DHX Media Ltd.

(Formerly "The Halifax Film Company Limited")

Consolidated Financial Statements

September 30, 2006 and 2005 (Unaudited) and June 30, 2006

November 13, 2006

Management's Responsibility for Financial Reporting

The accompanying unaudited interim consolidated financial statements, Management's Discussion and Analysis ("MD&A") and supplemental information of DHX Media Ltd. ("the Company") are the responsibility of management and have been approved by the Audit Committee of the Board of Directors. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting, and is ultimately responsible for reviewing and approving the unaudited interim consolidated financial statements and MD&A. The Board carries out this responsibility through its Audit Committee. The Audit Committee reviews the Company's interim consolidated financial statements and recommends their approval by the Board of Directors.

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

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

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

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

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

DHX Media Ltd.

(Formerly "The Halifax Film Company Limited")
Consolidated Balance Sheet
(Unaudited)

(in Canadian dollars)

	September 30, 2006 $	June 30, 2006 $
Assets		
Current assets		
Cash	4,007,604	6,111,391
Short-term investments	2,859,979	2,658,430
Amounts receivable (note 4)	27,888,704	30,786,367
Prepaid expenses and deposits	637,611	468,927
Current portion of investment in film and television programs (note 5)	22,952,946	11,863,610
	58,346,844	51,888,725
Investment in film and television programs (note 5)	8,626,057	9,386,042
Restricted cash	859,002	802,908
Investment in production companies (note 6)	178,870	61,939
Property, plant and equipment	5,888,809	5,843,757
Intangible assets (note 7)	3,043,959	3,202,016
Goodwill	6,679,544	6,613,053
	83,623,085	77,798,440
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	9,057,706	12,087,411
Income taxes payable	312,030	203,647
Deferred revenue	5,280,744	2,619,267
Interim production financing (note 8)	22,586,817	16,369,455
Current portion of long-term debt (note 9)	291,192	238,560
Note payable (note 10)	2,000,000	2,000,000
	39,528,489	33,518,340
Long-term debt (note 9)	3,093,428	3,012,513
Future income taxes	1,021,000	1,128,000
Non-controlling interest (note 11 (h))	552,201	543,469
	44,195,118	38,202,322
Shareholders' Equity		
Share capital and contributed surplus (note 11)	41,416,131	41,382,333
Deficit	(1,988,164)	(1,786,215)
	39,427,967	39,596,118
	83,623,085	77,798,440

DHX Media Ltd.

(Formerly "The Halifax Film Company Limited")
Consolidated Statement of Operations and Deficit
For the periods ended September 30,
(Unaudited)

(in Canadian dollars)

	Three Months ended September 30, 2006 $	Three Months ended September 30, 2005 $
Revenues	3,199,786	1,479,379
Direct production costs and amortization of film and television programs	2,120,522	1,319,911
	1,079,264	159,468
Operating income (expenses)		
Amortization	(270,592)	(1,718)
Income from rental and investing	542,952	48,807
Development expenses	–	(201,314)
Selling, general and administrative	(1,601,898)	(414,323)
Total operating income (expenses)	(1,329,538)	(568,548)
Loss before the following	(250,274)	(409,080)
Interest and amortization of deferred financing fees	–	(267,190)
Interest expense	(20,942)	
Equity income (note 6)		107,614
Non-controlling interest	(8,733)	–
Loss before income taxes	(279,949)	(568,656)
Provision for (recovery of) income taxes		
Large corporation taxes	20,000	–
Current income taxes	9,000	(217,000)
Future income taxes	(107,000)	217,000
	(78,000)	–
Net loss for the period	(201,949)	(568,656)
Deficit – Beginning of period	(1,786,215)	(871,325)
Deficit – End of period	(1,988,164)	(1,439,981)
Basic and fully diluted loss per common share (note 12)	(0.01)	(0.04)

DHX Media Ltd.

(Formerly "The Halifax Film Company Limited")
Consolidated Statement of Cash Flows
For the periods ended September 30,
(Unaudited)

(in Canadian dollars)

	Three Months ended September 30, 2006 $	Three Months ended September 30, 2005 $
Cash provided by (used in)		
Operating activities		
Net loss for the period	(201,949)	(568,656)
Charges (credits) to income not involving cash		
Amortization of film and television programs	1,657,713	539,220
Amortization of property, plant and equipment	112,535	1,718
Amortization of deferred financing charges	–	58,360
Amortization of intangible assets	158,057	–
Stock-based compensation (note 11 (g))	59,817	–
Interest on promissory notes	4,025	–
Interest	–	208,830
Equity income (note 6)	–	(107,614)
Non-controlling interest	8,733	–
Future income tax recovery	(107,000)	–
	1,691,931	131,858
Investment in film and television programs	(11,987,064)	(501,098)
Net change in non-cash working capital balances related to operations (note 13)	2,435,127	(2,251,059)
	(7,860,006)	(2,620,299)
Financing activities		
Share issuance costs	(30,044)	(8,868)
Proceeds from issuance of shares of a subsidiary, net of costs	–	556,176
Deferred financing fees and other costs	–	(18,607)
Proceeds from interim production financing	6,217,362	1,858,503
Repayment of demand loan	–	(125,000)
Proceeds from long-term debt	180,029	333,607
Repayment of long-term debt	(116,658)	(41,550)
	6,250,689	2,554,261
Investing activities		
Business acquisitions	(34,852)	–
Short-term investments	(201,548)	(12,535)
Acquisition of property, plant and equipment	(141,139)	(92,291)
Net cash advances from (to) investee	(116,931)	107,614
	(494,470)	2,788
Net change in cash during the period	(2,103,787)	(63,250)
Cash – Beginning of period	6,111,391	6,563,055
Cash – End of period	4,007,604	6,499,805

(in Canadian dollars)

1 Nature of the business and significant accounting policies

DHX Media Ltd. (formerly “The Halifax Film Company Limited”) (the “Company”) is a public company whose common shares were admitted to trading on the Alternate Investment Market (AIM) and the Toronto Stock Exchange (TSX) on May 19, 2006 (symbol DHX). The Company, incorporated on February 12, 2004 under the laws of the Province of Nova Scotia, Canada, and continued during the year ended June 30, 2006 under the Canada Business Corporation Act, develops, produces and distributes film and television programs for the domestic and international markets. On March 17, 2006, the Company changed its name from “The Halifax Film Company Limited” to “DHX Media Ltd.” The address of the head office is 1478 Queen Street, Halifax, Nova Scotia, Canada, B3J 2H7.

Basis of presentation

The accompanying unaudited interim financial statements have been prepared in accordance with the requirements of the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1751 “Interim Financial Statements”. Accordingly, certain information and note disclosure normally included in annual financial statements prepared in accordance with Canadian generally accepted accounting principles have been omitted or condensed. In the opinion of management, these statements include all adjustments, consisting of normal accruals, considered necessary by management to present a fair statement of the results of operations, financial position and cash flows. These unaudited interim financial statements were prepared using the same accounting principles as were used for the audited consolidated financial statements for the year ended June 30, 2006 and should be read in conjunction with the audited financial statements of the Company for the year ended June 30, 2006, as set out in the 2006 Audited Annual Financial Statements, available at www.sedar.com.

2 Change in accounting policy

Variable Interest Entities

Effective July 1, 2005, the Company adopted Accounting Guideline 15 (“AcG 15”) – Consolidation of Variable Interest Entities (“VIEs”). AcG 15 provides criteria for the identification of 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 losses from the VIEs activities or is entitled to receive a majority of the VIEs residual returns or both.

Prior to the adoption of AcG 15, the Company consolidated all entities that it controlled through ownership of a majority of voting interests.

Effective July 1, 2005, the Company implemented AcG 15, retroactively without the restatement of prior periods, and as a result, the Company has consolidated entities in which it has control through ownership of a majority of the voting interests as well as all VIEs for which it is the primary beneficiary.

(in Canadian dollars)

2 Change in accounting policy (continued)

VIEs for which the Company is not the primary beneficiary have been accounted for using the equity method (note 6).

On July 15, 2005, the Company obtained a variable interest in and was determined to be the primary beneficiary of Media Fund (Atlantic) Ltd. (“Media Fund”). The Company is party to a management agreement and a shareholder agreement with Media Fund, a company with the objectives of promoting and supporting job creation and economic development initiatives in the film and television industry in Nova Scotia. On July 15, 2005, Media Fund closed its first financing. Under the terms of the shareholder agreement, the new shareholders of Media Fund were granted a right to sell their shares to the Company in exchange for shares of the Company (the put option) provided that the Company was able to obtain a public listing for its shares. Accordingly, on July 15, 2005 the Company consolidated Media Fund’s assets and liabilities consisting of restricted cash of $957,195, accounts payable and accrued liabilities of $449,193 and non-controlling interest of $508,002.

3 Acquisitions

During the three-month period ended September 30, 2006, the following business acquisition occurred:

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

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

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

	$
Assets acquired	
Amounts receivable	45,041
Prepaid expenses and deposits	14,787
Goodwill	63,492
	123,320
Less: liabilities assumed	
Accounts payable and accrued liabilities	21,292
Long term debt	70,176
	91,468
	31,852

(in Canadian dollars)

3 Acquisitions (continued)

During the year ended June 30, 2006, the following business acquisitions occurred:

(b) On May 19, 2006, the Company acquired all of the issued and outstanding shares of Decode Entertainment Inc. (“Decode”), a television production company, for the total consideration of $17,879,148 as follows:

- Cash of $3,700,000;
- $2,000,000 promissory note payable December 15, 2006, bearing interest at the Royal Bank of Canada prime rate;
- 5,793,011 common shares of the Company valued at $11,571,539;
- Transaction costs of $607,609; and
- An “Earnout amount” calculated as 7.25 times the lesser of $1,300,000 and the amount by which “EBITDA” (as that term is defined in the agreement) exceeds $2,700,000 for the twelve-month period ended June 30, 2007. This consideration will be satisfied by the payment of readily available funds and/or by the issuance of additional common shares of the Company

The purchase price has been allocated to the assets acquired (including all identifiable intangible assets arising from the purchase) and liabilities assumed based on their estimated fair value at the date of acquisition as follows:

	$
Assets acquired	
Cash	2,483,957
Amounts receivable	24,700,343
Prepaid expenses and deposits	107,461
Investment in film and television programs	10,902,778
Property, plant and equipment	702,603
Customer and distribution relationships	545,500
Broadcaster relationships	1,910,000
Non-compete contracts and brand	674,000
Production back log	150,000
Goodwill	6,613,053
	48,789,695
Less: liabilities assumed	
Accounts payable and accrued liabilities	6,010,123
Income taxes payable	109,144
Deferred revenue	2,635,178
Interim production financing	10,504,102
Subordinated debenture	8,500,000
Future income taxes	3,152,000
	30,910,547
	17,879,148

(in Canadian dollars)

3 Acquisitions (continued)

The Company will finalize the purchase price allocation upon completion of its review of certain working capital balances.

The estimated fair value of the share consideration is based on the estimated fair value of the Company's common shares, as at the date the Company and the shareholders of Decode agreed to the terms of the purchase and sale, less a 15% discount for liquidity as these shares are subject to a lock-in period.

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

The acquisition has been accounted for using the purchase method and the results of operations are included in the consolidated statement of operations from May 19, 2006, the date of acquisition.

(c) On April 7, 2006 (the "Effective Date"), The Company acquired all of the issued and outstanding shares of Boy Girl Productions Canada Limited, a film production company for cash consideration of $128,719.

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

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

	$
Assets acquired	
Cash	38,709
Amounts receivable	2,135,538
Investment in film and television programs	144,877
	2,319,124
Less: liabilities assumed	
Accounts payable and accrued liabilities	539,277
Income taxes payable	47,143
Interim production financing	1,603,985
	2,190,405
	128,719

(in Canadian dollars)

3 Acquisitions (continued)

(d) On April 7, 2006 (the Effective Date), the Company acquired all of the issued and outstanding shares of Funny Farm Productions Limited, a film production company for cash consideration of $90,073.

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

	$
Assets acquired	
Cash	110,517
Amounts receivable	2,172,257
Investment in film and television programs	98,009
Deposits	5,427
	2,386,210
Less: liabilities assumed	
Accounts payable and accrued liabilities	1,585,373
Income taxes payable	6,764
Interim production financing	704,000
	2,296,137
	90,073

4 Amounts receivable

	September 30, 2006 $	June 30, 2006 $
Trade	9,367,404	8,634,493
Income taxes receivable	–	38,618
Goods and services taxes recoverable	92,730	1,162,036
Federal and provincial film tax credits and other government assistance	18,178,570	20,701,220
Due from an officer and director	250,000	250,000
	27,888,704	30,786,367

The amount due from an officer and director bears interest at bank prime.

(in Canadian dollars)

5 Investment in film and television programs

	September 30, 2006 $	June 30, 2006 $
Development costs	1,008,625	681,181
Theatrical and non-theatrical productions in progress		
Cost, net of government and third party assistance and third party participation	18,658,189	8,461,916
Acquired participation and distribution rights – theatrical and non-theatrical	679,327	679,141
Non-theatrical productions completed and released		
Cost, net of government and third party assistance and third party participation	26,247,814	24,784,653
Accumulated amortization	(15,014,952)	(13,357,239)
	11,232,862	11,427,414
	31,579,003	21,249,652
Less: Current portion	22,952,946	11,863,610
	8,626,057	9,386,042

The Company expects that 35% of the costs related to non-theatrical and theatrical productions completed and released will be amortized during the year ending June 30, 2007. The Company expects that 71% of the costs related to non-theatrical productions completed and released will be amortized during the three-year period ending June 30, 2009. The Company expects that over 85% of the costs related to productions completed will be amortized by June 30, 2011.

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

During the three-month period ended September 30, 2006, interest of $305,144 (year ended June 30, 2006 - $245,373) has been capitalized to investment in film and television.

(in Canadian dollars)

6 Investment in production companies and equity accounting

As described in note 2, effective July 1, 2005, the Company implemented VIE accounting for its investments in production companies using the equity method where it was determined the Company was not the primary beneficiary of the VIE.

A summary of the operations of investee companies for which the equity method is being applied as at September 30, 2006 and 2005 are outlined below.

	September 30, 2006 $	September 30, 2005 $
Revenues	4,763,399	976,547
Direct production costs	(4,763,399)	(868,933)
Equity income	–	107,614

During the three-month period ended September 30, 2006, included in the Company's revenues are charges to investees of $321,601 (three months ended September 30, 2005 - $107,614) for services rendered.

During the three-month period ended September 30, 2006, included in the Company's direct production costs are amounts billed to the Company by investees of $226,093 (three months ended September 30, 2005 - $nil) for expenses incurred.

As at September 30, 2006 the Company has balances in receivables from and amounts owing to an investee company of $306,551 (three months ended September 30, 2005 - $nil) and $211,043 (three months ended September 30, 2005 - $nil), respectively.

	September 30, 2006 $	June 30, 2006 $
The continuity of investment in production companies is as follows:		
Opening balance	61,939	(291,644)
Equity loss	–	(294,481)
Net cash advances to investee	116,931	648,064
	178,870	61,939

The advances to the production company are non-interest bearing with no set terms of repayment. The advances are to be repaid out of the initial production financing receipts. The underlying production is fully financed.

(in Canadian dollars)

7 Intangible assets

Intangible assets are as follows:

	September 30, 2006 $	June 30, 2006 $
Production backlog	150,000	150,000
Broadcaster relationships	1,910,000	1,910,000
Customer/distribution relationships	545,500	545,500
Non-compete contracts and brand	674,000	674,000
	3,279,500	3,279,500
Less: accumulated amortization	(235,541)	(77,484)
	3,043,959	3,202,016

8 Interim production financing

	September 30, 2006 $	June 30, 2006 $
Revolving demand bank loans, bearing interest at bank prime plus 0.75% - 2.00%. Assignment and direction of specific production financing and licensing contracts receivable, with a net book value of approximately $37,906,341 (year ended June 30, 2006 - $44,618,317), a $1,500,000 and a $273,600 guaranteed investment certificate and general security agreements have been pledged as security	22,422,079	16,198,378
Revolving demand loans, bearing interest at prime plus 1%, secured by specific tax credits receivable with a net book value of approximately $168,347 (year ended June 30, 2006 - $168,347)	164,738	171,077
	22,586,817	16,369,455

During the three-month period ended September 30, 2006, the bank prime rate averaged 6.00% (year ended June 30, 2006 - 5.04%).

(in Canadian dollars)

9 Long-term debt

	September 30, 2006 $	June 30, 2006 $
Loans payable, to a maximum authorized amount of $3,575,000, bearing interest at Business Development Bank of Canada prime plus 1.5%, maturing in May 2021, repayable in monthly principal instalments of $19,880 plus interest. A first mortgage on land and building having a net book value of $5,123,177, a general assignment of rents and a $530,000 guaranteed investment certificate.	3,318,830	3,251,073
Loans payable, repayable in monthly principal instalments of $4,386, non-interest bearing.	65,790	–
	3,384,620	3,251,073
Less: Current portion	291,192	238,560
	3,093,428	3,012,513

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

	$
Year ending June 30, 2007	290,976
2008	251,934
2009	238,560
2010	238,560
2011	238,560

10 Note payable

As consideration for the acquisition of Decode, the Company committed to a $2,000,000 promissory note payable December 15, 2006 bearing interest at the Royal Bank of Canada prime rate.

11 Share capital and contributed surplus

a) Authorized

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

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

90,000,000 common shares without nominal or par value

(in Canadian dollars)

11 Share capital and contributed surplus (continued)

b) Issued and outstanding

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

	Number	September 30, 2006 Amount $	Number	June 30, 2006 Amount $
Preferred variable voting shares (note 11 (c))				
Opening balance	100,000,000	100	–	–
Issued for cash	–	–	100,000,000	100
	100,000,000	100	100,000,000	100
Class A preferred shares				
Opening balance	–	–	3,893,673	1,603,992
Share issuance costs	–	–	–	(3,198)
Conversion to common shares in connection with IPO	–	–	(3,893,673)	(1,600,794)
	–	–	–	–
Common shares (note 11 (d))				
Opening balance	32,576,452	40,499,600	14,037,268	5,027,566
Issued for cash consideration	–	–	8,852,500	20,832,707
Adjustment to share issuance costs in connection with IPO	–	(30,044)	–	–
Share issuance costs, net of tax effect	–	–	–	(3,452,988)
Conversion of preferred shares	–	–	3,893,673	8,624,814
Share issuance costs transferred from preferred shares	–	–	–	(2,104,038)
Issued as consideration for acquisition of Decode	–	–	5,793,011	11,571,539
	32,576,452	40,469,556	32,576,452	40,499,600
Common share purchase loans receivable				
Opening balance	–	(460,134)	–	(175,000)
Loans to an officer during the period net of compensation expense (note 11 (e))	–	–	–	(285,134)
Interest received on notes	–	4,025	–	–
	–	(456,109)	–	(460,134)
Warrants (note 11 (f))				
Opening balance	1,213,859	1,131,888	389,367	720,329
Value of warrants issued in connection with IPO	–	–	824,492	411,559
	1,213,859	1,131,888	1,213,859	1,131,888
Contributed surplus (note 11 (g))				
Stock options				
Opening balance	1,021,547	210,879	275,000	173,000
Issued during the period	–	–	746,547	37,879
Stock based compensation expense during period	–	59,817	–	–
	1,021,547	270,696	1,021,547	210,879
		41,416,131		41,382,333

(in Canadian dollars)

11 Share capital and contributed surplus (continued)

c) Preferred Variable Voting Shares

The Preferred Variable Voting Shares were issued May 12, 2006 to an officer and director.

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

e) Share purchase financing

During the period ended September 30, 2006, the Company issued no amounts for share purchase financing (year ended June 30, 2006 - $387,250, to an officer of the Company bearing interest at bank prime less 1.5% and is secured by the shares of the Company acquired with the loan proceeds).

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

As a result of applying this guidance for the period ended September 30, 2006 no compensation expense was recognized (year ended June 30, 2006 - $98,858). Interest and any payments received on these loans are being recorded as a capital contribution.

f) Warrants

During the three-month period ended September 30, 2006 no warrants were granted or cancelled.

	Number of warrants	Weighted average exercise price
Outstanding at June 30, 2005	389,367	1.85
Granted in connection with the IPO	824,492	2.35
Outstanding at June 30, 2006 and September 30, 2006	1,213,859	2.19

(in Canadian dollars)

11 Share capital and contributed surplus (continued)

f) Warrants (continued)

The fair value of the warrants has been estimated by management using the Black Scholes option pricing model. The weighted average assumptions used in the pricing model to value the warrants are as follows:

	September 30, 2006	**June 30, 2006**
Risk-free interest rate	4.25%	4.25%
Expected option life	1 year	1 year
Expected volatility	50%	50%
Expected dividend yield	nil	nil

g) Stock options

On March 22, 2006, the Board of Directors approved an employee share option plan which provides for the issuance of up to 3,500,000 common shares. On the same date, the Company issued options under this plan to purchase 746,547 shares at $2.25 per share, vesting at various times over four years and expiring on March 22, 2013.

During the three-month period ended September 30, 2006 no stock options were granted or expired.

At September 30, 2006 and June 30, 2006, the Company had the following stock options outstanding:

	Number of options	**Weighted average exercise price**
Outstanding at June 30, 2005	275,000	1.85
Granted to directors, an officer and employees	746,547	2.25
Outstanding at June 30, 2006 and September 30, 2006	1,021,547	2.14
Exercisable at June 30, 2005 and 2006 and September 30, 2006	275,000	1.85

The weighted average grant date value of stock options at September 30, 2006 has been estimated at $1.27 (June 30, 2006 - $1.27) using the Black Scholes option pricing model. The following weighted average assumptions were used in the calculations:

	September 30, 2006	**June 30, 2006**
Risk-free interest rate	4.25%	4.25%
Expected option life	7 years	7 years
Expected volatility	50%	50%
Expected dividend yield	nil	nil

(in Canadian dollars)

11 Share capital and contributed surplus (continued)

g) Stock options (continued)

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

During the three-month period ended September 30, 2006, a total of $59,817 (three-month period ended September 30, 2005 - $nil, year ended June 30, 2006 - $37,879), was recognized as compensation expense.

h) Put options

Pursuant to a financing by Media Fund, the Company granted to the new shareholders of Media Fund a right to have the Company purchase their common shares in exchange for common shares of the Company (the "put option") on a one-for-one basis. These put options are exercisable only if and when the Company obtains a public listing for its shares. The put options are automatically exercised on January 15, 2009, unless the holder rejects the put right. The Company has a buy-out right to acquire all of the Media Fund shares after obtaining a public listing unless more than 25 percent of the shareholders reject the put right.

The common shares of Media Fund are redeemable by January 15, 2009 since a listing of the Company has occurred. However, as these common shares of Media Fund are residual equity in Media Fund, these shares have been presented as non-controlling interest.

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

12 Loss per common share

Loss per common share is calculated as follows:

	September 30, 2006 $	September 30, 2005 $
Net loss for the year	(201,949)	(568,656)
Weighted average number of common shares	22,889,770	14,037,270
Basic and fully diluted loss per common share	(0.01)	(0.04)

The effect of convertible, warrants, stock options and put options has been excluded from the calculations because they are anti-dilutive as a result of the net loss. The weighted average number of potentially dilutive instruments, comprised of shares issuable in respect of convertible warrants, stock options and put options, at September 30, 2006 is 2,660,826 (September 30, 2005 – 275,000).

(in Canadian dollars)

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

	September 30, 2006 $	September 30, 2005 $
Decrease (increase) in amounts receivable	2,942,704	(348,880)
Decrease (increase) in subscriptions receivable	–	440,000
Decrease (increase) in prepaid expenses and deposits	(153,897)	75,307
Decrease (increase) in restricted cash	(56,095)	–
Decrease (increase) in development costs	–	(10,196)
Decrease (increase) in film and television programs in progress	–	1,554,204
Increase (decrease) in accounts payable and accrued liabilities	(3,067,445)	(3,202,592)
Increase (decrease) in income taxes payable	108,383	–
Increase (decrease) in deferred revenue	2,661,477	(758,902)
	2,435,127	(2,251,059)
During the period, the Company paid and received the following:		
Interest paid	378,546	106,493
Interest received	30,374	42,363

14 Revenues

The Company has determined that it operates in one reporting segment with the following sources of revenue:

	September 30, 2006 $	September 30, 2005 $
Production and broadcast license fees	2,437,116	698,688
Production services revenue, equity method (note 6)	321,601	780,691
Other	441,069	–
	3,199,786	1,479,379

(in Canadian dollars)

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

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

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

a) Judgments made by management

IFRS requires disclosure of judgments that have been made by management in the preparation of the financial statements. In this regard, other than estimates which are disclosed under Canadian GAAP, management has made judgments about which development projects, with total costs of $1,008,625 at September 30, 2006 (year ended June 30, 2006 - $681,181) are likely to result in productions. Development projects which, during the reporting period, have not been assessed as likely to proceed have been written off.

b) Dividends per share

IFRS requires the Company to disclose dividends per share which are as follows:

	September 30, 2006 **$**	**September 30, 2005** **$**
Dividends per share	–	0.0375

c) Leases

Under IFRS total costs charged to expenses under operating leases must be disclosed. The Company incurred rent expense of $180,251 for the three-month period ended September 30, 2006 (three-month period ended September 30, 2005 - $55,486).

(in Canadian dollars)

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

d) Financial instruments

Under IFRS, transaction costs directly attributable to the issuance of financial instruments are deducted from the proceeds of the offering whereas under Canadian GAAP, such costs are recorded as a deferred financing fees. Accordingly, deferred financing fees as at September 30, 2006 of $nil (September 30, 2005 - $621,805) would be applied to reduce the financial liability component of the Class A preferred shares. This difference has no impact on the statements of operations and deficit as the amortization method used under Canadian GAAP results in a charge to the statement consistent with the use of the effective interest rate method under IFRS.

17 Subsequent events

Subsequent to September 30, 2006 the Company entered into an agreement to acquire distribution rights to 513 half-hours of television programming for a license fee of $2,200,000 payable as follows:

i. $100,000 upon signature of agreement;
ii. $400,000 upon signature of the long form license agreement with a targeted completion date not to exceed November 30, 2006;
iii. $120,000 in 10 quarterly payments starting December 31, 2006 and ending on March 31, 2009 (for a total of $1,200,000); and
iv. $500,000 on March 31, 2009.