dhxmedia

DHX MEDIA LTD.
ANNUAL INFORMATION FORM

For the Year Ended June 30, 2006

September 27, 2006

1478 Queen Street, Halifax, Nova Scotia, B3J 2H7
Telephone (902) 423-0260 Fax (902) 4220752

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TABLE OF CONTENTS

ITEM 1. CORPORATE STRUCTURE

The Company was incorporated as a company in Nova Scotia, Canada, under the *Companies Act* (Nova Scotia) (the “Companies Act”) on February 12, 2004 under the name Slate Entertainment Limited. The Company’s name was changed to The Halifax Film Company Limited on April 20, 2004, and again on March 17, 2006 to DHX Media Ltd. On April 25, 2006 the Company was continued federally as a corporation and is now subject to the *Canada Business Corporations Act* (the “CBCA”). The Company is federally registered in Canada and its corporate number is 655881-0. Neither the Company’s Articles of Continuance, as amended from time to time (the “Articles of Continuance”) nor the Company’s By-Laws (the “By-Laws”) contain any restriction on the objects of the Company. The Company is domiciled in Canada and its registered office and principal place of business is located at 1478 Queen Street, Halifax, Nova Scotia, Canada, B3J 2H7.

The following is a list of the principal subsidiaries of the Company, the jurisdiction of incorporation each subsidiary and the percentage of voting securities beneficially owned or over which control or direction is exercised by the Company.

Subsidiary	**Jurisdiction**	**Percentage of Voting Securities Owned by the Company**
Halifax Film Ltd.	Nova Scotia	100%
Decode Entertainment Inc.	Ontario	100%

ITEM 2. GENERAL DEVELOPMENT OF THE BUSINESS

THREE YEAR HISTORY

The Company was incorporated as a company in Nova Scotia, Canada, under the *Companies Act* (Nova Scotia) (the “Companies Act”) on February 12, 2004 under the name Slate Entertainment Limited. The Company’s name was changed to The Halifax Film Company Limited on April 20, 2004, and again on March 17, 2006 to DHX Media Ltd. On April 25, 2006 the Company was continued federally as a corporation and is now subject to the *Canada Business Corporations Act* (the “CBCA”). The Company is federally registered in Canada and its corporate number is 655881-0. Neither the Company’s Articles of Continuance, as amended from time to time (the “Articles of Continuance”) nor the Company’s By-Laws (the “By-Laws”) contain any restriction on the objects of the Company. The Company is domiciled in Canada and its registered office and principal place of business is located at 1478 Queen Street, Halifax, Nova Scotia, Canada, B3J 2H7. The Company was founded by Michael Donovan and Charles Bishop, both of whom were previously involved with Salter Street Films Inc. (“Salter Street Films”), a publicly listed company on the TSX that was sold to Atlantis Communications Inc. (“Alliance Atlantis”) in 2001.

RECENT DEVELOPMENTS

Long-term Lease for Electropolis Studios

Effective July 1, 2006, the Company acquired a long-term lease for Electropolis Studios Incorporated ("Electropolis") in Halifax which will guarantee the company access to production facilities with stable economics. Electropolis, which is located at 5091 Terminal Road in Halifax, is one of the largest film studios in Canada, with 35,000 square feet of total space split between 4 studios. The largest studio, stage 1, encompasses 11,600 square feet with a 72 feet high ceiling. Electropolis is one of Canada's largest production studios and has been used for both major motion picture and television series productions. The Company has been using this facility since inception for its POKO, Lunar Jim and other productions on a contract basis. The Company will also lease sound stages within Electropolis to other production companies.

Initial Public Offering

On May 19, 2006, the Company announced that its common shares were admitted to trading on the AIM stock exchange in the United Kingdom and were listed on the TSX under the trading symbol "DHX". At the time, the Company's market capitalization was approximately C$76 million (£37 million) following admission at the placing price.

The Company successfully raised gross proceeds of C$20.45 million (£10 million) through an initial public offering and placing of 8,702,500 new common shares at a placing price of C$2.35 (114p) per share. As part of the offering the Chief Financial Officer subscribed for shares. Canaccord Adams Limited was the Company's nominated adviser and broker. Canaccord Capital Corporation, TD Securities Inc. and Westwind Partners Inc. were placing agents in Canada. The net funds raised by the placing were used to acquire Decode Entertainment Inc ("Decode"), for debt repayment and to provide working capital to finance DHX Media's rapid international growth.

Acquisition of Decode Entertainment Inc.

On March 28, 2006, the Company entered into an agreement to acquire all of the issued and outstanding shares in the capital of Decode with the persons owning, directly or indirectly, such shares (the "Decode Purchase Agreement"). Decode was 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. The closing date for the acquisition was May 19, 2006.

The key principals of Decode's management team, Neil Court, Steven DeNure and Beth Stevenson, were retained with employment contracts and each received Common Shares as partial payment for their individual interests in Decode. The Company acquired all of the outstanding shares of Decode for a purchase price of $16,475,000 satisfied by: (i) the payment of $3.7 million in cash and the issuance of 5,793,011 common shares

May 19, 2006, and to be satisfied by (ii) the payment of $2 million in cash on December 15, 2006, together with interest thereon at the prime rate of interest per annum quoted by a Canadian chartered bank; and (iii) an earn-out amount of up to a maximum of $9,425,000 to be paid 50% in cash and 50% by the issuance common shares (though the nominees of the vendor of Decode shares may elect to receive a different allocation of cash and Common Shares as long as the aggregate payment is 50% in cash and 50% in Common Shares). This earn-out payment is required to be made not later than September 30, 2007 and will be equal to an amount based on the earnings before interest, taxes, depreciation and amortization (excluding amortization of film and television assets) of Decode in the period from July 1, 2006 to June 30, 2007, as calculated in accordance with the Decode Purchase Agreement. The transaction closed immediately prior to the closing of this offering. The Company acquired all outstanding voting shares in the capital of Decode at the time of closing and will acquire all outstanding Class B special shares in the capital of Decode at the time that the earn-out payment is made. The Class B special shares carry no rights to vote at meetings of shareholders of Decode and may not be transferred. The obligations of the Company in respect of the earn-out payment were secured through a pledge of the shares of Decode acquired at the time of closing of the transaction. Pursuant to the Decode Purchase Agreement, the Company had agreed that certain debt owed by Decode in the amount of approximately $8.5 million, plus any accrued and unpaid interest, be repaid at the time of closing of the transaction. This debt was repaid at the time of the closing with the net proceeds of the Initial Public Offering.

ITEM 3. BUSINESS OF THE COMPANY

Introduction

DHX Media Ltd., the result of the combination of Halifax Film and Decode, is one of Canada's leading independent suppliers of television and film productions. The Company produces, distributes and exploits ancillary rights from television and film programming that covers all genres with a significant focus on children, youth and family content. The Company's content library includes over 1,150 half-hour of programming and 28 individual titles produced over the last nine years. 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. To date, the Company has entered into over 700 separate television series licence agreements with over 200 different customers worldwide.

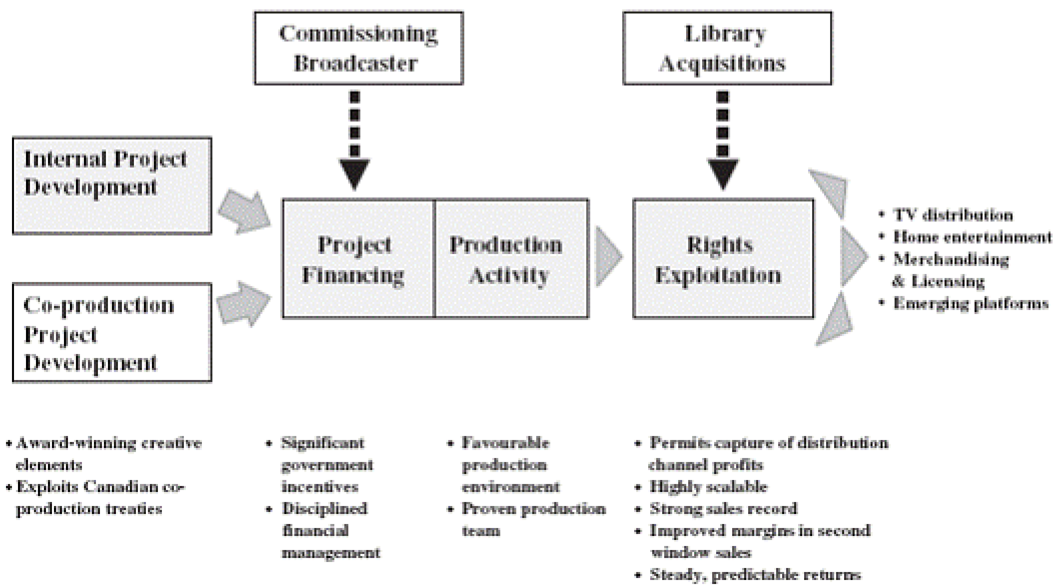
DHX Media's primary focus is on children's and youth productions because of the international sales potential and longer-term revenue streams that this genre of programming provides, while maintaining some production activity in other genres where the Company has expertise. With respect to children's programming, the Company's presence in the marketplace is evidenced by its eight new series currently in first window broadcast on multiple major cable and broadcast networks in North America and internationally. The Company has secured distribution for several of its leading children's properties (*Franny's Feet* and *The Save-Ums*, for example) in key territories which include the US, the UK, France and Germany, which lays the groundwork for exploitation of merchandising and licensing rights in the future. With respect to rights exploitation, the Company is also actively pursuing opportunities in new media, including the repurposing of existing content for Internet applications and the development of original content for emerging platforms.

The Company's prime-time production slate includes notable achievements in the comedy genre, including the award-winning prime-time comedy series *This Hour Has 22 Minutes*, which is produced for the CBC, and *Bromwell High*, a prime-time comedy animation series created by and co-produced with Hat Trick Productions in the UK. *This Hour Has 22 Minutes* is now in its 14th season and provides the Company with steady and predictable cashflow while strengthening the Company's reputation as a producer of highly rated, audience-sustaining programming. The Company also has completed several co-productions and has established partnerships with leading independent producers such as Aardman Animations Ltd. ("Aardman Animations") and Hat Trick Productions Ltd. ("Hat Trick Productions"), in the UK.

DHX Media benefits from an advantageous regime of Canadian federal and provincial government tax credits and incentives that have been in place in one form or another for over 35 years and which enables the Company to produce television and film productions for the domestic and international marketplace with limited investment by the Company. This financing environment enables the Company to retain exploitation rights to its productions and build greater value in its library of original productions for exploitation in worldwide and ancillary markets. Canadian producers have ready access to US television markets thanks to geographic and cultural factors such as proximity, common vernacular and shared cultural experience, providing an advantage over non-Canadian producers. These are some of the factors that have contributed to Canada's position as the second largest exporter of English-language audio-visual products in the world after the United States (*CFTPA Profile 2006* published by the CFTPA).

DHX Media's business model is based on producing audience-winning programming while minimizing financial risk and retaining the maximum exploitation rights associated with a production for the generation of multiple revenue streams. In the case of international co-productions, the Company may share some of a production's rights, such as individual territories for distribution or ancillary rights, in order to meet financing and co-production treaty requirements and to take advantage of a co-production partner's competitiveness in certain areas of ancillary rights. The Company's official co-productions qualify as local content in the co-production partners' territories while giving the co-production partners access to Canadian production financing as well as to the Company's worldwide rights exploitation capability.

DHX MEDIA Business Model



Recent Industry Developments

The film and television industry is enjoying a recovery driven by a revival in interest American-style drama production; a retraction in availability of children's and youth programming from the largest US vertically integrated media companies such as Viacom, Time Warner and Disney as those companies redirect programming to their own international channels; the continuing expansion of content delivery platforms such as broadband, wireless, Internet, digital cable and satellite; and the recovery from the downturn of the global equity markets of early 2000.

Canadian Industry Developments

Management believes the Company is poised to benefit from the current state of the Canadian television and film production market. According to the Canadian Film and Television Production Association, the Canadian television and film production market grew at a compound annual growth rate ("CAGR") of approximately 9.4% between 1996/97 and 2000/01 as a result of strong equity markets, proliferation of specialty television channels and M&A activity driven by broadcasters securing access to content by acquiring production companies. The subsequent correction in global equity markets and the accompanying softening in advertising markets contributed to slowing the growth of the Canadian television and production market down to a CAGR of 3.3% between 2000/01 and 2002/03 as broadcasters chose to recycle existing inventory rather than purchase new programming. A number of the larger participants in the Canadian film and television production market responded to the decreased demand for content by scaling back their focus on production or by exiting the sector altogether. During or soon after this period, Alliance Atlantis, CanWest Global Communications Corp. and Corus Entertainment Inc. either closed their production divisions or reduced the number of episodes they produced, and Cinar Corporation dramatically reduced production and was subsequently purchased and renamed Cookie Jar Entertainment Inc. Management believes this retraction and resulting vacuum represents an attractive market opportunity for the Company. According to CFTPA, the Canadian film and television production market totalled approximately $4.5 billion in 2004/5, of which the export value was approximately $1.76 billion.

Management also anticipates that the Company will benefit from Canadian specialty television channels (including youth channels such as YTV, Teletoon and The Family Channel — all major clients of the Company) allocating a percentage of their previous year's revenues on Canadian content under the conditions of their CRTC licenses. From 1999 to 2003 advertising revenues generated by specialty channels grew at a CAGR of 18.8% compared to 1.8% for broadcast television channels (according to TV Basics) and the audience share of English language specialty and pay channels increased from approximately 42% to 49% compared to a decrease from approximately 61% to 51% for broadcast channels (according to the Canadian Cable Television Association). According to the CRTC, expenditures on Canadian independent productions by Canadian specialty channels grew at a CAGR of 12.32% compared to 4.73% by private conventional television channels (between 2000 and 2004). As the below graphic indicates, Canada's specialty channels continue to purchase content from independent Canadian producers at an increasing rate.

UK Industry Developments

In the United Kingdom, the demand for independent television production sector was for many years dominated by the commissioning practices of the major terrestrial broadcasters (the BBC, ITV, Channel 4 and Five) which produced a large portion of their schedules in-house. In the past three years, the environment for independent production changed dramatically as a result of the Communications Act 2003 which changed their Terms of Trade with independent producers. The new legislation requires public service channels to commission at least 25% of qualifying programming hours from qualified independent producers. This legislative requirement permits independent production companies, for the first time, to retain the majority of the underlying rights in their productions. Prior to this legislation, commissioning broadcasters were able to insist that ancillary and secondary rights be assigned to them in return for programme funding. The summary of this provision of the Communications Act 2003 is of a general nature only and is not intended to address all of the applicable legislative requirements for which reference should be made to the Communications Act 2003.

Similar to other major markets, the UK has experienced a shift in market share between cable and satellite services, versus terrestrial or conventional broadcasters. The proliferation of new services has reduced the terrestrial broadcasters' market share and increased the competition and demand for innovative programming. Furthermore, the emergence of new digital platforms is driving interest in content. In the UK particularly, the development of mobile content is progressing at a more rapid pace when compared to the US because of the early adoption in Europe of 3G wireless technology.

The Company currently has a strong position in the UK market as a result of its co-productions with Aardman Animations (*Planet Sketch* and *Chop Socky Chooks*) and Hat Trick Productions (*Bromwell High*) and productions sold to the BBC (*Lunar Jim*) and sales of other Company-owned series to UK broadcasters (ITV Network, Channel 4, Channel Five, Nickelodeon UK, The Disney Channel UK, Jetix Europe, Flextech). Management believes these relationships can be enhanced through the Company's London presence to generate new revenue opportunities.

International Developments

The development of new television broadcasting systems internationally has generated new sources of revenue for those involved in television production and distribution. Many governments have encouraged the expansion of the public and private broadcasting sectors, which has resulted in significant growth in demand for programming. Other factors, including the introduction of direct broadcast satellite services, pay television, increased cable penetration and the growth of home entertainment markets, have also contributed to the growth of the international television market. DHX Media expects that international markets will play an increasingly important role in the Company's business.

According to PricewaterhouseCoopers ("PwC"), the worldwide filmed entertainment market was projected to be US $90.6 billion in 2005, having been projected to rise 7.6% over 2004. PwC has forecasted growth of 7.1% compounded annually to 2009. EMEA is the region projected to experience the highest growth rate in filmed entertainment according to PwC, at 8.5% to 2009. The television network market was US $152 billion in 2004 and will grow at 6% compounded annually according to PwC. Latin America is forecast to experience the fastest growth of any region, with an 8% CAGR between 2004 and 2009.

The international climate for television programme licensing has improved in the last two years, following a period of correction in the early 2000's. At the 2005 MIPTV conference (the international market for television programmes), organizers reported sales agreements signed at the conference of an estimated $2.3 billion with buyer attendance up 25% over the previous year. Several factors are contributing to this upturn including recent developments in new digital platforms, mobile devices, and interactive formats. Technological expansion and the proliferation of new channels of distribution (cable, satellite, etc.) have been critical to the steady growth in the marketplace for content over the past 20 years. Similarly, the new rights exploitation opportunities offered by the Internet and mobile platform are contributing to demand for both traditional content and new formats for content.

The Company's Business Lines

Since incorporation and in each fiscal year thereafter, the Company's core business has been television production and distribution. DHX Media now has three integrated business lines: production, rights exploitation (television programme distribution and ancillary rights) and interactive. The Company's rights exploitation business encompasses distribution of its productions and exploitation of ancillary rights (which involves licensing rights to merchandisers for fabrication of consumer products based on intellectual property owned by the Company). The Company's interactive business oversees the development, production and exploitation of new media products on interactive, mobile, Internet and new digital platforms. Each of the Company's business lines is described in more detail below.

Production Business

Production Strategy

DHX Media has two units. The Halifax Film Division produces children's programmes as well as documentaries, prime time comedy and feature films, while Toronto and London-based Decode is primarily focused on the production and distribution of family and children's programmes. The Company creates and develops original concepts or existing properties (such as books and life stories) into television series and programmes, made-for-television movies and feature films. The Company manages all aspects of a programme's production, from developing original ideas, optioning literary or life rights, to engaging writers, directors, cast and crew, arranging production financing, and overseeing production and post-production of the program. The Company works with independent "service" studios and their creative staff on individual projects in order to access a broad talent base and diverse expertise to employ various production techniques (e.g. cell, digital and stop-motion animation, CGI, live action).

The Company pursues a three-pronged production strategy:

- innovative children's and youth programming for the international marketplace;
- international co-productions and partnerships; and
- diversified production slate.

The Company assesses the international appeal, the financing profile, and the longer-term revenue generation potential of each programme it develops and produces. The Company enters into co-productions where the Company considers financial, creative and strategic relationship opportunities to be attractive. Management considers the combination of its focus on audience appealing programmes, its financing advantage, and its international distribution and co-production relationships to be critical to the building of a library of long-term value.

DHX Media’s core production business focuses on superior quality programmes, primarily animation in the children’s and youth arena, that will appeal to worldwide audiences and that have the potential to generate multiple revenue streams. Children’s programming travels across cultures more easily than non-children’s programming as it can be more easily dubbed into other languages than live-action programming and can therefore be sold into numerous markets. The demand for children’s programming continues to grow as evidenced by the proliferation of channels dedicated to this audience in individual territories, and by a geographic expansion of American studio-financed channels such as The Disney Channel, Cartoon Network and Nickelodeon. Management believes that children’s programming is particularly attractive due to the potential for longer-term revenue streams, including merchandising and licensing revenue, as it tends not to become dated as quickly as other forms of programming and consequently may be resold for viewing by successive generations of children.

In addition to developing and creating its own productions, the Company actively pursues co-production relationships in order to expand its output and to access international talent to create worldwide brands of value. Canada’s international co-production treaty arrangements will continue to enable the Company to produce ‘local’ qualifying content for markets outside of Canada. As a result, the Company’s co-production strategy will allow it to expand its reach into other markets that are already major distribution territories for the Company (e.g. France), where significant sources of co-production financing exist. European co-productions will add to the Company’s library of European Union quota programming, the value of which Management believes will be enhanced in the long-term. The Company has already established co-production relationships with leading UK independent producers. The Company is co-producing two series created by Oscar-winning UK-based Aardman Animations (*Planet Sketch* and *Chop Socky Chooks*) and recently completed a comedy animation series with London-based Hat Trick Productions (*Bromwell High*). These collaborations are valuable to the Company because they extend its reputation within the UK while providing efficient financing solutions to both companies. The Company intends to continue its focus on UK co-productions in order to access the talent base in the UK. This UK focus allows the Company access to the Canadian financing environment while at the same time benefiting from recent regulatory changes that require UK broadcasters to commission 25% of their schedules from independent producers.

The Company’s production strategy also encompasses development of properties outside of its core area of children’s and youth programming. Diversification of its production slate provides the Company with alternative revenue streams, access to different markets, and a prudent diversification strategy. The Company employs the same business model in connection with these productions as it does with its children’s programming and most importantly, applies the same threshold for financial risk- a minimum of 85% of direct production costs be covered by third party financing before a production can proceed.

Production Financing

The Company's production financing combines the following key components:

- broadcast license fee;
- pre-sales and/or co-production financing;
- pre-sales of merchandising rights; and
- Canadian government and provincial government labour tax-credits and other public-private incentives.

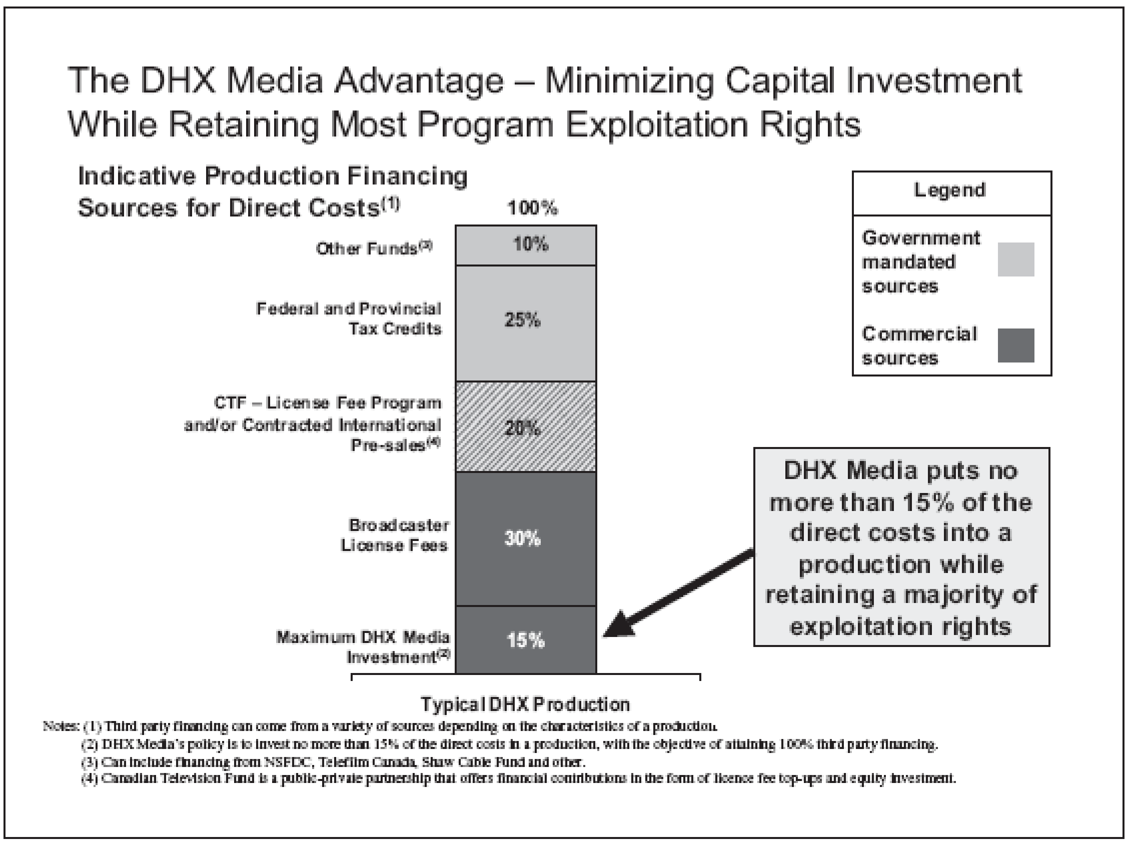
The Company's financial model is based on securing third-party financing for at least 85% of a production's direct costs before starting production. The Company is able to achieve this by accessing its extensive international client base for presales, securing a Canadian broadcast commission and by taking advantage of a variety of Canadian government and public-private incentives available to the Company while retaining a majority of the associated rights. This combination of third-party financing effectively lowers the Company's programme finance risk. Management believes that the Company's combination of financing advantages compare favourably with production companies operating in other jurisdictions, which may be obliged to give up significant rights and/or to fund production deficits in order to complete production financing. The combination of its well-developed international sales and presales infrastructure and its access to the Canadian production financing environment leads the Company to believe that it is able to achieve a higher return on capital employed than many of its competitors.

With respect to international third-party financing, the Company or its co-production partner secures commissioning or pre-sale license fees from broadcasters and, in the case of official co-productions, may also indirectly benefit from government incentives such as equity investment and tax credits from the partner's country.

In Canada, DHX Media secures its third-party financing from a combination of commissioning broadcaster license fees, Canadian federal and provincial labour-based tax credits, and a number of government and public-private incentives. These incentives include equity investments and license fee contributions from the Canada Television and Cable Production Fund Equity Investment Program (administered by Telefilm Canada) and License Fee Program ("LFP") (together, "CTCPF"), provincial government equity investments, provincial government development equity funds as well as public-private equity investments. Any equity investment flows directly to the production company incorporated for that purpose and as such is recouped solely against future returns on that particular property. The Company qualifies all of its productions, including co-productions, for all or some of these incentives, including tax credits for Canadian certified content from the Canadian Audio Visual Certification Office ("CAVCO"). Each of the Canadian federal and provincial financing sources is described in greater detail under "Government Support and Incentive Programmes".

While the Company maintains its low risk profile, the Canadian financing environment and DHX Media's rights exploitation capability usually allow it to retain a majority of ownership and exploitation rights. In addition to television distribution, these international exploitation rights include home entertainment as well as ancillary markets such as music and literary publishing, merchandising and licensing and new media. In the case of international co-productions, the Company may share rights with its partners where there are significant creative and strategic benefits to both parties.

The diagram below illustrates the Company's third-party financing model for its policy to cover at least 85% of the direct cost of its production budgets. Note that while the Company pursues the maximum third-party financing available to it, the sources of financing and amounts committed from each source may vary, perhaps significantly, from production to production from the illustration below.



Once the Company has secured third-party financing for a production, these commitments are pledged to a bank or other industry lender in order to obtain interim financing. Interim financing is required for the majority of the Company's productions because the timing of cash flows from financing sources does not necessarily match the cash flows required for production. Outstanding interim financing obligations are repaid to lenders as each financing source is collected by the Company. The Company manages each of its productions as a separate company in order to limit liability, to monitor production costs and to manage financing and future revenue streams associated with the production. This structure enables the Company to mitigate the production costs that do not contribute to its own corporate overheads and provides the Company with an efficient structure should it wish to shut down a production for any reason. All productions are insured for potential losses, accidents and interruptions during the production period. The Company to date has a solid track record for producing its programming on budget and on schedule.

Rights Exploitation Business

The Company distributes its productions through Decode's international sales group, based in Toronto and London. DHX Media sells initial broadcast rights to individual broadcasters representing different 'windows' (pay cable, terrestrial, cable and satellite) in their respective territories, sells packages of programmes to individual broadcasters, renews rights ('library' sales) to existing series with individual broadcasters and pre-sells series in development. The Company maintains relationships with all of the key broadcasters in the children's and youth genre in all of the major territories worldwide. The Company's broad base of more than 200 different customers to date has been critical to the Company's growth, enabling it to minimize the effects of downturns in any one market. Furthermore, the Company's presence in London has facilitated relationships in the UK market, both at the broadcaster and the producer level, as well as in continental Europe. With respect to new platforms, the Company's existing library includes new media rights to most of its titles and the Company is actively pursuing exploitation of these rights, where appropriate. Since 1999, the Company's international sales group has concluded over 700 separate television series distribution agreements generating increasing volume of sales revenue each year, which reached nearly $10 million in 2005. Revenues from the Company's distribution have accelerated as the Company increased its market share as the number of productions available for sale has grown and as competitive conditions improve.

The Company has a number of productions (*Franny's Feet*, *The Save-Ums*, *Lunar Jim*) currently on air in major territories which demonstrate merchandising and licensing potential. In the US, the largest and most important market for such licensing programmes, stations making up the national free TV public broadcaster, PBS, commenced broadcasting the Company's preschool property, *Franny's Feet*, in July 2006. PBS has been a critical broadcaster for many children's properties with some of the most successful merchandise and licensing campaigns in the US.

Preliminary merchandising and licensing arrangements have been secured for *Lunar Jim* (toy rights to Mattel's Fisher-Price division), *Franny's Feet* (consumer products in Japan), and *The Save-Ums* (consumer products in Germany). The Company expects royalty revenue from the merchandising and licensing arrangements for *Franny's Feet* and *The Save-Ums*. The merchandising and ancillary rights to *Lunar Jim* are controlled by both Alliance Atlantis and the Company under the terms of its recently renewed co-production agreement with the Company.

The Company's strategy for its merchandising business is to initiate negotiations with consumer product licensing companies and/or agents once it considers that a brand has achieved an appropriate level of development and market acceptance. In this way, the Company will not prematurely launch a product campaign associated with a little known property, but instead defer entering into arrangements until some level of demand has been created via television exposure.

Interactive Business

DHX Media has an interactive division based in Toronto that currently oversees the production of new media content, including digital applications such as websites that support traditional series. The Company's interactive division licenses the Company's series-based websites, developed and produced in-house, to broadcasters worldwide. To date, the Company's websites have been licensed to 18 territories and translated into eight languages. Providing series-based websites to broadcast clients has offered an important added value to the Company's worldwide television programme customers, which are focused on extending their broadcast brands to the Internet and other new media applications.

The Company's new media strategy is to build upon its website production expertise and to create content for new platforms such as mobile phones and handsets and non-traditional broadcast media. In pursuit of this strategy, the Company has entered into an agreement with the OneStop Network in Toronto's subway system for the rollout of 90 15-second animated shorts for a new property, *Dudson*, produced and owned by the Company. The *Dudson* shorts launched in April 2006 and air every 5 minutes on OneStop screens on platforms and in trains throughout the Toronto subway system, reaching a daily audience of over one million Toronto commuters. Via SMS messaging, commuters will be able to download the *Dudson* short with enhanced audio to their cellphones. Mobile phone revenue generated will be shared between the Company, the cellphone network providers and the content packagers. The *Dudson* website will provide further content for users while the shorts are being repackaged into a one-minute format for television licensing.

The Company is developing similar new media applications for several of its television properties.

DHX Media Productions

Current Productions

The Company's following titles have been commissioned by Canadian, UK, US or European broadcasters for production in Fiscal 2005 and Fiscal 2006.

Bo on the Go is a stop-motion animation children's series targeting four to seven year olds and is in its first season of 26 episodes. Its central theme is to motivate children to become physically active, which is a key public policy issue and therefore of interest to public broadcasters in many countries. *Bo on the Go* is currently in production for the CBC in Canada.

Bromwell High is a prime-time animated series created by and co-produced by the UK producer, Hat Trick Productions, for Channel 4 in the UK. DHX Media is the worldwide TV and video/DVD distributor for this series outside of the UK. This series has sold in multiple territories including Teletoon in Canada and BBC America. *Bromwell High* was named Best Comedy at the British Animation Awards in March 2006 and has been a successful mobile phone property for Channel 4 New Media in the UK. *Bromwell High* is a good example of a UK co-production for which a UK producer can gain access to Canadian production financing and the Company can obtain valuable distribution rights.

Chop Socky Chooks, a CGI-based co-production created with the UK's Aardman Animations, was commissioned from Aardman Animations by the worldwide Cartoon Network channels. *Chop Socky Chooks* is the second of two long-form television series the Company is co-producing with Aardman Animations. As with *Planet Sketch,* the Company is the worldwide TV and video rights distributor for *Chop Socky Chooks* outside of the US, excluding the multi-territory cablesat rights licensed to the Cartoon Network.

Franny's Feet is a digital 2D animated preschool series, 2004 winner of Italy's Pulcinella award for Best Television Series for Infants, was developed and is wholly owned by the Company. The series is commissioned by the Family Channel in Canada, Channel Five in the UK, with major sales in key markets around the world, including France, Australia and Japan. The Company has produced two seasons (78 11-minute episodes) and is in the process of negotiating a third season of 26 episodes with Channel Five. It is anticipated that PBS stations in the US will broadcast the series in July 2006 and this is to kick off the Company's US merchandising and licensing programme for the property. In Japan, the Company has negotiated an all rights deal with a major rights company for licensing to television, home entertainment, publishing, Internet portal (AOL and MSN) and other consumer products.

Lunar Jim is a stop-motion animation, preschool children's series co-produced with Alliance Atlantis, which retains the title's distribution rights. Commissioned by CBC in Canada. *Lunar Jim* has completed its first season of production at the studios leased by the Company from Electropolis in Halifax, Nova Scotia. The series will also launch on ZDF in Germany. Mattel's Fisher-Price division has licensed the rights to the toys associated with this production.

Naturally Sadie, the Company's teen live action series, is commissioned by the Family Channel in Canada and has been delivered to The Disney Channel in the US. With approximately 80 million homes reached, The Disney Channel is one of the top three children's and teen broadcasters in the United States. *Naturally Sadie* also airs on Nickelodeon in the UK and on France 2.

NORTH/SOUTH the fast-paced, daytime drama series set in the construction industry of the increasingly cosmopolitan city of Halifax has completed production of six half-hour episodes. The series is a co-production of The Company and Inner City Films of Toronto in association with CBC Television.

Planet Sketch is a co-production with the UK's Aardman Animations (producers of the Oscar-winning *Wallace & Gromit* franchise and *Chicken Run*). Created by Aardman Animations and commissioned by the ITV Network in the UK and TELETOON in Canada, *Planet Sketch* is one of two long-form television series created by Aardman Animations and co-produced by the Company (the other is *Chop Socky Chooks*). Outside of the UK, the Company has the worldwide TV and video distribution rights to *Planet Sketch* and to date has concluded sales to Nicktoons in the US, France 3, and ARD in Germany.

POKO is a stop-motion animation children's series which won the Gemini Award in Canada for the 'Best Pre-School Series' for its first season (2003-04). *POKO* is currently in production of its third season of 13 episodes for CBC, where it has been the top-rated pre-school show since four months after its initial launch. A total of 58 half-hour episodes of *POKO* have been produced in two seasons, with international sales being made into South Korea, Sweden and Latin America, among several other countries and regions.

This Hour Has 22 Minutes is recognized as Canada's longest running independently produced comedy series, with 25 Gemini Awards to its credit. The series, produced for the CBC, provides a weekly half hour of political parody and regularly garners an audience of one million viewers per week. Now entering its 14th season with over 270 episodes produced and broadcast to date, this property continues to provide an important source and incubator of comedic talent, for which Canada maintains an international reputation.

Romeo Dallaire's Shake Hands with the Devil: Failure of Humanity in Rwanda is a theatrical feature film based on the best-selling book of the same name. The film tells the story of Romeo Dallaire, the Canadian General who led the UN peacekeeping mission amid Rwandan genocide. The film is a co-production between the Company and Barna Alper Productions Inc., with each party sharing equally in the film's production and distribution rights. The film was shot on location in Kigali, Rwanda and Halifax, Nova Scotia.

Urban Vermin, the Company's original animated series, is commissioned by YTV in Canada. The Company is currently exploring multi-platform opportunities for this series. The Company holds the worldwide TV and video distribution rights and will begin selling this series internationally this fall.

Delilah and Julius is a co-production with Halifax based animation studio Collideascope. Created by Collideascope and commissioned by Teletoon in Canada, the company holds the worldwide TV and video distribution rights and to date has concluded sales to Nickelodeon Germany and Netherlands, Cartoon Network Latin America, RTBF in Belgium and TV12 in Singapore.

Specialized Skill and Knowledge

The Company's senior Management team collectively has over 100 years experience in the television and film production industry, with numerous awards of excellence including an Academy Award as producers of the feature documentary *Bowling for Columbine* in 2002. Under the direction of Management, Decode was recognized in 2001 and 2003 as one of "Canada's 50 Best Managed Private Companies". Senior Management brings together complementary skills, expertise and extensive experience in every aspect of the television and film production industry, including production, financing, international sales and marketing. Prior to forming the Company, part of the Company's senior Management team headed Salter Street Films, a publicly traded entertainment company which was purchased in 2001 by Alliance Atlantis. See "The Company" and "Directors and Officers".

Customers

DHX Media's target customers are, in large part, made up of conventional and specialty terrestrial and cable/satellite television broadcasters in the US, the UK, Canada and other international markets. The Company targets the following broadcasters who are currently clients of the Company, or who were previously customers of Salter Street Films:

US Networks	**UK Networks**	**Canadian Networks**	**International Networks**
BBC America (1)	BBC(1)	Alliance Atlantis Broadcasting (1)	ABC Australia(1)
Bravo	BSkyB(1)	CBC(1)	Canal+ (France)(1)
Cartoon Network(1)	BBC Scotland	CHUM Television	France Television 2, 3 & 5(1)
Comedy Central(1)	Cartoon Network UK(1)	CTV Inc.	Mediatrade (Italy)(1)
Discovery Kids(1)	Channel 4(1)	The Family Channel(1)	Nickelodeon (international)(1)
The Disney Channel(1)	Channel 5(1)	Global Television Network(1)	Cartoon Network (international)(1)
Lifetime(1)	Discovery Channel UK(1)	Societe Radio Canada(1)	The Disney Channel(1) (international)

US Networks	UK Networks	Canadian Networks	International Networks
MTV	The Disney Channel UK (1)	Teletoon(1)	Jetix Europe(1)
National Geographic Channel(1)	Flextech Television(1)	Tele Quebec(1)	Super RTL (Germany)(1)
Nickelodeon(1)	GMTV	YTV(1)	ZDF (Germany)(1)
Noggin(1)	Jetix(1)	VRAK(1)	Kinderkanal (Germany)(1)
PBS(1)	ITV(1)		ARD (Germany)(1)
Sci Fi Channel			
Starz Encore(1)			

(1) Current customers of the Company.

The Company's clients number in excess of 200 broadcasters or major rights buyers.

Competition

There is a multi-billion dollar television market worldwide in addition to an even larger market for licensing and merchandising of children's products. The television market is a strategic entry point for building exposure to and awareness of a brand among children and often acts as an important marketing tool for the brand.

The Company's competitors can be segmented into two groups: Canadian production companies and international production companies.

Canadian Production Companies

The Company considers other Canadian producers that have access to the same financing environment in Canada and compete with the Company for programme commissions from Canadian broadcasters as its domestic competitors. Management believes that few of the Company's Canadian competitors have the Company's international distribution infrastructure and extensive international customer base which can be sourced to provide pre-sales and co-production financing. Management believes the Company is positioned as one of the top two companies in Canada for children's and live animation production, based on the 2004 statistics of production budgets published by Playback Magazine in its May 10, 2005 edition.

According to the CFTPA, there are over 350 producers in Canada, most of which have market share of less than 1%. In recent years, many major Canadian production companies have materially scaled back their production businesses or exited the sector altogether. See "Business of the Company — Recent Industry Developments — Canadian Industry Developments". This development has created production opportunities for other Canadian producers similar to the Company. The Company has identified the following companies as its competitors in the Canadian market, identified by focus on children's productions and cross-genre production:

Children's Entertainment Producers	**Other Canadian Producers**
9 Story Entertainment	Alliance Atlantis Communications Inc.
Amberwood	Barna Alper Productions Inc.
Bardel Entertainment	Blueprint Entertainment
Cookie Jar Entertainment	Breakthrough Entertainment
Cuppa Coffee Studios	Galafilm Inc.
Mainframe Entertainment	Peace Arch Entertainment
Nelvana Limited	
Studio B Productions	
Zone 3 Inc.	

International Production and Companies

DHX Media also competes with international production and distribution companies for sales to international broadcasters. The following are examples of international production and distribution companies, with those having a focus on children's productions identified separately from those having a more general focus:

Children's Entertainment Producers	**Other International Producers**
US Major Producers and Distributors	BBC Worldwide
Buena Vista International (Disney)	ContentFilms
MTV Network Int (Nickelodeon)	FreemantleMedia
Warner Brothers International Television (Cartoon Network)	Granada
	RDF Media Group
US Independent Producers and Distributors	Shed Productions
BKN New Media Ltd.	TV Corporation
Classic Media Inc.	Endomo1
DIC Entertainment	
Scholastic Entertainment Inc.	
Sesame Workshop	
Taffy Entertainment	
International Independent Producers and Distributors	
Australian Broadcasting Corporation	
Chorion PLC	
Contender Entertainment	
EM.TV	
Entertainment Rights PLC	
HIT Entertainment	
Marathon	
Millimages S.A.	
Moonscoop	
Target Entertainment	
TVLoonland	

Facilities

The Company has purchased and has relocated to their new office at 5466 Spring Garden Road in Halifax, Nova Scotia, with 6,500 square feet of available in connection with which the Company has obtained two mortgages from the Business Development Bank of Canada, one for $2,490,000 which bears interest at a rate of Business Development Bank of Canada's floating base rate plus 0.5%, has an amortization of 15 years with no renewal option, and of which $2,299,100 remains outstanding as of June 30, 2006, and a second mortgage for $1,085,000 which bears interest at a rate of Business Development Bank of Canada's floating base rate plus 1.5%, has an amortization of 15 years with no renewal option, and of which $951,973.36 remains outstanding as of June 30, 2006. The Company also leases space in its new premises to other tenants.

On July 1st, 2006, the Company acquired all the issued and outstanding shares of Electropolis Studios Incorporated ("Electropolis") sound stage at 5091 Terminal Road, Halifax. Electropolis is one of the largest film studios in Canada, with 35,000 square feet of total space split between 4 studios. The largest studio, stage 1, encompasses 11,600 square feet with a 72 feet high ceiling. Electropolis is one of Canada's largest production studios and has been used for both major motion picture and television series productions. The Company has acquired a long-term lease for the entire Electropolis studio.

Decode currently leases office space at 510-512 King Street East, Toronto, Ontario in which its executive offices are located. Decode pays basic rent of $5,545/month as well as service rent of $7,977/month for 8,585 square feet of office space. The term of the lease is 24 months with an expiry date of 31 May 2007. The terms of the lease allow Decode to terminate the lease at any time after June 1, 2006 with three months notice to the Landlord as well as the payment of an early termination penalty equal to two months basic and service rent. The lease is triple net with Decode responsible for its proportionate share of property taxes, operating costs and utilities.

Halifax Film leases office space at 96 Spadina Avenue East, Toronto, Ontario, where it has recently opened a new office. Halifax Film pays basic rent of $1,202/month as well as additional rent of $670/month for 946 square feet of office space. The term of the lease is three years with an expiry date of February 28, 2009. Halifax Film has an option to renew the lease for an additional three years at fair market value. The lease is triple net with Halifax Film responsible for its proportionate share of property taxes, operating costs and utilities.

Employees

At June 30, 2006 the Company had 62 full-time employees. Sixteen of these employees are based in the Company's Halifax headquarters, while 46 are based at the Company's facilities in Toronto. Neil Court, President of Decode Enterprises, Decode's distribution division, is based in London. In addition, the Company retains individuals on a temporary contract basis, including directors, cast and crew, with the appropriate skills and background as required for particular projects under development or in production. During the year ended June 30, 2006 ("Fiscal 2006"), the Company retained approximately 460 temporary workers. Given the extent of the Company's production portfolio, it is able to maintain its access to skilled animators, artists, lighting crews, directors and line producers, by being able to provide relatively constant work. Many of the leading digital animation software titles were developed by Canadian companies, and animation schools such as Sheridan College in Oakville, Ontario, are leading training centres for animators. There are a number of independent animation studios across the country that can be engaged on a "work for hire" basis that can be used to manage production capacity while minimizing fixed, overhead costs

ITEM 4. DIVIDENDS

Holders of Common Shares are entitled, subject to the rights, privileges, restrictions and conditions attaching to any other class or series of shares of the Company, to receive dividends if, as and when declared by the board of directors of the Company. The Company may pay a dividend in money or property or by issuing fully paid shares. However, the Company may not declare or pay a dividend if there are reasonable grounds to believe that (a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realizable value of the Company's assets would thereby be less than the aggregate of its liabilities and stated capital of all classes.

No dividends have been declared or paid on the Common Shares of the Company since May 15, 2005. The Company will consider paying dividends in the future depending upon the Company's results of operations, capital requirements and other relevant factors.

ITEM 5. DESCRIPTION OF SHARE CAPITAL

The following description refers only to the Company's share capital and not to any of its subsidiaries. The Company's share capital is authorized under and subject to applicable provisions of the CBCA. Any amendment to the Company's authorized share capital or any other provision of its Articles of Continuance is subject to shareholder approval as required by the CBCA. For a more detailed description of the Company's share capital, you should refer to the provisions of the Articles of Continuance.

At February 12, 2004, the date of its incorporation, the Company's authorized share capital was 1,000,000 Common Shares. On April 19, 2004 the Company's authorized share capital was increased to 100,000,000 Common Shares. On June 6, 2005 the Company's authorized share capital was amended to convert 10,000,000 authorized Common Shares into 10,000,000 authorized Class A Preferred Shares. On May 12, 2006 the Company amended its authorized share capital to create an unlimited number of Common Shares. At the same time the Company was authorized by its shareholders to automatically convert the Class A Preferred Shares into Common Shares at the completion of the Company's initial Public Offering on May 19, 2006. The Common Shares do not have nominal or par value and all of the issued and outstanding Common Shares are fully paid-up. The Company also has Options and Warrants. On May 12, 2006, the Company amended its Articles of Continuance to create a new class of shares, to be designated Preferred Variable Voting Shares, with an authorized capital of an unlimited number of shares. The Preferred Variable Voting Shares do not have nominal or par value and when issued all of the Preferred Variable Voting Shares are fully paid-up.

The Company may by special resolution of its shareholders amend its articles to: change any maximum number of shares that the Company is authorized to issue; create new classes of shares; reduce or increase its stated capital, if its stated capital is set out in the articles; change the designation of all or any of its shares, and add, change or remove any rights, privileges, restrictions and conditions, including rights to accrued dividends, in respect of all or any of its shares, whether issued or unissued; change the shares of any class or series, whether issued or unissued, into a different number of shares of the same class or series or into the same or a different number of shares of other classes or series; divide or authorize the directors (or revoke, diminish or enlarge such authority) to divide a class of shares, whether issued or unissued, into series and fix the number of shares in each series and the rights, privileges, restrictions and conditions thereof; authorize the directors (or revoke, diminish or enlarge such authority) to change the rights, privileges, restrictions and conditions attached to unissued shares of any series; add, change or remove restrictions on the issue, transfer or ownership of shares; or add, change or remove any other provision that is permitted by the CBCA to be set out in the articles.

The holders of shares of a class are entitled to vote separately as a class on a proposal to amend the Company's articles to: effect an exchange, reclassification or cancellation of all or part of the shares of such class; add, change or remove the rights, privileges, restrictions or conditions attached to the shares of such class; increase the rights or privileges of any class of shares having rights or privileges equal or superior to the shares of such class; make any class of shares having rights or privileges inferior to the shares of such class equal or superior to the shares of such class; effect an exchange or create a right of exchange of all or part of the shares of another class into the shares of such class; or constrain the issue, transfer or ownership of the shares of such class or change or remove such constraint. Additionally, the holders of shares of a class, except the holders of Common Shares of the Company pursuant to the Company's articles, are entitled to vote separately as a class on a proposal to amend the Company's articles to: increase or decrease any maximum number of authorized shares of such class, or increase any maximum number of authorized shares of a class having rights or privileges equal or superior to the shares of such class; or create a new class of shares equal or superior to the shares of such class. The holders of shares of a series are entitled to vote separately as a series on any of the foregoing proposals if such series is affected by an amendment in a manner different from other shares of the same class.

Under the By-Laws, annual meetings must be held not later than 15 months after holding the last preceding annual meeting but no later than six months after the end of the Company's preceding financial year. The annual meeting of shareholders is held for the purpose of considering the financial statements and reports required by the CBCA to be placed before the annual meeting, electing directors, appointing auditors and for the transaction of such other business as may properly be brought before the meeting. The board of directors of the Company may call a special meeting of shareholders at any time. Annual or special meetings may be held at the registered office of the Company or elsewhere in Canada if the Company's board of directors so determines. Under the By-Laws, meetings of shareholders require 21 days notice of such meetings. Under the CBCA, the holders of not less than 5% of the issued shares of the Company that carry the right to vote at a meeting sought to be held may requisition the board of directors of the Company to call a meeting of shareholders for the purposes stated in the requisition. If the directors of the Company do not proceed to call a meeting within 21 days from the date they receive the requisition, any shareholder who signed the requisition may call the meeting. The accidental omission to give notice to a shareholder, the non-receipt of a notice by a shareholder or any error in any notice not affecting the substance thereof does not invalidate any action taken at any meeting held pursuant to such notice. Not less than two persons holding or representing by proxy not less than 33 1/3% of the issued and outstanding shares of the Company entitled to vote at a meeting constitute a quorum for such meeting. Subject to the CBCA, a question at a meeting of shareholders shall be decided by show of hands unless a ballot thereon is required by the chair of the meeting or demanded by any person who is present and entitled to vote on such question at the meeting. Unless a ballot is so demanded, a declaration by the chair of the meeting that the vote upon the question has been carried or carried by a particular majority or defeated and an entry to that effect in the minutes of the meeting shall be *prima facie* proof of the fact without proof of the number or proportion of the votes recorded in favour of or against any resolution or other proceeding in respect of the question, and the result of the vote so taken shall be the decision of the shareholders upon the question. In the case of an equality of votes either upon a show of hands or upon a poll, the chair of the meeting is not entitled to a second or casting vote.

A person or company (and any director or officer of such company) who beneficially owns, directly or indirectly, or exercises control or direction over, securities of the Company (such as Common Shares) carrying 10% or more of votes attached to all securities of the Company is, like directors and officers of the Company, considered an "insider" of the Company. Insiders of the Company are subject to requirements under securities legislation in Canadian jurisdictions to report trades of shares and each acquisition of 2% or more of additional voting securities of the Company.

Common Shares

As at the date of the Annual Information Form, Company had issued and outstanding 32,576,452 Common Shares. The Common Shares entitle the holders thereof to one vote per share: at meetings of the Company's shareholders; on any vote in respect of the

Company’s liquidation, dissolution or winding-up; on the sale, lease or exchange of all or substantially all of the Company’s property; and as otherwise provided by applicable law. Holders of Common Shares participate in the Company’s profit by way of the payments of dividends as may from time to time be declared and, subject to the nominal priority of holders of Preferred Variable Voting Shares, the return of capital in the event of the liquidation, dissolution or other distribution of the Company’s assets for the purpose of winding up of the Company’s affairs. There are no pre-emption, redemption, purchase or conversion rights attached to the Common Shares.

The international security identification number (“ISIN”) and CUSIP number of the Common Shares are CA 2524061033 and 252406103, respectively. The Common Shares are in registered form.

Preferred Variable Voting Shares

In order to ensure that a majority of the Company’s voting shares are owned by Canadians, on May 12, 2006 the Company was granted the approval of its shareholders for an amendment to its Articles of Continuance to create a new class of Preferred Variable Voting Shares. The votes attached to the Preferred Variable Voting Shares as a class are automatically adjusted so that they, together with the votes attached to Common Shares that are owned by Canadians (as determined based on inquires the Company has made of the holders of Common Shares and depositary interests) equal 55% of the votes attached to all shares in the capital of the Company. The votes attached to the Preferred Variable Voting Shares as a class are, in aggregate, not less than 1% of the votes attached to all shares in the capital of the Company. The Preferred Variable Voting Shares will not be listed on any stock exchange.

The votes attached to the Preferred Variable Voting Shares as a class are determined based on the level of Canadian ownership of Common Shares ascertained through the company’s monitoring process. If no response to these inquiries is received from a particular broker or market intermediary, then the Common Shares or depositary interests held by that broker or market intermediary will be deemed to be owned by non-Canadians. The votes attached to the Preferred Variable Voting Shares as a class are determined once the level of Canadian ownership of Common Shares has been established through this monitoring process.

The board of directors of the Company will not approve or compel a transfer to a person that is not a current officer of the Company and a Resident Canadian, and it is the current intention of the Company’s board of directors that all of the Preferred Variable Voting Shares be held by the individual that holds the position of Chief Executive Officer of the Company from time to time. The Company issued 100,000,000 Preferred Variable Voting Shares to the Company’s Chief Executive Officer, Michael Donovan, who entered into a Preferred Variable Voting Shareholders Agreement with the Company pursuant to which Michael Donovan (i) agreed not to transfer Preferred Variable Voting Shares, in whole or in part, except with the prior written approval of the board of directors of the Company, (ii) granted to the Company the unilateral right to compel the transfer of the Preferred Variable Voting Shares, at any time and from time to time, in whole or in part, to a person designated by the board of directors of the Company and (iii) granted to the Company a power of attorney to effect any transfers contemplated by the Preferred Variable Voting Shareholders Agreement. The board of directors of the Company will not approve or compel a transfer without first obtaining the approval of the TSX and the Preferred Variable Voting Shareholders Agreement cannot be amended, waived or terminated unless approved by the TSX. In determining whether to approve or compel a transfer, the board of directors of the Company will act in the best interests of the Company in order to enable the Company to be eligible for tax credits or government incentives. Pursuant to the Preferred Variable Voting Shareholders Agreement, the consideration received as a result of the transfer of Preferred Variable Voting Shares cannot exceed one/one millionth of a cent per share. Under the terms of the Preferred Variable Voting Shares, transfers of the shares will be restricted to Resident Canadians.

The Preferred Variable Voting Shares are redeemable at the option of the Company for one/one millionth of a cent per share and, in the event of the liquidation, dissolution or other distribution of the Company's assets for the purpose of winding up of the Company's affairs, holders of Preferred Variable Voting Shares are entitled to one/one millionth of a cent per share in priority to holders of Common Shares, but have no further rights. Preferred Variable Voting Shares will not be entitled to receive dividends. The terms of the Preferred Variable Voting Shares and the Preferred Variable Voting Shareholders Agreement contain a coattail provision which prevents a holder of Preferred Variable Voting Shares from accepting an offer to purchase all or part of the holder's shares unless the party making the offer also offers to purchaser, by way of a take-over bid, all of the outstanding Common Shares at a price per Common Share and on other terms and conditions as are approved by the Company's board of directors.

Class A Preferred Shares

On May 12, 2006 the Company was granted authorization from its shareholders to amend its Articles of Continuance to provide that all of the outstanding Class A Preferred Shares be automatically converted into Common Shares at the completion of the Company's initial public offering of common shares on May 19, 2006 on a one for one basis, and to remove the Class A Preferred Shares as a class of authorized shares effective upon conversion of the Class A Preferred Shares into Common Shares. The Company has granted to each holder of Class A Preferred Shares 0.1 Warrants for each Class A Preferred Share held in connection with this proposed amendment to the terms of the Class A Preferred Shares. Each whole Warrant entitles the holder to purchase one Common Share at the offering price per share under this offering on or before the date 12 months following completion of this offering.

ITEM 6. MARKET FOR SECURITIES

DHX MEDIA LTD (Toronto:DHX)

PRICES

Date	Open	High	Low	Close	Avg Vol	Adj Close*
Sep-06	1.70	1.85	1.70	1.85	314	1.85
Aug-06	2.05	2.05	1.70	1.70	1,222	1.70
Jul-06	1.80	2.10	1.60	1.80	2,260	1.80
Jun-06	2.15	2.35	1.70	1.80	24,500	1.80

DHX MEDIA LTD (London (AIM): DHX)

PRICES

Date	Open	High	Low	Close	Avg Vol	Adj Close*
Sep-14	85.5	85.5	85.5	85.5	0	85.5
Aug-14	86.5	83	83	83	5666	83
Jul-14	91.5	91.5	91.5	91.5	0	91.5
Jun-14	102.5	102.5	102.5	102.5	0	102.5

PRIOR SALES OF SHARES

Common Shares

On incorporation of the Company on February 12, 2004, 100 Common Shares were issued to Michael Donovan at a price of $0.01 per Common Share. Between February 12, 2004 and the date of this prospectus, 14,087,268 Common Shares were issued to investors at prices ranging from $0.01 to $1.85 per Common Share. The following sets forth all of the issuances of Common Shares since incorporation to May 18, 2006: (1) between February 12, 2004 and June 25, 2004 10,000,000 Common Shares were issued at $0.01 each; (2) on June 30, 2004 1,302,500 Common Shares were issued at $1.00 each; (3) on July 29, 2004 1,362,500 Common Shares were issued at $1.00 each; (4) on August 25, 2004 160,000 Common Shares were issued at $1.00 each; (5) on October 18, 2004 25,000 Common Shares were issued at $1.00 each; (6) on December 15, 2004 19,718 Common Shares were issued at $1.00 each; (7) on January 24, 2005 5,000 Common Shares were issued at $1.00 each; (8) on February 15, 2005 20,646 Common Shares were issued at $1.00 each; on May 15, 2005 21,070 Common Shares were issued at $1.00 each; (10) on June 16, 2005 1,053,266 Common Shares were issued at $1.85 each; (11) on June 30, 2005 67,568 Common Shares were issued at $1.85 each; and (12) on January 20, 2006 50,000 Common Shares were issued at $1.85 each.

Upon the closing of the Decode acquisition on May 19, 2006, the Company issued 5,793,011 Common Shares to the vendors of the shares of Decode as partial consideration for their shares in the capital of Decode.

The issuance of Common Shares on the closing of the initial public offering of Common Shares was approved by a resolution of the board of directors of the Company on May 9, 2006 and 8,702,500 shares were issued in connection thereto at a price of $2.35 per share on May 19, 2006.

On June 16, 2006 100, 000 common shares were issued at a price of $2.11 per share.

Class A Preferred Share

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, which shares were converted into common shares on closing of the initial public offering.

ITEM 7. DIRECTORS AND OFFICERS

The Company's board of directors is elected at each annual general meeting of shareholders. Additional directors may, within the maximum number permitted by the Articles of Continuance, be appointed by the board of directors of the Company, provided that the total number of directors so appointed may not exceed one third of the number of directors elected at the previous annual meeting of shareholders. The Company may have as few as three directors, at least two of whom cannot be officers or employees of the Company or its affiliates, and as many as ten directors. A director or officer of the Company must disclose to the Company, in the manner and to the extent provided by the CBCA, any interest that such director or officer has in a material contract or transaction, whether made or proposed, with the Company, if such director or officer (a) is a party to the contract or transaction; (b) is a director or an officer, or an individual acting in a similar capacity, of a party to the contract or transaction; or (c) has a material interest in a party to the contract or transaction. Such a director shall not vote on any resolution to approve the material contact or transaction except as allowed under the CBCA. Directors are paid such remuneration for their services as the board of directors of the Company may from time to time determine. Directors are entitled to be reimbursed for travelling and other expenses properly incurred by them in attending meetings of the board of directors of the Company or any committee thereof. Subject to the CBCA, the Company will indemnify a director or an officer, a former director or officer, or another individual who acts or acted at the Company's request as a director or officer, or an individual acting in a similar capacity, of another entity, and their heirs and legal representatives, against all costs and expenses reasonably incurred by the individual in respect of any civil, criminal or other proceeding in which the individual is involved because of that association with the Company, or other entity, if such individual (a) acted honestly and in good faith with a view to the best interests of the Company, or, as the case may be, to the best interests of the other entity for which the individual acted as director or officer or in a similar capacity at the Company's request; and (b) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, the individual had reasonable grounds for believing that the individual's conduct was lawful. The board of directors of the Company may from time to time appoint a chair of the board of directors of the Company, a chief executive officer, a president, one or more vice-presidents, a secretary, a treasurer and such other officers as the board of directors of the Company may determine. The board of directors of the Company may from time to time specify the duties of each officer, delegate to him or her powers to manage any business or affairs of the Company (including the power to sub-delegate) and change such duties and powers, all insofar as not prohibited by the CBCA. The board of directors of the Company may, in its discretion, remove any officer of the Company. To the extent not otherwise so specified or delegated, and subject to the CBCA, the duties and powers of the officers of the Company shall be those usually pertaining to their respective offices. The board of directors of the Company has the power to approve offerings of authorized capital. The board of directors of the Company may appoint one or more committees of the board of directors of the Company and, subject to the CBCA, delegate to any such committee any of the powers of the board of directors of the Company.

The following table sets out, for each of the Company's directors and executive officers, the person's name, age, municipality of residence, positions with the Company, principal occupation and, if a director, the day, month and year in which the person became a director. The term of office for each of the directors will expire at the time of the Company's next annual shareholders meeting. The board of directors of the Company intends to appoint a resident of the UK as a non-executive director. The Company's current directors and executive officers own or exercise direction or control over a total of 14,104,258 Common Shares, representing 43.3% of the outstanding number of common shares.

Name and Municipality of Residence	**Age**	**Offices with the Company**	**Principal Occupation**	**Director Since**
MICHAEL PATRICK DONOVAN(1) Halifax, Nova Scotia, Canada	53	Chairman and Chief Executive Officer, DHX Media	Chief Executive Officer, DHX Media	February 12, 2004
CHARLES WILLIAM BISHOP(1) Halifax, Nova Scotia, Canada	49	Director and President, Halifax Film division of DHX Media, and Secretary, DHX Media	President, Halifax Film division of DHX Media	February 12, 2004
DANA LANDRY Halifax, Nova Scotia, Canada	35	Chief Financial Officer, DHX Media	Chief Financial Officer, DHX Media	N/A
STEVEN GRAHAM DENURE Toronto, Ontario, Canada	46	Director, President, Decode Entertainment Inc.	President, Decode Entertainment Inc.	May 19, 2006

NEIL ALEXANDER COURT, London, United Kingdom	47	Decode Enterprises, the distribution division of Decode Entertainment Inc.	President, Decode Enterprises, the distribution division of Decode Entertainment Inc.	May 19, 2006
DAVID A. REGAN Halifax, Nova Scotia, Canada	36	Executive Vice President, Corporate Development, DHX Media	Executive Vice President, Corporate Development, DHX Media	N/A
FLOYD KANE Dartmouth, Nova Scotia, Canada	35	Business Affairs, Halifax Filmdivision of DHX Media	Vice President, Creative and Business Affairs, Halifax Film division of DHX Media	N/A
JOHN WILLIAM RITCHIE(2) Halifax, Nova Scotia, Canada	76	Director, DHX Media	Corporate director	February 12, 2004
SIR JUDSON GRAHAM DAY(1),(2) Hantsport, Nova Scotia, Canada	72	Lead Director, DHX Media	Corporate director	January 9, 2006
DONALD ARTHUR WRIGHT(2) Toronto, Ontario, Canada	58	Director, DHX Media	Corporate director	January 9, 2006
JOSEPH ALLEN MEDJUCK(2) Santa Barbara, California, USA	53	Director, DHX Media	Film producer	January 9, 2006

(1) Member of the Production Financing Committee.

(2) Member of the Audit Committee, Compensation Committee and the Nominating and Governance Committee.

Except as noted below, each of the Company's directors and executive officers has been engaged for more than five years in his or her present principal occupation or in other capacities with the company or organization (or predecessor) in which he or she currently holds his or her principal occupation.

Directors and Officers

Michael Donovan, the Chairman of the board of directors of the Company and Chief Executive Officer of DHX Media Ltd., has been recognized with numerous awards for his work in the television and film industry, including an Academy Award for the feature documentary Bowling for Columbine. Mr. Donovan co-founded and was a director of Salter Street Films, which was purchased by Alliance Atlantis in 2001. Mr. Donovan is a non-practicing member of the Barristers Society of Nova Scotia, was previously a member of the Board of the Academy of Canadian Cinema and Television currently, and is currently a member of the Board of NSCAD. Mr. Donovan holds B.A. (1974), LL.B. (1977) and LL.D. (Hon) (2004) degrees from Dalhousie University.

Charles Bishop, the President of the Halifax Film Division, produced the Academy Award winning feature documentary Bowling for Columbine and numerous television series such as the highly acclaimed CBC pre-school series *POKO*. Mr. Bishop operated his own production company, Charles Bishop Productions, for 18 years until 1998 when Charles Bishop Productions was sold to Salter Street Films. While with Salter Street Films, Mr. Bishop managed the company's production slate, including the notable series *Made in Canada / The Industry*, *Emily of New Moon*, *This Hour Has 22 Minutes* and *The Awful Truth*. In 2001 he accepted the position of production head, overseeing television series (fiction) worldwide for Alliance Atlantis. Mr. Bishop has three Canadian Gemini Awards and numerous international awards. He attended NSCAD and the Canadian Film Centre.

Steven DeNure, President of Decode Entertainment Inc., is responsible for overseeing overall operations at Decode, including the development, production and financing of new projects. Mr. DeNure serves as Executive Producer on all of Decode's projects. Prior to co-founding Decode, Mr. DeNure was at Alliance Communications Corporation for more than 10 years and served in a number of senior positions including President of Alliance Productions and President of Alliance Multimedia. During his tenure at Alliance Communications Corporation, Mr. DeNure was involved in the development, financing and production of all feature television and film projects (which included many US broadcaster commissions) and was responsible for the animation division, music-publishing division (TMP), and for merchandising and licensing. Mr. DeNure is a pioneer in CGI animation, having acted as Executive Producer of the groundbreaking *Reboot* and *Beast Wars* animation series. Mr. DeNure is Vice Chair of ACT, the Alliance for Children's Television, and serves on the board of the Canadian Film Centre. Mr. DeNure graduated from Simon Fraser University with a BA in Economics & Business Administration.

Neil Court, the London-based President of Decode Enterprises, the distribution division of Decode, brings 20 years of international co-production and development, programme financing, and international sales experience to the Company. Mr. Court serves as Executive Producer on Decode's productions and oversees Decode's distribution arm. Mr. Court was founding Managing Director of Nelvana Enterprises Inc., Nelvana Limited's international distribution and co-production arm, where he built the distribution division and put together over 200 episodes of co-productions. Prior to co-founding Decode, Mr. Court had his own UK-based international consultancy business that focused on helping American clients exploit the international television market. Mr. Court's key clients included The Jim Henson Company and L.A.-based Film Roman Inc., with which he focused on building their respective distribution departments and key international broadcast relationships. His other consultancy clients included major European and American media companies such as MCA, BMG and PolyGram. Mr. Court holds a Bachelor of Journalism degree from Carleton University in Ottawa and an MBA from York University in Toronto.

J. William Ritchie, a non-executive director of DHX Media, has over 50 years of experience in the Canadian financial community. Mr. Ritchie is a former director of Empire Co. Ltd., Sobeys Inc. and Salter Street Films. Mr. Ritchie also co-owned and operated Scotia Bond Company Limited, an Atlantic Canadian-based, regional investment dealer, from 1963 to 1990. Scotia Bond was a member of the Toronto and Montreal stock exchanges and was sold to a national investment dealer in 1990.

Sir Graham Day, a non-executive and Lead Director of DHX Media, is Counsel to the Atlantic Canada law firm of Stewart McKelvey Stirling Scales. He is a director of several public and private companies including Empire Company Limited, Extendicare Inc., The CSL Group Inc., Jacques Whitford Group Limited, Moosehead Breweries Limited, Scotia Investments Limited, and The Shaw Group Limited. He has served as Chairman of the board of directors of Sobeys Inc., Cadbury Schweppes plc, PowerGen plc, British Aerospace plc and Hydro One Inc., as well as lead director of The Bank of Nova Scotia. Sir Graham Day is a Fellow of the Institute of Corporate Directors of Canada and a Companion of the Chartered Management Institute in the United Kingdom. He is Chancellor Emeritus of Dalhousie University, was knighted in 1989 by Queen Elizabeth II for services to British industry and was recently elected to the Canadian Business Hall of Fame.

Donald Wright, a non-executive director of DHX Media, was Chairman and Chief Executive Officer of TD Securities Inc. from 1998 to 2002. Since his retirement in 2002, Mr. Wright has been involved in a number of private and public equity investments. Mr. Wright has also been involved with several financial industry organizations, most notably as a Board and Executive Committee member of the Investment Dealers Association of Canada. He has also worked with the Ontario Securities Commission, the Bank of Canada and the Department of Finance, Canada to develop capital markets. Mr. Wright is currently a member of the Board of Trustees of The Hospital for Sick Children, a governor of the Royal Ontario Museum Foundation and a member of the board of directors of Richards Packaging Inc., and a member of the Board of Trustees of GMP Capital Trust. He is a Trustee and Chairman Richards Packaging Income Fund, the Chairman of Black Bull Resources Inc. and the Chairman of Fralex Therapeutics Inc.

Joe Medjuck, a non-executive director of DHX Media, is a producer with The Montecito Pictures Company in Santa Barbara, California whose recent films include *Old School, Road Trip, Evolution* and *Killing Me Softly*. Mr. Medjuck was executive producer of *Legal Eagles, Twins, Ghostbusters II, Kindergarten Cop, Dave, Junior, Private Parts, Father's Day* and *Six Days/Seven Nights*. He was a producer on the films *Big Shots, Beethoven, Beethoven's 2nd, Commandments,* and the live-action/animated feature *Space Jam*. His television producing credits include the cartoon shows *The Real Ghostbusters,* and *Mummies Alive* as well as the Emmy nominated HBO film *The Late Shift*. Mr. Medjuck was a director of the film production company International Keystone Entertainment Inc. from 1995 to 2001 and remains involved with that company as an advisor to its current board of directors. Mr. Medjuck was an associate producer of Ivan Reitman's Broadway musical *Merlin* and hit comedy features *Stripes* and *Ghostbusters*. Mr. Medjuck, along with Ivan Reitman and Dan Goldberg, founded the film distribution company New Cinema of Canada. Mr. Medjuck holds a B.A. (Hon.) in English from McGill University and a Masters and PhD from the University of Toronto, where he subsequently taught.

Other Officers

Dana Landry, the Chief Financial Officer of DHX Media Ltd., has most recently been CFO, General Manager and Corporate Secretary for SolutionInc Technologies Limited ("SolutionInc"), a public technology company traded on the TSX Venture Exchange. Before joining SolutionInc, Mr. Landry was a financial advisor to Collideascope Digital Productions Inc., an integrated television and new media production company and President and Chief Financial Officer of imX communications Inc. ("imX"), a feature film, MOW and television production company. Mr. Landry began his career at Doane Raymond, Chartered Accountants (now Grant Thornton LLP) and then moved on to PwC where he had extensive involvement with the successful initial public offering of Salter Street Films.

David A. Regan, the Executive Vice President, Corporate Development of DHX Media, is responsible for the Company's corporate finance and development activities. Prior to working with DHX Media, Mr. Regan held positions with VI Associates, A.T. Kearney's New York Financial Institutions Group and Export Development Corporation. In these positions he worked with clients in the entertainment and financial services industries throughout North America, Europe and Asia to provide financing, corporate development and business strategy advisory services. Mr. Regan holds an MBA from INSEAD in Fontainebleau, France, and a BBA Honours degree from St. Francis Xavier University in Nova Scotia.

Floyd Kane, the Vice President, Creative and Business Affairs of the Halifax Film division of DHX Media, is responsible for all production business and legal affairs of Halifax Film division of DHX Media. Prior to joining the Company in April 2004, Mr. Kane was Legal Counsel for Salter Street Films and served as Production Executive for numerous projects including Michael Moore's feature documentary *Bowling For Columbine* and television shows *Chasing Cain, Lexx IV* and *POKO*. Mr. Kane is active in the television and film community in the Atlantic Region, and serves on the executive of the Nova Scotia Film and Television Producers Association and is on the board of the AFCOOP.

The following chart sets forth the companies and partnerships (other than the Company and its subsidiaries) of which a director or Proposed Director of the Company is, or has in the past 5 years been, a director or partner:

Director	Past Directorships and Partnerships	Current Directorships and Partnerships
MICHAEL DONOVAN	Salter Street Films Queen Street Entertainment Capital Inc.	3124518 Nova Scotia Limited Media Fund
CHARLES BISHOP	—	2524277 Nova Scotia Limited
STEVEN DENURE	—	2096595 Ontario Inc.
NEIL COURT	—	Griffins 001 Limited
J. WILLIAM RITCHIE	Salter Street Films, Queen Street Entertainment Capital Inc. Sobeys Inc. Empire Company Limited CrossOff Inc. imX Communication	e-academy Inc. 1X Inc. Sampling Technologies Inc. Trident Gaming Plc
SIR GRAHAM DAY	Sobeys Inc. Cadbury Schweppes Plc PowerGen Plc British Aerospace Plc Hydro One Inc. Bank of Nova Scotia	The CSL Group Inc. Empire Company Limited Extendicare Inc. Moosehead Breweries Limited Scotia Investments Limited The Shaw Group Limited Jacques Whitford Group Inc.
DONALD A. WRIGHT	—	Black Bull Resources Inc. Fralex Therapeutics Inc. GMP Capital Trust Richards Packaging Income Fund (chairman of the board of trustees) Richards Packaging Inc.
JOE MEDJUCK	—	Montecito Picture Company Limited Sussex Avenue Productions Inc

Directors' Interests in Common Shares

The interests (all of which are beneficial, unless otherwise stated) of the Company's directors, their immediate families and persons connected with them, in Common Shares and options or warrants to acquire Common Shares are as follows:

Name	Common Shares Owned	Common Shares under Options/Warrants
Michael Donovan	6,777,027	Nil
Charles Bishop .	2,777,027	Nil
J. William Ritchie	434,054	200,000
Sir Graham Day	50,000	100,000

Name	Common Shares Owned	Common Shares under Options/Warrants
Donald Wright..	135,135	113,514 (1)
Joe Medjuck	Nil	100,000
Steven DeNure .	1,746,314	Nil
Neil Court.........	1,746,314	Nil

[1] Donald Wright holds 100,000 options and 13,514 warrants resulting from the Class A Preferred Share conversion.

There are no directors of the Company or members of their immediate families or affiliated companies or trusts who, at the date hereof, have any financial product (including, a contract for difference or a fixed odds bet) whose value in whole or part is determined directly or indirectly by reference to the price of the Common Shares.

Committees of the Board of Directors

The board of directors of the Company has established an audit committee, a compensation committee, a nominating and corporate governance committee and a production financing committee. Each of the committees has adopted a written charter establishing its role and responsibilities.

Audit Committee

The audit committee assists the board of directors of the Company in fulfilling its responsibilities for oversight and supervision of financial and accounting matters. These responsibilities include oversight of the quality and integrity of the Company's internal controls and procedures, reviewing annual and quarterly financial statements and related management discussion and analysis, engaging the external auditor and approving independent audit fees and considering the recommendations of the independent auditor, monitoring the Company's compliance with legal and regulatory requirements related to financial reporting and examining improprieties or suspected improprieties with respect to accounting and other matters that impact financial reporting. The audit committee has the authority to retain outside counsel or experts to assist the Committee in performing its functions. The Company's audit committee is chaired by Donald Wright and currently composed of Sir Graham Day, Joe Medjuck and J. William Ritchie.

Compensation Committee

The compensation committee ensures that the Company has high calibre executive management in place and a total compensation plan that is competitive, motivating and rewarding for participants. The compensation committee reviews and makes recommendations to the Company's board of directors regarding the appointment of the Company's executive officers, and the establishment of, and any material changes to, executive compensation programmes, including that of the Chief Executive Officer. The compensation committee also oversees and administers the Company's employee compensation and benefits plans. The compensation committee is responsible for reviewing and recommending to the board of directors of the Company the terms of compensation of directors. The compensation committee is chaired by J. William Ritchie and currently composed of Sir Graham Day, Donald Wright and Joe Medjuck.

Nominating and Governance Committee

The nominating and governance committee assists the board of directors of the Company in identifying candidates for the board of directors of the Company and in developing and implementing effective corporate governance principles for the Company. The committee is responsible for establishing a code of conduct and ethics for the Company and for overseeing the Company's policy on insider trading. The nominating and governance committee also evaluates the effectiveness of the board of directors of the Company as a whole, each committee of the board of directors of the Company and the contribution of individual directors. The nominating and governance committee is chaired by Sir Graham Day and is currently composed of Donald A. Wright, J. William Ritchie and Joe Medjuck.

Production Financing Committee

The production and financing committee consists of Michael Donovan, Charles Bishop and Sir Graham Day and has the authority to approve, execute and authorize all film and television production financing.

ITEM 8. PROMOTERS

Michael Donovan and Charles Bishop may be considered promoters of the Company within the meaning of Canadian provincial securities legislation by virtue of their initiative in founding the business of the Company.

ITEM 9. LEGAL PROCEEDINGS

The Company is involved in legal proceedings incidental to the ordinary course of business. One claim will likely be settled out of court for $20,000 USD with a possible back-end participation of one the Company's feature films to a maximum additional amount payable of $80,000 USD.

ITEM 10. RISK FACTORS

The risks and uncertainties below are not the only ones facing the Company. Additional risks and uncertainties not presently known to the Company or that the Company currently considers immaterial also may impair its business operations and cause the price of its Common Shares to decline. If any of the following risks actually occur, the Company’s business may be harmed and its financial condition and results of operations may suffer significantly and adversely. In that event, the trading price of its Common Shares could decline, and a purchaser may lose all or part of his, her or its investment.

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 programmes 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 programmes 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 programmes 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 programmes in development or renew licenses to broadcast film and television programmes 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 programmes and related products are important in determining the success of these films, programmes and related products. The Company does not control the timing and manner in which our licensed distributors distribute our films, television programmes or related products. Any decision by those distributors not to distribute or promote one of the Company’s films, television programmes or related products or to promote competitors’ films, programmes 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 programmes are contractually required by broadcasters to be certified as "Canadian". In the event a production does not qualify for certification as Canadian, the Company would be in default under any government incentive and broadcast licenses for that production. In the event of such default, the broadcaster could refuse acceptance of the Company's productions.

Competition

Substantially all of the Company's revenues are derived from the production and distribution of television and film programmes. The business of producing and distributing television and film programmes 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 programmes 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 programmes 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.

Influence of Founders

Michael Donovan, Charles Bishop, Steven Denure, Neil Court, Beth Stevenson and John Delmage (the "Founders") directly and indirectly control approximately 46.1% of the votes attached to the Company's Common Shares. As a result, the Founders are in a position to significantly influence the Company's operations and strategy and, subject to applicable law, influence the election of a majority of its directors, influence the appointment of individuals as directors and officers and influence the outcome of matters submitted to a shareholder vote. In addition, Michael Donovan, the Chief Executive

Officer of the Company and a Founder, will hold 100,000,000 Preferred Variable Voting Shares, which may have attached thereto up to 55% of the votes attached to all shares in the capital of the Company. The effect of this control and ownership of shares may be to limit the price that investors may be willing to pay in the future for the Company's Common Shares, or to prevent or delay a merger, takeover or other change in its control and thus discourage attempts to acquire the Company.

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 programmes 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 programmes 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 programmes require a significant amount of capital. The Company cannot provide and 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 programmes. 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 programmes, including the CTCPF, the provincial film equity investment programmes, 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 programmes 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.

Nova Scotia Equity Tax Credit

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 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 programmes. 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.

ITEM 11. AUDITORS, TRANSFERT AGENT AND REGISTRAR

The Company's auditors are PricewaterhouseCoopers LLP 1809 Barrington Street, Suite 600, Halifax, Nova Scotia, B3J 3K8, Canada. PricewaterhouseCoopers LLP is registered with the Institute of Chartered Accountants of Nova Scotia and has entered into an agreement with the Canadian Public Accountability Board.

The transfer agent and registrar for the Company's Common Shares in Canada is Computershare Investor Services Inc. at its principal offices at 100 University Avenue, 8th Floor, Toronto, Ontario M5J 2Y1, Canada.

ITEM 12. MATERIAL CONTRACTS

The following are the only material contracts, other than contracts entered into in the ordinary course of business, which the Company has entered into within the past year or which are still in effect:

- the Agency Agreement described under “Plan of Distribution – The Offering” contained in the Supplemented PREP Prospectus dated May 12, 2006 on file at SEDAR.com;

- the NOMAD Agreement described under “Plan of Distribution – The Offering” contained in the Supplemented PREP Prospectus dated May 12, 2006 on file at SEDAR.com;

- the lock-up agreements with Michael Donovan, Charles Bishop, Steven DeNure, Neil Court, Beth Stevenson and John Delmage described under “Plan of Distribution –Lock-up Arrangements” contained in the Supplemented PREP Prospectus dated May 12, 2006 on file at SEDAR.com ;

- the Decode Purchase Agreement described under “Business of the Company” contained in the Supplemented PREP Prospectus dated May 12, 2006 on file at SEDAR.com;

- the Media Fund Shareholder Agreement described under “Options and Warrants to Purchase Securities – Put Options of Shareholders of Media Fund” contained in the Supplemented PREP Prospectus dated May 12, 2006 on file at SEDAR.com;

- the Preferred Variable Voting Shareholders Agreement described under “Description of Share Capital – Preferred Variable Voting Shares” and “Regulatory Considerations – Maintaining Canadian Control” ” contained in the Supplemented PREP Prospectus dated May 12, 2006 on file at SEDAR.com; and

- the First Look Agreement and Subdistribution Agreement described under “Distribution Arrangement” ” contained in the Supplemented PREP Prospectus dated May 12, 2006 on file at SEDAR.com

ITEM 13. ADDITIONAL INFORMATION

Additional information relating to DHX Media Ltd. may be found on SEDAR at www.sedar.com.

Additional financial information is provided in the Financial Statements.