DHX MEDIA LTD.

Fiscal 2006

FORM 51-102F1

Management Discussion and Analysis
of Financial Condition and Results of Operations
For the Years Ended June 30, 2006 and June 30, 2005

DHX MEDIA LTD.

Form 51 – 102F1 Annual Report
June 30, 2006

MANAGEMENT DISCUSSION AND ANALYSIS

*The following Management Discussion & Analysis ("**MD&A**") prepared as of September 27, 2006, should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes for the years ended June 30, 2006 and 2005. The audited consolidated financial statements and accompanying notes for the years ended June 30, 2006 and 2005 have been prepared in accordance with Canadian Generally Accepted Accounting Principles.*

DHX Media Ltd. (the "**Company**" or "**DHX**") is a public company incorporated under the Canadian Business Corporations Act and its shares are listed on the TSX and AIM Exchanges as of May 19, 2006. Additional information relating to the Company can be found 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 that are shown as ",000" (for example, "$100,000") are approximate and have been rounded to the nearest thousand.

This MD&A contains certain forward-looking statements, which reflect Management's 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 upon 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. More detailed 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.

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.

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 and amortization. Amortization includes amortization of property, plant and equipment. EBITDA represents net income of the Company before amortization of property, plant and equipment, interest and amortization of deferred financing fees, interest and other income, non-controlling interest and equity loss and development expenses. 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 at the end of this MD&A.

Business of the Company

DHX is a leading independent supplier 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”)

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 1,150 half-hour of programming and 28 individual titles produced over the last nine years. The Company has eight children’s series currently in first window broadcast on multiple major cable and broadcast networks in North America and internationally, including, *Lunar Jim*, *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 in its 14th season. 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, England-based sales group.

Revenue Model

The Company historically earns revenues primarily from three sources: production and then distribution of its proprietary productions and producer and service fees from production services for third parties. 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. These service and corporate overhead fees are earned for producing of 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 partially earned upon commissioning of a production, during production, once a completed production is delivered for broadcast and at some point in time after delivery as a holdback. (See “Critical Accounting Policies” 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 of productions whose copyright is owned by third parties.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting ("ICFR")

The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the Company's disclosure controls and procedures and establishing ICFR (as defined in Multilateral Instrument 52- 109, Certification of Disclosure in Issuers' Annual and Interim Filings).

The Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the date of this MD&A, have concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries required to be disclosed in the Company's reports filed or submitted under the Multilateral Instrument would have been known to them.

During the most recent three months ended June 30, 2006, the Company completed three acquisitions (See "Acquisitions" section of this MD&A). Management is in the process of reviewing the design of ICFR for these new subsidiaries and to date is not aware of any material weaknesses. Through this review process management anticipates implementing some changes to enhance the ICFR for these subsidiaries to bring them in line with the overall policies of the Company.

Critical Accounting Policies

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 Entity

Effective July 1, 2005, the Company is required to follow 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 VIE's activities or is entitled to receive a majority of the VIE's residual returns or both. (For a more detailed discussion of VIEs see "Change in Accounting Policies" section of this MD&A.)

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.

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

Effective July 1, 2005, the Company adopted the amended recommendations of 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 are credited to share capital.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The summary consolidated financial information set out below as at and for the years ended June 30, 2006, 2005 and 2004 has been derived from the Company's audited consolidated financial statements and accompanying notes for the years ended June 30, 2006, 2005 and 2004 posted on www.sedar.com. The financial information for the year ended June 30, 2006 in the table includes a full year's activity of the Company's Halifax Film division and only 43 days of activity from May 19,2006, the date of acquisition, to June 30, 2006 for the Decode division (see–"Acquisition" section of this MD&A for further details on the Decode acquisition). The financial information for the years ended June 30, 2005 and 2004 is for years 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,		
	2006 **$**	**2005** **$**	**2004[1]** **$**
Consolidated Statements of Operations Data:			
Revenue	15,935,639	20,890,177	–
Direct production costs and amortization of film and television programs	12,928,759	19,885,888	–
Gross margin	3,006,880	1,004,289	–
Selling, general and administrative	2,627,177	1,197,861	78,789
Operating income (loss)	48,702	(244,573)	(78,789)
Interest and other (expenses) income, net	(1,037,592)	3,789	–
Net loss	(914,890)	(309,784)	78,789
Basic and fully diluted (loss) per common share	(.06)	(.02)	(.19)
Weighted average common shares outstanding			
Basic	15,076,332	12,776,671	409,607
Fully Diluted	16,452,346	13,044,595	409,607

	Year Ended June 30,		
	2006 **$**	**2005** **$**	**2004** **$**
Consolidated Balance Sheet Data:			
Cash, restricted cash and short-term investments	9,572,729	7,588,928	1,435,476
Investment in film and television programs	21,249,652	6,096,484	532,989
Total assets	77,798,440	26,138,994	2,158,207
Total debts	38,202,232	19,660,432	853,364
Shareholder equity	39,596,118	6,478,562	1,304,843

(1) Period is from date of incorporation, February 12, 2004, to June 30, 2004

Year Ended June 30, 2006 ("Fiscal 2006" or "2006") Compared to Year Ended June 30, 2005 ("Fiscal 2005 or "2005")

Revenues

Revenues for Fiscal 2006 were $15.936 million, down from $20.890 million for Fiscal 2005, a decrease of 24%. The decrease is due to the reduction in production service revenues to $1.326 million for Fiscal 2006 down from $16.5 million for Fiscal 2005 as a conscious decision was made by management to focus on rights retention and proprietary productions that are anticipated to generate future distribution and exploitation revenue from the owning of the rights. This is further evidenced when comparing the proprietary production revenues for Fiscal 2006 of $13.492 million up 265% over the $3.7 million for Fiscal 2005. Also distribution and other revenues are up 63% and 61% to $0.595 million and $0.523 million for Fiscal 2006 respectively over $0.365 million and $0.325 million for Fiscal 2005.

Revenues for Fiscal 2006 include $15.458 million from a full year of operations of the Company's Halifax Film division and $0.478 million from 43 days of operation of the Company's Decode division from the date of the Company's initial public offering ("IPO") and coinciding acquisition of Decode on May 19, 2006 to June 30, 2006 (see "Acquisition" section of this MD&A for further details on the Decode acquisition).

Proprietary television production revenues of $7.197 million include delivery of 63 half-hours of proprietary television ($1.397 million-14 half-hours of *POKO* Season II, $0.538 million -20 half-hours of *Lunar Jim* Season I, $3.495 million - 18 half-hours of *This Hour Has 22 Minutes* Season XIII, $1.358 million –6 half-hours of *North South* Season I and $0.409 million-5 half-hours of *POKO* Season III) versus the delivery of $3.7 million for Fiscal 2005 of 51 half-hours of proprietary television ($1.2 million -12 half-hours *POKO* — Season II, $0.8 million -6 half-hour *Lunar Jim*, $0.4 million -6 half-hour *Body of Knowledge*, $1.1 million -26 half-hour *Open Book* — Season III and $0.2 million -1 half hour for *North South* — Pilot). This increase for Fiscal 2006 is consistent with the Company's strategic goal to increase home grown or proprietary television production both in absolute dollars and as a percentage of the total productions revenues earned.

Proprietary feature film production revenues of $6.295 million include delivery of $3.887 million or 4 half-hours (2 hours) for the film currently entitled *It's a Boy Girl Thing* and $2.408 million or 4 half-hours (2 hours) for the film currently entitled *Intervention (aka Funny Farm)* versus no deliveries of proprietary feature films for Fiscal 2005.

For Fiscal 2006 the breakdown for the $1.326 million in production service revenue was $1.282 million and $44,000 versus $9.7 million and $6.8 million for Fiscal 2005 for the motion pictures entitled *Slevin* ("Slevin") and *Ambition* ("Ambition") respectively.

Overall production revenues for Fiscal 2006 of $14.818 million were broken down as follows $13.492 or 91% for proprietary productions and $1.326 million or 9% for production service revenue, a significant improvement over the 18% for proprietary production and 82% for production service revenue for Fiscal 2005.

For Fiscal 2006 the Company earned $8,000 from its VIE Media Fund (for a more detailed discussion of VIEs see "Change in Accounting Policies" section of this MD&A), $0.595 million in revenue from the distribution of its proprietary television production (the Company expects this to increase as the sales arm of Decode now has increased its critical mass as a result of bringing the two businesses together) and $0.523 million from other revenue sources such as producer fees earned on service productions, interest and investment revenue earned on cash resources and short term investment. In Fiscal 2005 the Company also earned revenue from producer and service fees of $250,000 from the executive producing of Season XII of "*This Hour Has 22 Minutes*" and $365,000 in revenue from the distribution of its proprietary production " POKO" Season 1.

Gross Margin

Gross Margin for Fiscal 2006 was $3.007 million an overall 19% of revenue up considerably from the Fiscal 2005 Gross Margin of $1.004 million or 5%, 2005, an increase of 280%. The Gross Margin for Fiscal 2006 has increased over Fiscal 2005 (as noted in the "Revenue" section of this MD&A) as management has focused on rights retention by delivering more proprietary film and television properties with higher margins for 2006. The Gross Margin for Fiscal 2006 was more in line with management's projections, which are between 10 to 25% for proprietary productions. As each production is financed differently, these Gross Margins can vary greatly with the Company maintaining a larger share of the copyright on certain programs over others. This is due to certain projects requiring a larger percentage of pre-licensing in order to get the necessary production revenues to get the program produced. As more of the program territories are pre-licensed in advance it naturally reduces the number of territories available for distribution revenues. With lower distribution revenues comes a lower margined production. On a go forward basis the Gross Margin for the Company will depend on the ultimate mix of production services revenues to proprietary revenue, however, it is projected to be in the 10-25% range for Fiscal 2007.

Operating Expenses

Operating expenses for Fiscal 2006 were $2.958 million compared to $1.249 million for Fiscal 2005 an increase of 137%. The increase is due to non-cash items of amortization of $0.130 million, a write down of development fees of $201,000 and a 119% increase of SG&A to $2.627 million up from $1.198 million for Fiscal 2005. The amortization was made up of $130,000 for amortization of property, plant and equipment and intangibles. The $201,000 for development expenses were for write-downs on projects that the Company decided not to move forward into production. SG&A have increased 119% as a result of the Company hiring people and expanding facilities in ramping up for its IPO on May 19, 2006. Also related to the Company reviewing potential new production deals, further sales and distribution relationships as well as potential rights acquisitions, investor relations and other public company related costs there was a requirement for increased professional and consulting advice and this has resulted in consultation, legal, dues and fees, insurance, investor relations and audit fees in the amount of approximately $516,000.

EBITDA

For Fiscal 2006 EBITDA was $380,000 as compared to an EBITDA loss of $194,000 for Fiscal 2005 an increase of

296%. For Fiscal 2006 EBITDA was due to the increase in Gross Margin dollars of $2.003 million offset by an increase in SG&A expense in absolute dollars of $1.429 million for a total dollar change of $0.574 million as an increase in EBITDA again driven by deliveries of higher margin proprietary film and television productions.

Amortization

For Fiscal 2006 amortization of property, plant and equipment, and intangibles, as allocated through the purchase price allocation of the Decode acquisition, was $130,000 up considerably from the $8,000 for Fiscal 2005 as the assets categories property, plant and equipment and intangibles increased in absolute dollars by $6.136 million as at June 30, 2006 over 2005.

Interest

Interest expense for Fiscal 2006 was $0.906 million up from $34,000 for Fiscal 2005. Interest expense consists of interest expense accreted on the Class A Preferred Shares of $0.731 million (2005-$34,000), interest and bank charges of $6,000 and $0.169 million for amortization of deferred financing fees, which as of May 19, 2006, the IPO date, have all been offset against share capital and will not be an item going forward. This interest expense was offset by interest revenue for Fiscal 2006 of $0.175 million (2005-$38,000) earned on cash balances and short-term investments.

Equity Loss and Non-Controlling Interest

Equity loss for Fiscal 2006 was $0.294 million (2005 - Nil) for the Company's investment in LJ 2003 Productions Ltd. (2005 - Nil). Non-controlling interest for Fiscal 2006 was an expense of $13,000 (2005 - Nil).

Income Taxes

Income taxes expense for Fiscal 2006 was a net income tax recovery of $74,000 (2005-$69,000 income tax expense). The amount was made up of a $0.150 million, (2005-$35,000) provision for large corporation tax, and was offset by a $73,000 (2005-$34,000) recovery for current income taxes and $0.151 million recovery for future income taxes.

Net Loss

Net loss for Fiscal 2006 was $0.915 million a decrease of 195% over the $0.310 million net loss for Fiscal 2005. For Fiscal 2006 the overall increase in the net loss of $0.605 million was due to changes over Fiscal 2005 of the following amounts: a Gross Margin increase of $2.003 million offset by an increase in SG&A of $1.429 million, and increases of $0.159 million, $0.731 million, $0.294 million and $13,000 for development expenses, net interest expense, an equity loss, non-controlling interest respectively and increased by $0.143 million for recovery of income taxes.

Fiscal 2005 Compared to the Period Ended June 30, 2004 ("Fiscal 2004" or "2004")

Revenues

Revenues for Fiscal 2005 were $20.9 million, up from no amounts for revenues for the year ended Fiscal 2004, as Fiscal 2004 was the Company's initial 4 month period of operations. The increase was due to the delivery of 51 half-hour of proprietary television programs representing $3.7 million in production revenue (12 half-hour — $1.2 million, 6 half-hour- $0.8 million, 6 half-hour- $0.4 million, 26 half-hour — $1.1 million and 1 half hour — $0.2 million for *POKO* — Season II, *Lunar Jim, Body of Knowledge, Open Book* — Season III, and *North South* — Pilot respectively) and delivery of $9.7 million and $6.8 million in production service revenues for third parties respectively for *Slevin* and *Ambition*. In Fiscal 2005 the Company also earned revenue from producer and service fees of $250,000 from the executive producing of Season XII of "*This Hour Has 22 Minutes*" and $365,000 in revenue from the distribution of its proprietary production " *POKO*" Season 1.

Gross Margin

Gross Margin for Fiscal 2005 was 5% of revenue versus no amounts for Fiscal 2004, as Fiscal 2004 was the Company's four months of operation and no revenue was generated. Gross Margin for proprietary productions has been projected to be between 10 to 25% while the Gross Margin for production service revenues for third parties is projected to be 2 to 5%.

Operating Expenses

Operating expenses for Fiscal 2005 were $1.249 million compared to $79,000 for Fiscal 2004, an increase of 1485%. This increase is due to the fact that Fiscal 2004 comprised the initial 4 months of operations of the Company and a significantly lower level of activity. For Fiscal 2005 the major expense categories in operating expenses were amortization at $8,000, development expenses at $43,000 and SG&A at $1.197 million. The major categories within SG&A were salary and wages of $608,000 for the employees of the Company, professional fees of $165,000 for consultation, legal and audit fees and stock compensation expense of $173,000. Salary and wages were based on head count that the Company felt was necessary for the delivery of $20.9 million in revenue for Fiscal 2005. The $43,000 in development expenses were for write-downs on projects that the Company decided not to move forward into production. Stock compensation expense for Fiscal 2005 at $173,000 and was based on the estimated fair value of the stock options issued during Fiscal 2005 using the Black-Scholes option pricing model (see "Critical Accounting Policies" for description of method).

EBITDA

In Fiscal 2005 EBITDA was a loss of $194,000 compared to a $79,000 loss in 2004, an increase of 145.6%. The increase was due the fact that 2005 was the first full year of operations versus only 4 months of operations in 2004. In 2005 total revenues were $20.9 million up from no amounts in 2004 from the delivery of 51 half-hour of proprietary television programming for $3.7 million and $16.5 million of production service revenues for *Slevin* and *Ambition*. These revenues were offset by direct production costs and amortization of film and television programs of $19.89 million and operating expenses of $1.249 million.

Amortization

For Fiscal 2005 amortization of property, plant and equipment was $8,000 as compared to no amounts for Fiscal 2004.

Interest

Interest expense for Fiscal 2005 was $34,000 up from no amounts for Fiscal 2004. Interest expense consists of interest expense accreted and amortized on the Class A Preferred Shares (see Notes to the audited consolidated financial statements) of $34,000. This interest expense was offset by interest revenue in 2005 of $38,000 (Fiscal 2004 -Nil) earned on cash balances and short-term investments.

Income Taxes

Income tax expenses for Fiscal 2005 were $69,000 as compared to no amounts for Fiscal 2004. In Fiscal 2005 Income tax expenses were made up of provisions for large corporation taxes and current taxes of $35,000 and $34,000 respectively.

Net Loss

Net loss for Fiscal 2005 was $310,000 as compared to a $79,000 loss for Fiscal 2004, an increase of 293%. The increase is due an EBITDA loss of $194,000 for first full year of operations as compared to a loss of $79,000 for Fiscal 2004, offset by $4,000 in net interest revenue, reduced by $8,000 in amortization and reduced by $69,000 in income tax expenses.

SELECTED CONSOLIDATED QUARTERLY FINANCIAL INFORMATION

The following tables set out selected consolidated financial information for each of the last eight quarters with the last one being the most recent quarter ended June 30, 2006. In the opinion of management, this information has been prepared on the same basis as the audited consolidated financial statements 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 operating results for any quarter should not be relied upon as any indication of results for any future period.

	Fiscal 2006				**Fiscal 2005**			
	Q4 June 30 $	**Q3 Mar 31 $**	**Q2 Dec 31 $**	**Q1 Sept 30 $**	**Q4 June 30 $**	**Q3 March 31 $**	**Q2 Dec 31 $**	**Q1 Sept 30 $**
Revenue	9,412,349	1,889,195	2,129,362	2,504,733	18,749,311	1,582,125	474,770	83,971
Gross Margin	1,831,139	277,318	582,534	315,889	486,592	303,904	129,822	83,971
EBITDA	550,841	(77,697)	4,992	(98,433)	(234,807)	146,958	13,475	(119,198)
Net income (loss)	416,008	(359,743)	(402,499)	(568,655)	(350,947)	145,137	16,602	(120,576)
Basic and Diluted Earnings (Loss) Per Share	0.02	(0.03)	(0.03)	(0.04)	(0.01)	0.01	0.00	(0.02)

Results for the three months ended June 30, 2006 (“Q4 2006”) compared to the three months ended June 30, 2005 (“Q4 2005”)

Revenues

Revenues for Q4 2006 were $9.412 million, down from $18.749 for Q4 2005 a decrease of 50%. The decrease is due to the reduction in production service revenues by $16.645 million in absolute dollars as Q4 2006 actually had $145,000 reversal of prior production service revenues booked for the nine months ended March 31, 2006 down from $16.5 million for Q4 2005 ($9.7 million and $6.8 million in production service revenues for third parties respectively for *Slevin* and *Ambition*) as a conscious decision was made by management to focus on higher margin proprietary production that are anticipated in the future to generate distribution and exploitation revenue from the owning of the rights. This is further evidenced when comparing the proprietary production revenues for Q4 2006 of $8.489 million up 445% over the $2.101 million for Q4 2005. The increase for Q4 2006 is consistent with the Company’s strategic goal to increase production budgets for its proprietary television production and therefore increase the revenue generated from home grown productions both in absolute dollars and as a percentage of the total productions revenues earned. For Q4 2006 distribution and other revenues are up to $0.583 million and $0.485 million respectively over no amounts and $0.148 million respectively for Q4 2005.

For Q4 2006 the Company delivered 13 half-hours of proprietary television programs (6 half-hours of North South Season I, 2 half-hours of This Hour Has 22 Minutes Season XIII and 5 half-hours of POKO Season III) versus the delivery of 17 half-hours (10 half-hours of POKO Season II, 1 half-hour of Open Book Season III and 6 half-hours of Lunar Jim Season I). For Q4 2006 the Company delivered 2 (8 half-hours) proprietary feature film programs (4 half-hours for the feature film currently entitled *It's a Boy Girl Thing* and 4 half-hours for the feature film currently entitled *Intervention (*aka *Funny Farm*) versus no deliveries of proprietary feature film programs for Q4 2005.

Gross Margin

Gross Margin for Q4 2006 was $1.831 million an overall 19% of revenue versus $0.487 million or 3% of revenue for Q4 2005, an increase of 533%. The Gross Margin for Q4 2006 was higher than Q3 2005 because Q4 2006 had very little amounts earned from service producing fees versus $16.5 million for Q4 2006. The Gross Margin for Q4 2006 was in line with management's projected margins for proprietary productions of 10 to 25%. As each production is financed differently, these Gross Margins can vary greatly with the Company maintaining a larger share of the copyright on certain programs over others. This is due to certain projects requiring a larger percentage of pre-licensing in order to get the necessary production revenues to get the program produced. As more of the program territories are pre-licensed in advance it naturally reduces the number of territories available for distribution revenues. With lower distribution revenues comes a lower margined production.

Operating Expenses

Operating expenses for Q4 2006 were $1.404 million compared to $0.767 million for Q4 2005, an increase of 83%. The increase is mainly due to a 77% increase of SG&A to $1.280 million up from $0.721 million for Q4 2005. SG&A have increased as a result of the Company hiring people and expanding facilities in ramping up for its IPO on May 19, 2006. Also related to the Company reviewing potential new production deals, further sales and distribution relationships as well as potential rights acquisitions, investor relations and other public company related costs there was a requirement for increased professional and consulting advice and this has resulted in consultation, legal, dues and fees, insurance, investor relations and audit fees which amounted to approximately $0.161 million. Also included in Operating expenses for Q4 2006 is $0.124 million for amortization versus $3,000 for Q4 2005.

EBITDA

In Q4 2006 EBITDA was $0.551 million, as compared to a loss of $0.235 million for Q4 2005, an improvement of 334%. For Q4 2006 this was due to the increase in Gross Margin dollars of $1.35 million and offset by the increase in SG&A dollars of $0.559 million for a total dollar change of $0.791 million.

Amortization

For Q4 2006 amortization of property, plant and equipment was $124,000 (Q4 2005 - $3,000) due to the significant additions to property, plant and equipment over the 2005 balances.

Interest

Interest expense, net of interest revenue, for Q4 2006 was $40,000 up $44,000 from $4,000 in net interest revenue for Q4 2005. Interest expense consists of $0.109 million, $27,000 and $6,000 for interest expense accreted on the Class A Preferred Shares, amortization and deferred financing fees and interest and bank charges respectively compared to $34,000, nil, and nil amounts respectively for Q4 2005. This interest expense was offset by interest and other investment revenue in Q4 2006 of $102,000 (Q3 2005-$38,000) earned on cash balances and short-term investments.

Equity Loss and Non-Controlling Interest

Equity loss for Q4 2006 was comprised of $62,000 equity loss (Q4 2005 - Nil) plus $10,000 for the elimination of intercorporate profit for the Company's investment in LJ 2003 Productions Ltd. (Q4 2005 - Nil). Non-controlling interest for Q4 2006 was an expense of $5,000 (Q4 2005 - Nil).

Income Taxes

Income taxes expense for Q4 2006 was a net recovery of income taxes of $0.106 million made up from a $0.118 million provision for large corporation and offset by a recoveries of $73,000 and $0.151 million for current and future income taxes as compared to a provision for income taxes of $69,000 ($35,000 for large corporation taxes and $34,000 for current income taxes) for Q4 2005.

Net Income (Loss)

Net income for Q4 2006 was $0.416 million up from a net loss of $0.351 million for Q4 2005, an increase of 219%. For Q4 2006 the overall increase of $0.767 million was due to changes over Q4 2005 of the following amounts: increases from a gross margin increase of $1.350 million, a development expense decrease of $43,000, a change in recovery of income taxes of $0.174 million and an interest revenue increase of $64,000 and reduced by an increase in SG&A of $0.559 million, and increases of $120,000, $108,000, $72,000 and $5,000 for amortization, net interest expense, an equity loss and non-controlling interest.

Results for the Three-Months Ended March 31, 2006 ("Q3 2006") Compared to the Three-Months Ended March 31, 2005 ("Q3 2005")

Revenues

Revenues for Q3 2006 were $1.889 million, up from $1.582 million Q3 2005 an increase of 19%. The increase is mainly due the delivery of 17 half-hours of higher revenue generating proprietary television programs (8 half-hour of *Lunar Jim* Season I and 9 half-hour of *This Hour Has 22 Minutes* Season XIII) versus the delivery of lower revenue generating shows totalling 28 half-hours (2 half-hour of *POKO* Season II, 25 half-hour of *Open Book* Season III and 1 half-hour pilot for *North South*). The increase for Q3 2006 was consistent with the Company's strategic goal to increase production budgets for its proprietary television production and therefore increase the revenue generated from home grown productions both in absolute dollars and as a percentage of the total productions revenues earned. For Q3 2006 the $1.889 million in production revenues was generated 100% from proprietary productions. The breakdown for the $1.889 million in proprietary television production was approximately $1.751 million and $210,000 for *This Hour Has 22 Minutes* Season XIII and *Lunar Jim* Season I, respectively, and a reversal of $72,000 for production service revenue for *Ambition*. In Q3 2005 revenues were split $1.493 million for proprietary television production and $89,000 from service producing Season XII of This Hour Has 22 Minutes. The breakdown for Q3 2005 proprietary television production revenue of $1.493 million was approximately $252,000, $207,000 and $1.034 million for *POKO* Season II, the pilot for *North South* and *Open Book* Season III respectively.

Gross Margin

Gross Margin for Q3 2006 was $277,000 an overall 15% of revenue versus $304,000 or 19% of revenue for Q3 2005, a decrease of 21%. The Gross Margin for Q3 2006 was lower than Q3 2005 because in Q3 2006 there were no amounts earned from service producing fees versus $89,000 for Q3 2005 earned from service producing Season XII of *This Hour Has 22 Minutes* the cost of which are fixed operating costs of the Company and are reflected as selling, general and administrative expenses ("SG&A") and therefore have no direct cost of goods sold associated with earning these service fees. When this is removed the margin for Q3 2005 is approximately 14% or consistent with Q3 2006. The Gross Margin for Q3 2006 was in line with management's projected margins for proprietary productions of 10 to 25%.

EBITDA

In Q3 2006 EBITDA was a loss of $78,000 as compared to earnings of $147,000 for Q3 2005, a decrease of 153%. For Q3 2006 this was due to the decrease in Gross Margin dollars of $30,000 and an increase in operating expense dollars of $195,000 for a total dollar change of $225,000.

Net Loss

Net loss for Q3 2006 was $360,000 down from net income of $145,000 for Q3 2005, an increase of 348%. For Q3 2006 the overall decrease of $505,000 was due to changes over Q3 2005 of the following amounts: a Gross Margin decrease of $31,000, an increase in SG&A of $195,000, and increases of $250,000, $15,000, $4,000 and $10,000 for net interest expense, an equity loss, non-controlling interest and income taxes, respectively.

Results for the Three-Months Ended December 31, 2005 ("Q2 2006") Compared to the Three-Months Ended December 31, 2004 ("Q2 2005")

Revenues

Revenues for Q2 2006 were $2.129 million, up from $0.47 million for Q2 2005, an increase of 350%. The increase is mainly due the delivery of 19 half-hours of proprietary television (7 half-hours of *POKO* Season II, 5 half-hour of *Lunar Jim* Season I and 7 half-hour of *This Hour Has 22 Minutes* Season XIII) versus the delivery of only 6 half-hour of *Body of Knowledge* Season I in Q2 2005. The increase for Q2 2006 was consistent with the Company's strategic goal to increase home grown or proprietary television production as a percentage of the total productions revenues earned. Revenues for Q2 2006 consist of $1.398 million for proprietary television production (2005-$377,000), distribution revenues of $13,000 (2005-$13,000), production service revenues of $0.767 million (2005- $80,000) and offset by a reversal of other revenue of $49,000 (2005-Nil). The breakdown for the $1.398 million in proprietary television production was $0.699 million and

$1.359 million for *POKO* and *This Hour Has 22 Minutes*, respectively, and was offset by a reversal of $0.660 million for the deconsolidation of Q1 revenues earned from *Lunar Jim* as during the Q2 2006 the Company changed its accounting policy on the treatment of Lunar Jim (see Note 2 to the June 30, 2006 consolidated financial statements). The breakdown for the $0.767 million in production service revenue was $0.656 million and $111,000 for the motion pictures entitled *Slevin* ("Slevin") and *Ambition* ("Ambition") respectively versus Q2 2005 the Company earned $80,000 from service producing Season XII of This Hour Has 22 Minutes.

Gross Margin

Gross Margin for Q2 2006 was $582,000 an overall 27% of revenue was in line versus $129,000 or 28% of revenue for Q2 2005. The Gross Margin for Q2 2006 was higher than it was projected to be going forward as management's projections are for Gross Margins of between 10 to 25% for proprietary productions. As each production is financed differently, these Gross Margins can vary greatly with the Company maintaining a larger share of the copyright on certain programs over others. This is due to certain projects requiring a larger percentage of pre-licensing in order to get the necessary production revenues to get the program produced. As more of the program territories are pre-licensed in advance it naturally reduces the number of territories available for distribution revenues. With lower distribution revenues comes a lower margined production. As the Company moves forward, the Gross Margin for the Company will depend on the ultimate mix of production services revenues to proprietary revenue.

EBITDA

In Q2 2006 EBITDA was $5,000 as compared to $13,000 for Q2 2005, a decrease of 61%. For Q2 2006 this was due to the increase in Gross Margin to $582,000 up from $129,000 from Q2 2005 and offset by SG&A of $578,000 (2005-$116,000).

Net Loss

Net loss for Q2 2006 was $0.402 million, down from net income of $17,000 for Q2 2005, a decrease of 2465%. For Q2 2006 the overall decrease of $0.419 million was due to changes over Q2 2005 of the following amounts: a Gross Margin increase of $0.453 million offset by an increase in SG&A of $0.462, and increases of $240,000 for interest and amortization of deferred financing fees (2005-Nil), an equity loss of $211,000 (2005-Nil), income tax provision of $21,000 and offset by a decrease in by interest revenue of $62,000 (2005-$5,000).

Results for the three months ended September 30, 2005 ("Q1 2006") compared to the three months ended September 30, 2004 ("Q1 2005")

Revenues

Revenues for Q1 2006 were $2.505 million, up from $84,000 for Q1 2005, an annualized increase of 2881%. The increase is due the delivery of 14 half-hours of proprietary television programs (7 half-hours of *Poko* Season II and 7 half-hours of *Lunar Jim* Season I) for Q1 2006 versus the delivery of no half-hours in Q1 2005. Revenues for Q1 2006 consist of $2.455 million (2005-$84,000) from production revenues and $49,000 (2005-Nil) for interest and other revenues. The breakdown for productions revenues was $1.675 million for the delivery of $0.698 million for *Poko* and $0.977 million for *Lunar Jim* and $771,000 and $10,000 of production service revenues for delivery of services on "Slevin" and "Ambition" respectively.

Gross Margin

Gross Margin for Q1 2006 was $316,000 or 12% versus $84,000 or 100% for Q1 2005. This comparison is skewed as all of the revenue for Q1 2005 was for producer and service fees, which had a 100% margin versus the lower margin revenue from production revenues that were earned in Q1 2006. The 12% margin was a 120% increase over the margin the Fiscal 2005 of 5%. This increase is due to the change in revenue mix for Q1 2006 where a higher percentage of production revenues, 68%, were earned from the higher margined proprietary productions *Poko* and *Lunar Jim* as compared to only 19% for Fiscal 2005.

EBITDA

In Q1 2006 EBITDA was a loss of $98,000 an 18% improvement compared to a loss of $119,000 for Q1 2005. The improvement is due to the delivery of 14 half-hours of television programming worth $1.675 million in production revenue and $781K of production service revenues for "Slevin" and "Ambition" and a direct operating profit thereon of 12%.

Net loss

Net loss for Q1 2006 was $569,000 up from the $121,000 loss for Q1 2005, an annualized increase of 385%. For Q1 2006 the overall decrease of $447,000 was due to changes over Q1 2005 of the following amounts: a Gross Margin increase of $232,000 offset by an increase in SG&A of $211,000, and increases of $267,000 for interest and amortization of deferred financing fees (2005-Nil) and development expenses of $201,000 (2005-Nil).

Liquidity and Capital Resources

	Year Ended June 30,		
	2006 $	**2005** $	**2004** $
	(Amounts in Thousands, Except Balance Sheet Ratios)		
Key Balance Sheet Amounts and Ratios:			
Cash, restricted cash(1) and short term investments	9,573	7,589	1,435
Long-term assets	25,910	6,769	240
Working capital	18,370	6,597	1,065
Long-term liabilities	4,684	6,887	—
Working capital ratio(2)	1.55	1.52	2.24
Cash Inflows and (Outflows) by Activity:			
Operating activities	(4,363)	(8,048)	5123
Investing activities	(6,100)	(3,563)	(19)
Financing activities	10,011	16,739	1,331
Net cash inflows (outflows)	(452)	5,128	1,435

(1) Restricted cash is the balance of cash on hand in Media Fund. 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.

Based on the Company's current revenue expectations for Fiscal 2007 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. Further to operations being self-sustaining to support contemplated strategic initiatives including potential acquisitions and the expansion of the Company's presence in international markets, the Company completed its IPO on May 19, 2006 where the Company issued 8,702,500 common shares for gross proceeds of $20.451 million (see "Initial Public Offering" section in this MD&A). After shares issue costs of $3.453 million, net of the tax effect, and repayment of the $8.5 million in subordinate debt assumed on the acquisition of Decode the net proceeds were approximately $8.5 million. As a result of our public listing, management believes that these proceeds, along with the remaining working capital surplus totalling $18.370 million, is sufficient to execute on its current business plan. The Company also has an available revolving operating demand loan to a maximum of $0.5 million bearing interest at bank prime plus 0.5% per annum. The availability of the revolving demand loan is subject to the Company maintaining certain accounts receivable balances and a ratio of total liabilities to tangible net worth of not greater than 2:1. As at June 30, 2006 the Company's ratio is in line at 0.95:1. The Company has made no borrowings on this facility to date. 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.

Changes in Cash

Cash at June 30, 2006 was $6.111 million compared to $6.563 million as at June 30, 2005 a decrease of $0.452 million.

Cash flows from operating activities were a use of cash of $4.363 million for Fiscal 2006. Cash flows from operating activities resulted from a net loss of $0.915 million, which was reduced by non-cash items of amortization of film and television programs, property, plant and equipment, deferred financing charges and intangible assets, stock based compensation and accretion of interest of $11.645 million, $52,000, $0.169 million, $78,000, $0.137 million, $0.731 million and $0.294 million for equity loss and increased by $13,000 for non-controlling interest, $0.151 million for future income tax recovery, $17.550 million for investments in film and television programs and decreased by $1.160 million for net change in non cash working capital balances related to operations.

Cash flows generated from financing activities were $10.011 million for Fiscal 2006. Cash flows from financing activities resulted primarily from cash generated from new borrowings of $0.744 million from interim financing and $1.376 million from a loan payable, proceeds of $14.542 million from the issuance of common shares, $0.556 million from the issuance of shares of a subsidiary - net and $0.44 million from issuance of preferred shares - net. There was also cash provided for of $0.987 million for a decrease in deferred financing fees and other costs. This was offset by uses of cash of $0.125 million and $8.5 million respectively for repayment of a demand loan and repayment of subordinated debt assumed on the Decode acquisition.

Cash flows used in investing activities were $6.100 million for Fiscal 2006. Cash flows used in investing activities were $1.893 million, $1.633 million, $1.926 million and $0.648 million for business acquisitions, investment in short term investments, acquisition of property, plant and equipment and cash advances to an investee.

Other potential capital resources as at June 30, 2006 are stock options exercisable to acquire 275,000 Common Shares at a weighted average exercise price of $1.85 with an expiry date in 2007 and warrants that entitle the holder to acquire options that are exercisable to purchase an aggregate of 778,734 Common Shares at a weighted average exercise price of $2.14 (for further details see audited consolidated financial statements and accompanying notes for the years ended June 30, 2006 and 2005 on www.sedar.com).

Working Capital

Working capital represents the Company's current assets less current liabilities ("Working Capital"). Increases of working capital of $11.774 million were predominantly driven by increases in accounts receivable, short term investments and current portion of investment in film and television programs offset somewhat by increases in accounts payable deferred revenue and interim production financing. The working capital ratio remained relatively consistent increasing slightly to 1.55:1 for Fiscal 2006 up from Fiscal 2005 of 1.52:1.

The increase for Fiscal 2006 was mainly as a result of the following net increases to Working Capital: the overall decrease in cash of $0.452 million as outlined above was offset by increases in short term investments and prepaid expenses and deposits of $1.632 million and $0.350 million respectively and increases of $22.507 million and $8.481 million for amounts receivable and current portion of investment in film and television programs and a reduction of $0.125 million for a repayment in the demand loan. These were offset by net increases in current liabilities as follows: an increase in accounts payable and accrued liabilities of $6.457 million, an increase in income taxes payable of $0.136 million, an increase in deferred revenues of $1.654 million, an increase in interim production financing of $10.551 million and an increase in the current portion of long term debt of $72,000.

Contractual obligations

As of June 30, 2006 **Payments Due by Period**	**Total**	**Less than 1 year**	**1–3 years**	**4 - 5 years**	**After 5 years**
	$	**$**	**$**	**$**	**$**
Purchase Obligations...					
Rights purchase for *This Hour Has 22 Minutes*(1)	550,000	550,000	—	—	—
Rights purchase for *POKO*(2)	69,050	69,050	—	—	—
Agreement to acquire rights to a television mini-series(2)).....	1,126,505	—	1,126,505	—	—
Long Term Loan payments principal and interest(4)..............	5,244,244	360,232	814,402	655,754	3,413,856
Total Contractual Obligations..........................	6,989,799	979,282	1,904,907	655,754	3,413,856

(1) Pursuant to an agreement whereby the Company acquired the right to develop, produce, distribute and otherwise exploit future seasons of the television series entitled "*This Hour Has 22 Minutes*", the Company is required to pay the vendor the following amounts, contingent upon producing future seasons of the series, as follows: i) $25,000 per half-hour episode for seasons thirteen and fourteen; ii) $20,000 per half-hour episode for seasons fifteen and sixteen; iii) $15,000 per half-hour episode for seasons seventeen and eighteen; iv) $10,000 per half-hour episode for seasons nineteen and twenty; and v) $5,000 per half-hour episode for all subsequent seasons. Season thirteen is the only season contracted as at December 31, 2005 15 half-hour at $25,000 per half-hour has been included in payments due less than one year.

(2) Pursuant to an agreement whereby the Company acquired the right to develop, produce, distribute and otherwise exploit future seasons of the television series entitled "*POKO*". The amount remaining as at June 30, 2006 was $69,050.

(3) The Company has entered into an agreement to acquire certain distribution rights to a television mini-series. The agreement requires the Company to pay $1,126,505 twelve months following satisfactory completion and delivery of the mini-series. At June 30, 2006, the mini-series had not yet been delivered. The Company is projecting the mini-series will be delivered during fiscal 2007 and payment will be due in fiscal 2008.

(4) Loan payable, to a maximum authorized amount of $3,575,000, bearing interest at Business Development Bank of Canada's floating base rate plus 1.5%, maturing in May 2021. Amount is repayable in monthly payments of principal of $13,800 plus interest, increasing to $19,900 plus interest in July 2006.

Outlook

The Company believes that the IPO of common shares completed on May 19, 2006 to raise approximately net proceeds of $15.538 million in capital, reduced by the repayment of the $8.5 million in subordinate debt assumed on the acquisition of Decode and the resulting strengthening of the balance sheet, puts the Company in strong position going forward into Fiscal 2007. This capital infusion is key to building on the Company's recent successes, with a view to taking advantage of the Company's strengths and opportunities and creating further value for shareholders. In particular, the Company believes that it will be able to utilize its net proceeds of this offering to carry forward its contemplated strategic initiatives, including expanding 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 acquisitions.

Capital Stock Financings During Fiscal 2006

Initial Public Offering

In connection with the IPO of the Company completed on May 19, 2006, the Company issued 8,702,500 common shares for actual gross cash proceeds of $20.529 or an average price per share of $2.35 less $3.236 million share issuance costs, net of tax effect of $1.873 million. (See the Company's Final Prospectus filed on May 11, 2006 on www.sedar.com for further details).

Common share issuances

During the remainder of Fiscal 2006 the company issued an additional 150,000 common shares to an officer and a director for net proceeds of $0.304 million or an average price per share of $2.03.

As part of the consideration for the acquisition of Decode (See “Acquisition” section of this MD&A) 5,793,011 common shares were issued. As part of the purchase price allocation a value of $11.572 million was placed on the shares.

Capital Stock Financings During Fiscal 2005

Common *share issuances*

During Fiscal 2005, 2,673,334 common shares were issued as part of a private placement for net proceeds of $3.586 million or an average price per share of $1.34.

Class A preferred share issuances

Between June 15, 2005 and August 12, 2005 the Company issued an aggregate of 3,893,673 Class A Preferred Shares for gross proceeds of $7,203,300 or $1.85 per share. The Class A Preferred Shares automatically converted into Common Shares upon the completion of the IPO on a one for one basis (see “Description of Share Capital – Class A Preferred Shares” in the Company’s audited consolidated financial statements for the years ended June 30, 2006 and 2005 filed on www.sedar.com for more details).

Distribution Arrangement

In addition, in Fiscal 2006 the Company entered into a distribution arrangement with a European distributor of television productions. The distribution arrangement will provide 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.

Under the distribution arrangement, revenues are paid to the Company based on sales to foreign broadcasters. The Company can underwrite up to 10% of a production’s budget before production commences in order to benefit from the exclusive rights to sell the foreign exploitation rights. A sale can be made to a foreign broadcaster before production commences, enabling the Company to offset its investment with pre-production down payments from broadcasters. Should no advance sale to foreign broadcasters be made prior to commencement of production, the Company’s commitment of up to 10% can be drawn down for production funding to be recouped by any later sales made to foreign broadcasters. The distributor will be responsible for the sourcing of productions and the sale to broadcasters of the exclusive rights (see “Material Contracts – Distribution Arrangement” in the Company’s Final Prospectus filed on May 11, 2006 on www.sedar.com for more details).

The estimated accounting and legal costs associated with this agreement are $5,000. Since this arrangement is in its early days, the associated cost of termination would only include the write-off of these costs and at this time would not be considered material.

As of June 30, 2006 there was $7,000, nil, $7,000, and nil amounts recorded for revenues, expenses, receivables and payables respectively from this distribution arrangement. As at June 30, 2006 the Company has made its first two commitments under this distribution arrangement of $294,000 and $298,000 for the licensing of two properties. These amounts are shown in acquired participation rights included in investment in film and television programs. During Fiscal 2007, under this distribution arrangement, the Company expects to commit to additional amounts of $1-2 million. For Fiscal 2007, under this distribution arrangement, the Company expects to commit to licensing of up to six films for a total investment in license fees of approximately $1.0 –2.0 million. For the year ended and as at June 30, 2007 and based on the expected licensing of six films from this distribution arrangement, the Company expects to record the following approximate amounts for revenues, expenses, margin, assets and liabilities: $1.5 to 3 million, $500,000 to 1.0 million, $1.0 to $2.0 million, 1.5 to $3 million and $500,000 to $1.0 million respectively.

At this time there are no known events that would affect the availability or benefits under the distribution arrangement with the European distributor.

Related Party Transactions

The Company earned $538,000 for Fiscal 2006 (2005-$Nil) in producer and service fees from LJ 2003 Productions Limited, an investee production company, for the production of *Lunar Jim* Season I.

Acquisitions

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

(a) 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 the 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

(See notes to the consolidated June 30, 2006 and 2005 financial statements for allocation of the purchase price).

On March 28, 2006, the Company entered into an agreement to acquire all of the issued and outstanding shares in the capital of Decode. Decode has been recognized in 2001 and 2003 as one of "Canada's 50 Best Managed Private Companies", an annual award bestowed on each of Canada's 50 best managed private companies. It has also received the Canada Export Award in 2002 from Canada's department of Foreign Affairs and International Trade.

Decode offers a highly complementary strategic fit due to its distribution experience and capabilities, its broadcaster relationships and the strength of its management. The key principals of Decode's management team, Neil Court, Steven DeNure and Beth Stevenson, have been retained with employment contracts. Decode fits squarely into DHX's primary focus on children's and youth programming.

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

(b) On April 7, 2006 (the "Effective Date"), The Company acquired all of the issued and outstanding shares of Boy Girl Productions Canada Limited ("Boy Girl"), 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 income from the Effective Date (see notes to the consolidated June 30, 2006 and 2005 financial statements for allocation of the purchase price).

The acquisition of Boy Girl fits well into DHX's focus on rights retention. Whether through original creation or in this case through acquisition, the Company expects to generate distribution revenues through the exploitation of these rights.

(c) April 7, 2006 (the "Effective Date"), the Company acquired all of the issued and outstanding shares of Funny Farm Productions Limited ("Funny Farm"), 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 income from the Effective Date (see notes to the consolidated June 30, 2006 and 2005 financial statements for allocation of the purchase price).

The acquisition of Funny Farm fits well into DHX's focus on rights retention. Whether through original creation or in this case through acquisition, the Company expects to generate distribution revenues through the exploitation of these rights.

Change in Accounting Policies

Stock-Based Compensation

Effective July 1, 2005, the Company adopted the amended recommendations of section 3870 of the CICA Handbook, "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 is credited to share capital.

The Company has elected to retroactively apply these recommendations and prior periods have been restated. As a result, the June 30, 2005 balance sheet has been restated to reflect an increase of $173,000 in Share Capital and Deficit related to options granted during the year ended June 30, 2005. The Statement of Operations and Deficit for the year ended June 30, 2005 has also been restated, resulting in a $173,000 increase in salaries and wages for the year and a corresponding increase in the net loss for the year.

Variable Interest Entities

Effective July 1, 2005, the Company is required to follow AcG 15. 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 expected losses from the VIE's activities or is entitled to receive a majority of the VIE's residual returns or both.

Prior to 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.

Upon implementation of AcG 15, the Company concluded that it was required to deconsolidate one production company that was previously consolidated and account for that entity using the equity method of accounting. This change in accounting resulted in the assets and liabilities set out in the following table being removed from the balance sheet as of July 1, 2005, and the inclusion of an obligation to a VIE in the amount of $291,644.

	As of July 1, 2005 $
Accounts receivable	1,398,843
Prepaid expenses	5,000
Investment in film and television programs	1,897,344
Accounts payable and accrued liabilities	(137,024)
Deferred revenue	(450,841)
Interim production financing	(3,004,966)
	(291,644)

On July 15, 2005, the Company, by virtue of its granting of the Put Options to investors in Media Fund (Atlantic) Ltd. ("Media Fund"), obtained a variable interest in and became the primary beneficiary of Media Fund. The Company is party to a management agreement dated November 30, 2004 between the Company and Media Fund (the "Management Agreement") and the shareholder agreement dated December 10, 2004 between the Company, Media Fund and all of the shareholders of Media Fund (the “Media Fund Shareholder Agreement”). Media Fund is a community economic development corporation, incorporated under the Companies Act, with the objectives of promoting and supporting job creation and economic development initiatives in the film and television industry in Nova Scotia in accordance with the NS ETC Act. On July 15, 2005, Media Fund closed its only financing to date. Pursuant to the terms of the Media Fund Shareholder Agreement and the offering of Media Fund shares, the new shareholders of Media Fund were granted 425,420 Put Options by the Company for no additional consideration. Accordingly, as of 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.

The Company has determined that Media Fund qualifies as a VIE for the purposes of AcG 15 and has concluded that the Company is exposed to the losses of Media Fund and therefore, as required by AcG 15, the Company has consolidated Media Fund into its financial statements.

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. The fair value of the Preferred Share liability, which approximates book value, value has been calculated using the assumptions described in the notes to the audited consolidated financial statements for the years ended June 30, 2006 and 2005 filed on www.sedar.com.

Credit Risk

Accounts receivable from the Canadian federal government and other government agencies in connection with production financing represents 66% of total accounts receivable at June 30, 2006 (June 30, 2005 – 57%). Certain of these amounts are subject to audit by the government agency. Management believes that these amounts are fully collectable. The balance of trade accounts receivable are mainly with Canadian broadcasters and large distribution companies. Management believes that these amounts are fully collectible. No provision for losses has been booked in the financial statements

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. As an example, as at June 30, 2006, even a 1% rate increase would only result in an annualized increase of approximately $164,000 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 operation 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.

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

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. See "Business of the Company — Regulatory Considerations — Maintaining Canadian Control".

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 licence 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 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 filmed 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, DHX Media'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 operation 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. The Company has no present agreements or commitments to enter into any such material transactions. 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.

Although the Company has no current commitments with respect to future acquisitions, the Company may use a portion of the proceeds of this offering to establish or acquire expanded 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.

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

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. DHX Media 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 DHX Media 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 DHX Media's business, results of operation 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.

Nova Scotia Equity Tax Credit ("NS ETC")

The NS ETC Act imposes special penalties on the Company if it does not comply with the requirements in that statute. Non-compliance with these requirements may also result in the Company's registration being revoked which would cause the Company to be liable for penalties. In addition, under the NS ETC Act, a person who disposes of a share in respect of which a tax credit has been allowed within four years from the date of purchase must, subject to certain exceptions, repay the Minister of Finance (Nova Scotia) an amount equal to the tax credits received in respect of those shares, including interest thereon.

The Company is subject to federal and provincial legislation and regulations, including the NS ETC Act. Governments may change existing legislation or regulations or introduce new legislation or regulations which could adversely affect the interests of the Company and its shareholders. For example, there could be changes to the NS ETC Act or the regulations made thereunder. If such changes are unfavourable, the Company's ability to operate profitably could be impaired. In addition, regulatory bodies or policy-making bodies may change policies or introduce new policies which could adversely affect the interests of the Company and its shareholders.

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.

Reconciliation of Historical Results to EBIDTA

EBITDA is a not 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 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 loss before income taxes, EBITDA and Gross Margin, based on the historical audited financial statements of the Company for the years ended June 30, 2006 and the period ended June 30, 2004 and the unaudited financial statements of the Company for the three month periods ended June 30, 2006 and 2005, March 31, 2006 and 2005, December 31, 2005 and 2004 and September 30, 2005 and 2004 included elsewhere in this MD&A. For further description see "Use of Non-GAAP Financial Measures" above in this MD&A.

	For the quarter ended June 30, 2006 $	**For the quarter ended March 31, 2006 $**	**For the quarter ended December 31, 2005 $**	**For the quarter ended September 30, 2005 $**	**For the year ended June 30, 2006 $**
Loss before income taxes for the period	310,401	(349,743)	(380,892)	(568,656)	(988,890)
Interest and amortization of deferred financing fees	141,709	256,986	239,626	267,190	905,511
Interest and other income	(101,826)	(6,942)	(66,339)	—	(175,107)
Equity loss and non-controlling interest	76,846	19,462	210,880	—	307,188
Amortization	123,711	2,540	1,717	1,718	129,686
Development expenses	—	—	—	201,315	201,315
EBITDA	550,841	(77,697)	4,992	(98,433)	379,703
Selling, general and administrative	1,280,298	355,015	577,542	414,322	2,627,177
Gross Margin	1,831,139	277,318	582,534	315,889	3,006,880

	For the quarter ended June 30, 2005 $	**For the quarter ended March 31, 2005 $**	**For the quarter ended December 31, 2004 $**	**For the quarter ended September 30, 2004 $**	**For the year ended June 30, 2005 $**	**For the year ended June 30, 2004 $**
Loss before income taxes for the period	(281,947)	145,137	16,602	(120,576)	(240,784)	(78,789)
Interest and amortization of deferred financing fees	33,826	—	—	—	33,826	—
Interest and other income	(32,667)	—	(4,948)	—	(37,615)	—
Equity loss and non-controlling interest	—	—	—	—	—	—
Amortization	3,349	1,821	1,821	1,378	8,369	—
Development expenses	42,632	—	—	—	42,632	—
EBITDA	(234,807)	146,958	13,475	(119,198)	(193,572)	(78,789)
Selling, general and administrative	721,399	156,946	116,347	203,169	1,197,861	78,789
Gross Margin	486,592	303,904	129,822	83,971	1,004,289	—

DHX MEDIA LTD.

Fiscal 2006

Supplemental Information
For the Year Ended June 30, 2006

1. Summary of securities issued and options and warrants granted during the year ended June 30, 2006

a. Summary of securities issued

Common Shares	Number of common shares	Value $
Balance at June 30, 2005	**14,037,268**	**5,027,566**
Issued to Sir Graham Day, Director	50,000	92,500
Issued as consideration for Decode acquisition	5,793,011	11,571,539
Issued for cash in conjunction with IPO	8,702,500	20,529,207
Share issuance costs in conjunction with IPO, net of tax asset of $1,873,000		(3,452,988)
Conversion of preferred shares in conjunction with IPO	3,893,673	8,624,814
Share issuance costs transferred from preferred shares		(2,104,038)
Issued to Dana Landry, CFO	100,000	211,000
Balance at June 30, 2006	**32,576,452**	**40,499,600**

Class A Preferred Shares	Number of preferred shares	Value $
Balance at June 30, 2005	**3,893,673**	**1,603,992**
Share issue cost adjustment		(3,198)
Conversion to Common Shares in conjunction with IPO	(3,893,673)	(1,600,794)
Balance at June 30, 2006	**-**	**-**

b. Summary of options and warrants

Options	**Number of options**	**Weighted-average exercise price**
Balance at June 30, 2005	**275,000**	**$1.85**
Granted to Sir Graham Day, Director	100,000	$2.25
Granted to J. William Ritchie, Director	100,000	$2.25
Granted to Joe Medjuck, Director	100,000	$2.25
Granted to Donald Wright, Director	100,000	$2.25
Granted to Dana Landry, CFO	322,500	$2.25
Granted to Employees	24,047	$2.25
Balance at June 30, 2006	**1,021,547**	**$2.14**

Put Options	**Number of put options**	**Weighted-average exercise price**
Balance at June 30, 2005	**-**	**Nil**
Granted in connection with issuance of common shares of a subsidiary[1]	425,420	Nil
Balance at June 30, 2006	**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).

Warrants	**Number of warrants**	**Weighted-average exercise price**
Balance at June 30, 2005 (Balance forward pertains to warrants issued to transfer agent for June 16, 2005 private placement)	**389,367**	**$1.85**
Granted in connection with initial public offering	824,492	$2.35
Balance at June 30, 2006	**1,213,859**	**$2.19**

b. Summary of securities as at the end of the reporting period

a. Authorized share capital

90,000,000 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.

b. Shares outstanding and recorded value

32,576,452 common shares at a recorded value of $40,499,600;
100,000,000 preferred variable voting shares at a recorded value of $100.

c. Description of options and warrants

See Note 16 of the consolidated financial statements for the year ended June 30, 2006.

2. Directors and officers as at June 30, 2006

Michael Donovan	Chairman, CEO, and Director
Charles Bishop	Director, Secretary and President of Halifax Film Division
Dana Landry	CFO
David Regan	Executive VP Corporate Development
Floyd Kane	VP Creative & Business Affairs
Sir Graham Day	Lead Director
J. William Ritchie	Director
Donald Wright	Director
Joe Medjuck	Director
Steven DeNure	Director and President of Decode Entertainment Inc.
Neil Court	Director and President of Decode Enterprises