of Mr. Donovan and Mr. Bishop, Mr. DeNure and Mr. Court is under contract to the Company until 2009.

Market Share Price Fluctuation

The market price of the Company's Common Shares may be subject to significant fluctuation in response to numerous factors, including variations in its annual or quarterly financial results or those of its competitors, changes by financial research analysts in their recommendations or estimates of the Company's earnings, conditions in the economy in general or in the broadcasting, film or television sectors in particular, unfavourable publicity or changes in applicable laws and regulations, exercise of the Company's outstanding options and/or warrants, or other factors. Moreover, from time to time, the stock markets on which the Company's Common Shares will be listed may experience significant price and volume volatility that may affect the market price of the Company's Common Shares for reasons unrelated to its economic performance. No prediction can be made as to the effect, if any, that future sales of Common Shares or the availability of Common Shares for future sale (including Common Shares issuable upon the exercise of stock options) will have on the market price of the Common Shares prevailing from time to time. Sales of substantial numbers of Common Shares, or the perception that such sales could occur, could adversely affect the prevailing price of the Company's Common Shares.

Risks Associated with Acquisitions and Joint Ventures

The Company has made or entered into, and will continue to pursue, various acquisitions, business combinations, and joint ventures intended to complement or expand its business. Any indebtedness incurred or assumed in any such transaction may or may not increase the Company's leverage relative to its earnings before interest, provisions for income taxes, amortization, minority interests, gain on dilution of investment in subsidiary and discounted operation, or EBITDA, or relative to its equity capitalization, and any equity issued may or may not be at prices dilutive to its then existing shareholders. The Company may encounter difficulties in integrating acquired assets with its operations. Furthermore, the Company may not realize the benefits it anticipated when it entered into these transactions. In addition, the negotiation of potential acquisitions, business combinations or joint ventures as well as the integration of an acquired business could require the Company to incur significant costs and cause diversion of Management's time and resources. Future acquisitions could also result in impairment of goodwill and other intangibles, development write-offs and other acquisition-related expenses.

The Company continues to pursue opportunities to expand its distribution capacity, production capacity, and product libraries. There can be no assurance that appropriate acquisitions or expansion opportunities will be identified or available; that the Company will have or be able to obtain sufficient financing or acceptable terms to fund any such acquisition or expansion; that any such acquisition or expansion will be consummated, or, if consummated, the timing thereof; or that any such acquisition or expansion can be successfully integrated into or with the Company's existing operations and business strategy and ultimately prove beneficial to the Company.

Potential for Budget Overruns and Other Production Risks

A production's costs may exceed its budget. Unforeseen events such as labour disputes, death or disability of a star performer, changes related to technology, special effects or other aspects of production, shortage of necessary equipment, damage to film negatives, master tapes and recordings, or adverse weather conditions, or other unforeseen events may cause cost overruns and delay or frustrate completion of a production. Although the Company has historically completed its productions within budget, there can be no assurance that it will continue to do so. The Company currently maintains insurance policies and when necessary, completion bonds, covering certain of these risks. There can be no assurance that any overrun resulting from any occurrence will be adequately covered or that such insurance and completion bonds will continue to be available or, if available, on terms acceptable to the Company. The Company has never made a material claim on its insurance or called on a completion bond. In the event of budget overruns, the Company may have to seek additional financing from outside sources in order to complete production of a television program. No assurance can be given as to the availability of such financing or, if available, on terms acceptable to the Company. In addition, in the event of substantial budget overruns, there can be no assurance that such costs will be recouped, which could have a significant impact on the Company's results of operations or financial condition.

Management Estimates in Revenues and Earnings

The Company makes numerous estimates as to its revenues and matching production and direct distribution expenses on a project–by-project basis. As a result of this accounting policy, earnings can widely fluctuate if Management has not accurately forecast the revenue potential of a production.

Stoppage of Incentive Programs

There can be no assurance that the local cultural incentive programs which the Company may access in Canada and internationally from time to time, including those sponsored by various European, Australian, and Canadian governmental agencies, will not be reduced, amended, or eliminated. Any change in the policies of those countries in connection with their incentive programs may have an adverse impact on the Company's business, results of operations, or financial condition.

Financial Risks Resulting from the Company's Capital Requirements

The production, acquisition and distribution of films and television programs require a significant amount of capital. The Company cannot provide assurance that it will be able to continue to successfully implement financing arrangements or that it will not be subject to substantial financial risks relating to the production, acquisition, completion, and release of future films and television programs. If the Company increases (through internal growth or acquisition) its production slate or its production budgets, it may be required to increase overhead, make larger up-front payments to talent, and consequently bear greater financial risks. The occurrence of any of the foregoing could have a material adverse effect on the Company's business, results of operations, or financial condition.

Government Incentive Program

In addition to license fees from domestic and foreign broadcasters and financial contributions from co-producers, the Company finances a significant portion of its production budgets from federal and provincial governmental agencies and incentive programs, including the Canadian Television and Cable Production Fund, the provincial film equity investment programs, federal tax credits, and provincial tax credits. The tax credits are considered part of the Company's equity in any production for which they are used as financing. There can be no assurance that individual incentive programs available to the Company will not be reduced, amended, or eliminated or that the Company or any production will qualify for them, any of which may have an adverse effect on the Company's business, results of operations, or financial condition.

Changes in Regulatory Environment

At the present time, the film industry is subject to a regulatory environment. The Company's operations may be affected in varying degrees by future changes in the regulatory environment. Any change in the regulatory environment could have a material adverse affect on the Company's revenues and earnings.

Litigation

Governmental, legal, or arbitration proceedings may be brought or threatened against the Company in the future. Regardless of their merit, any such claims could be time consuming and expensive to evaluate and defend, divert Management's attention and focus away from the business, and subject the Company to potentially significant liabilities.

Technological Change

Technological change may have a materially adverse effect on the Company's business, results of operations, and financial condition. The emergence of new production or CGI technologies or a new digital television broadcasting standard may diminish the value of the Company's existing equipment and programs. Although the Company is committed to production technologies such as CGI and digital post-production, there can be no assurance that it will be able to incorporate other new production and post-production technologies which may become de facto industry standards. In particular, the advent of new broadcast standards, which may result in television programming being presented with greater resolution and on a wider screen than is currently the case, may diminish the evergreen value of the Company's programming library because such productions may not be able to take full advantage of such features. There can be no assurance that the Company will be successful in adapting to these changes on a timely basis.

Labour Relations

Many individuals associated with the Company's projects are members of guilds or unions which bargain collectively with producers on an industry-wide basis from time to time. While the Company has positive relationships with the guilds and unions in the industry, a strike or other form of labour protest affecting those guilds or unions could, to some extent, disrupt production schedules which could result in delays and additional expenses.

Exchange Rates

The returns to the Company from foreign exploitations of its properties are customarily paid in US currency and, as such, may be affected by fluctuations in the exchange rate of the US dollar. Currency exchange rates are determined by market factors beyond the control of the Company and may vary substantially during the course of a production period. In addition, the ability of the Company to repatriate to Canadian funds arising in connection with foreign exploitation of its properties may also be adversely affected by currency and exchange control regulations imposed by the country in which the production is exploited. At present, the Company is not aware of any existing currency or exchange control regulations in any country in which the Company currently contemplates exploiting its properties which would have an adverse effect on the Company's ability to repatriate such funds. Where appropriate, the Company will hedge its foreign exchange risk through the use of derivatives.

Any of these factors could have a material adverse effect on the Company's business, results of operations or financial condition.

Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the entity's disclosure controls and procedures to provide reasonable assurance that all relevant information is gathered and reported to them on a timely basis so that appropriate decisions can be made regarding public disclosures.

The Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures have concluded that, as at June 30, 2007, the entity's disclosure controls and procedures were effective. It should be noted that while the entity's Chief Executive Officer and Chief Financial Officer believed that the disclosure controls and procedures can provide a reasonable level of assurance, and that they are effective, they do not expect that the disclosure controls and procedures can prevent all errors and fraud. A control system, no matter how well designed or operated can provide only reasonable, not absolute assurance that the objectives of the control systems are met.

Internal Control over Financial Reporting ("ICFR")

The Company's Chief Executive Officer and Chief Financial Officer are responsible for designing ICFR or causing these controls to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance to Canadian GAAP.

Due to its inherent limitations, ICFR may not prevent or detect material misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Chief Executive Officer and Chief Financial Officer conducted an evaluation of control design on ICFR as at June 30, 2007. Based on this evaluation, Management has concluded there was a material weakness in the application of a properly designed control specifically at the Company's Decode division. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

The Company's material weakness is in the application of ICFR related to the timing of revenues recognized on the granting of initial broadcast rights. This weakness specifically resulted in an error in revenues recognized in the Company's third quarter in relation to the Decode Division. Management has now corrected the errors and remediated the application deficiency and intends to refine the design of the related controls.

Changes in ICFR

There were no changes in the Company’s ICFR that occurred during the year ended June 30, 2007 that have materially affected, or are reasonably likely to materially affect, the entity’s ICFR.

Use of Non-GAAP Financial Measures

In addition to the results reported in accordance with Canadian generally accepted accounting principles, determined with reference to the Handbook of the CICA (“**GAAP**”), the Company uses various non-GAAP financial measures, which are not recognized under Canadian GAAP, as supplemental indicators of our operating performance and financial position. These non-GAAP financial measures are provided to enhance the user’s understanding of our historical and current financial performance and our prospects for the future. Management believes that these measures provide useful information in that they exclude amounts that are not indicative of our core operating results and ongoing operations and provide a more consistent basis for comparison between periods. The following discussion explains the Company’s use of EBITDA and Gross Margin as measures of performance.

“**EBITDA**” means earnings (loss) before interest, taxes, depreciation, amortization and stock-based compensation expense. Amortization includes amortization of property, plant, and equipment, acquired libraries and intangible assets. EBITDA represents net income (loss) of the Company before amortization of property, plant, and equipment, acquired libraries and intangible assets, interest and amortization of deferred financing fees, interest income (expense), non-controlling interest, equity income (loss), development expenses, and stock-based compensation expense. EBITDA is not an earnings measure recognized by GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, EBITDA may not be comparable to similar measures presented by other issuers. Management believes EBITDA to be a meaningful indicator of our performance that provides useful information to investors regarding our financial condition and results of operation.

“**Gross Margin**” means revenue less direct production costs and amortization of film and television programs. Gross Margin is not an earnings measure recognized by GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, Gross Margin may not be comparable to similar measures presented by other issuers.

A reconciliation of historical results to EBITDA is presented below.

Reconciliation of Historical Results to EBITDA

EBITDA is not a recognized earnings measure under GAAP and does not have standardized meanings prescribed by GAAP. Therefore EBITDA may not be comparable to similar measures presented by other companies or issuers. Investors are cautioned that EBITDA should not be construed as alternatives to net income or loss determined in accordance with GAAP as an indicator of the Company's performance or to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows. The following table reconciles income (loss) before income taxes, EBITDA, and Gross Margin, based on the historical unaudited financial statements of the Company for the three months and years ended June 30, 2007 and 2006 and the three-month periods ended March 31, 2007 and 2006, December 31, 2006 and 2005, and September 30, 2006 and 2005, included elsewhere in this MD&A. For further description see "Use of Non-GAAP Financial Measures" elsewhere in this MD&A.

	Year Ended 30-Jun-07 $	**Q4-07 $**	**Q3-07 $**	**Q2-07 $**	**Q1-07 $**
Income (loss) before income taxes for the period ……………………….	**1,790,755**	**1,607,649**	199,890	263,165	(279,949)
Interest and amortization of deferred financing fees ………………………	**455,758**	**455,758**	-	-	-
Interest expense and other (income)	**(162,198)**	**(265,910)**	36,247	46,523	20,942
Equity loss, loss on abandoned equity investment, and non-controlling interest	**309,200**	**278,402**	5,179	16,886	8,733
Equity income……………………….	**(360,513)**	**(360,513)**	-	-	-
Amortization …………………...……	**1,693,119**	**658,124**	296,717	467,686	270,592
Development expenses…………....	**403,512**	**337,563**	14,296	51,653	-
Stock-based compensation expense[1]	**370,332**	**126,512**	79,057	104,946	59,817
EBITDA[2]…………………………….	**4,499,965**	**2,837,585**	**631,386**	**950,859**	**80,135**
Selling, general and administrative, net of stock-based compensation expense…………………………...…	**6,970,382**	**1,615,681**	1,977,171	1,835,449	1,542,081
Income from strategic investments	**(1,736,761)**	**(272,972)**	(495,559)	(425,278)	(542,952)
Gross Margin[2] …………………....	**9,733,586**	**4,180,294**	**2,112,998**	**2,361,030**	**1,079,264**

	Year Ended 30-Jun-06 $	**Q4-06 $**	**Q3-06 $**	**Q2-06 $**	**Q1-06 $**
Income (loss) before income taxes for the period ……………………..……..	(988,890)	310,401	(349,743)	(380,892)	(568,656)
Interest and amortization of deferred financing fees ………………..……..	905,511	141,709	256,986	239,626	267,190
Interest expense and other (income)	(175,107)	(101,826)	(6,942)	(66,339)	-
Equity loss, loss on abandoned equity investment, and non-controlling interest	307,188	76,846	19,462	318,494	(107,614)
Amortization ………………...………	129,686	123,711	2,540	1,717	1,718
Development expenses…………...	201,315	-	-	-	201,315
Stock-based compensation expense[1]	136,737	136,737	-		-
EBITDA[2]…………………………….	**516,440**	**687,578**	**(77,697)**	**112,606**	**(206,047)**
Selling, general and administrative, net of stock-based compensation expense…………………………….	2,490,440	1,143,561	355,015	577,542	414,322
Income from strategic investments	(187,230)	(187,230)	-	-	-
Gross Margin[2] …………………....	**2,819,650**	**1,643,909**	**277,318**	**690,148**	**208,275**

[1]Effective Q2 2007 and onward, the Company began adding back as part of the EBITDA calculation non-cash stock-based compensation expense and has adjusted accordingly for all prior quarters reported herein.

[2]Certain of the comparative Non-GAAP Financial Measures ("**NGFM**") are adjusted for all necessary adjustments, consisting of normal recurring adjustments and any changes in the current definition of NGFM (see "Use of Non-GAAP Financial Measures" section of this MD&A for further details).

DHX MEDIA LTD.

Fiscal 2007

Supplemental Information
For the Year Ended June 30, 2007

1. Summary of securities issued and options and warrants granted during the year ended June 30, 2007

a. Summary of securities issued

Common Shares	Number of Common Shares	Value $
Balance at June 30, 2006	**32,576,452**	**40,499,600**
Issued to Neil Court, as consideration for Decode acquisiton	100,000	141,000
Issued to the Steven DeNure Family Trust, as consideration for Decode acquisition	100,000	141,000
Issued to a former shareholder of Decode, as consideration for Decode acquisition	25,000	35,250
Adjusted share issuance costs in connection with IPO		(38,185)
Balance at June 30, 2007	**32,801,452**	**40,778,665**

b. Summary of options and warrants

Options	Number of Options	Weighted-average exercise price
Balance at June 30, 2006	**1,021,547**	**$2.14**
Granted to Employees	900,000	$2.35
Granted to Employees	275,000	$1.58
Options expired during period	(275,000)	$1.85
Balance at June 30, 2007	**1,921,547**	**$2.20**

Put Options	Number of Put Options	Weighted-average exercise price
Gained in connection with issuance of common shares of a subsidiary [1]	425,420	Nil
Balance at June 30, 2007	**425,420**	**Nil**

[1] Each convert on a one-to-one basis to common shares of the Company (see note 16(i) of the consolidated financial statements for further details).

b. Summary of options and warrants (con't.)

Warrants	Number of Warrants	Weighted-average exercise price
Balance at June 30, 2006	**1,213,859**	**$2.19**
Warrants expired during period	(778,734)	$1.85
Balance at June 30, 2007	**435,125**	**$2.35**

c. Summary of securities as at the end of the period

i. Authorized share capital

Unlimited common shares without nominal or par value;

10,000,000 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;

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.

ii. Shares outstanding and recorded value

32,801,452 common shares at a recorded value of $40,778,665;
100,000,000 preferred variable voting shares at a recorded value of $100.

iii. Description of options and warrants

See Note 16 of the audited consolidated financial statements for the year ended June 30, 2007.

2. Directors and officers as at June 30, 2007

Directors

Sir Graham Day	Lead Director
Michael Donovan	Chairman, Board of Directors
J. William Ritchie	Director
Donald Wright	Director
Joe Medjuck	Director
Charles Bishop	Director
Steven DeNure	Director
Neil Court	Director

Officers

Michael Donovan	CEO
Dana Landry	CFO
Charles Bishop	Secretary and President of Halifax Film Ltd.
Steven DeNure	President of Decode Entertainment Inc.
Neil Court	President of Decode Enterprises
David Regan	Executive VP Corporate Development