DHX MEDIA LTD.

Q3 2006

FORM 51-102F1

Management Discussion and Analysis
of Financial Condition and Results of Operations
For the Three Months and Nine Months Ended March 31, 2006 and March 31, 2005
(Unaudited)

DHX MEDIA LTD.

Form 51 – 102F1 Quarterly Report
March 31, 2006

MANAGEMENT DISCUSSION AND ANALYSIS

*The following Management Discussion & Analysis ("**MD&A**") prepared as of May 24, 2006, should be read in conjunction with the Company's unaudited interim consolidated financial statements and accompanying notes for the three and nine months ended March 31, 2006 and 2005, as well as the annual MD&A and audited consolidated financial statements and accompanying notes for the years ended June 30, 2005 and 2004 contained in the Company's Final Prospectus ("**Final Prospectus**") posted on May 11, 2006 on www.sedar.com. The unaudited interim consolidated financial statements and accompanying notes for the three and nine months ended March 31, 2006 and 2005 have been prepared in accordance with Canadian Generally Accepted Accounting Principles for preparation of interim financial information and have been reviewed by* DHX and *the Company's auditors, PricewaterhouseCoopers LLP.*

DHX Media Ltd. (the "**Company**" or "**DHX**") is a public company incorporated under the Canadian Business Corporations Act and its shares are listed on the Toronto Stock Exchange "TSX" and Alternative Investment Market on the London Stock Exchange "AIM" as of May 19, 2006. Additional information relating to the Company can be found on SEDAR at www.sedar.com.

The unaudited interim consolidated financial statements and accompanying notes for the three months and nine months ended March 31, 2006 and 2005, as well as this interim MD&A and all other financial information included herein, unless specifically identified, are for periods prior to the acquisition of Decode Entertainment Inc. ("Decode") (see "Subsequent Events –Acquisition" section of this MD&A for further details on the Decode acquisition).

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

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

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

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

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

Use of Non-GAAP Financial Measures

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

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

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

A reconciliation of historical results to EBITDA is presented at the end of this MD&A.

Revenue Model

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

Production Revenue

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

Distribution Revenue

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

Producer and Service Fee Revenue

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

Critical Accounting Policies

Revenue Recognition

Production and Distribution Revenue

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

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

Producer and Service Fee Revenue

Revenues from production services for third parties are recognized on a percentage-of-completion basis. Associated production costs are charged against earnings as the revenue is recognized. Percentage-of completion is based upon the proportion of costs incurred in the current period to total expected costs. A provision is made for the entire amount of future estimated losses, if any, on productions-in-progress.

Variable Interest Entity

Effective July 1, 2005, the Company is required to follow Accounting Guideline 15, – Consolidation of Variable Interest Entities ("AcG 15"). AcG 15 provides criteria for the identification of Variable Interest Entities (**"VIEs"**) and further criteria for determining what entity, if any should consolidate them. AcG 15 defines a VIE as an entity that either does not have sufficient equity at risk to finance its activities without subordinated financial support or where the equity investors lack the characteristic of a controlling financial interest. VIEs are subject to consolidation by a company if that company is deemed the primary beneficiary of the VIE. The primary beneficiary is the party that is either exposed to a majority of the expected losses from the VIE's activities or is entitled to receive a majority of the VIE's residual returns or both. (For a more detailed discussion of VIEs see "Change in Accounting Policies" section of this MD&A.)

Investment in Film and Television Programs

Investment in film and television programs represents the unamortized costs of film and television programs which have been produced by the Company or for which the Company has acquired distribution rights. Investment in film and television programs also includes acquired film and television libraries. Costs of acquiring and producing film and television programs are capitalized, net of federal and provincial program contributions earned, and amortized using the individual film forecast method, whereby capitalized costs are amortized and ultimate participation costs are accrued in the proportion that current revenue bears to management's estimate of ultimate revenue expected to be recognized from the exploitation, exhibition or licensing of the film or television program. For film and television programs produced by the Company, capitalized costs include all direct production and financing costs incurred during production that are expected to benefit future periods. Financing costs are capitalized to the costs of a film or television program until the film or television program is complete. Capitalized production costs do not include administrative and general expenses, the cost of overall deals, or charges for losses on properties sold or abandoned. For episodic television series, until estimates of secondary market revenue can be established, capitalized costs for each episode produced are limited to the amount of revenue contracted for each episode. Costs in excess of this limitation are expensed as incurred on an episode-by-episode basis. Production financing provided by third parties that acquire substantive equity participation is recorded as a reduction of the cost of the production. Film and television programs in progress represent the accumulated costs of productions, which have not been completed by the Company. For films other than episodic television series and acquired libraries, ultimate revenue includes estimates over a period not to exceed ten years following the date of initial release. For episodic television series, ultimate revenue includes estimates of revenue over a period not to exceed ten years from the date of delivery of the first episode or, if still in production, five years from the date of delivery of the most recent episode, if later.

Revenue estimates are prepared on a title-by-title basis and are reviewed periodically based on current market conditions. For film, revenue estimates include net theatrical receipts, sale of videocassettes and DVDs, licensing of television broadcast rights and licensing of other ancillary film rights to third parties. For television programs, revenue estimates include licensed rights to broadcast television programs in development and rights to renew licenses for episodic television programs in subsequent seasons. Ultimate revenue includes estimates of secondary market revenue for produced episodes only when the Company can demonstrate through its experience or industry norms that the number of episodes already produced, plus those for which a firm commitment exists and the Company expects to deliver, can be licensed successfully in the secondary market.

Estimates of future revenue involve measurement uncertainty and it is therefore possible that reductions in the carrying value of investment in film and television programs may be required as a consequence of changes in management’s future revenue estimates.

The valuation of investment in film and television programs is reviewed on a title-by-title basis when an event or change in circumstances indicates that the fair value of a film or television program is less than its unamortized cost. The fair value of the film or television program is determined using management’s estimates of future revenues and costs under a discounted cash flow approach. A write-down is recorded equivalent to the amount by which the unamortized costs exceed the estimated fair value of the film or television program.

Stock-based Compensation

Effective July 1, 2005, the Company adopted the amended recommendations of the Canadian Institute of Chartered Accountants Handbook Section 3870 (“CICA 3870”), “Stock-based Compensation and Other Stock-based Payments”. Under the amended standards of this Section, the fair value of all stock options granted to employees are recorded in operations or production costs, as applicable over their vesting periods.

The fair value of options is determined using the Black Scholes option pricing model that takes into account, as of the grant date, the exercise price, the expected life of the option, the current price of the underlying stock and its expected volatility, expected dividends on the stock, and the risk-free interest rate over the expected life of the option. The resulting fair value of the options is expensed on a straight-line basis over their vesting periods. Cash consideration received from employees when options are exercised and the value of options accumulated in contributed surplus are credited to share capital.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The summary consolidated financial information set out below for the three and nine month periods ended March 31, 2006 and 2005, and as at March 31, 2006 and the year ended, June 30, 2005 has been derived from the Company's unaudited interim consolidated financial statements and accompanying notes for the three and nine months ended March 31, 2006 posted on www.sedar.com. The financial information in the table below is for periods prior to the acquisition of Decode Entertainment Inc. ("Decode") (see "Subsequent Events –Acquisition" section of this MD&A for further details on the Decode acquisition). Each reader should read the following information in conjunction with those statements and the related notes.

	Three Months Ended March 31,		Nine Months Ended March 31	
	2006	**2005**	**2006**	**2005**
Consolidated Statements of Operations Data:				
Revenue	$ 1,885,390	$ 1,582,125	$ 6,523,290	$ 2,140,866
Direct production costs	(76,865)	–	1,471,328	—
Amortization of film and television programs	1,688,741	1,278,221	3,876,221	1,618,221
Gross margin	273,514	303,904	1,175,741	522,645
Selling, general and administrative	351,211	156,946	1,346,879	476,462
Operating income (loss)	(80,237)	145,137	(378,428)	41,163
Interest and other (expenses) income, net	(279,506)	-	(952,470)	-
Net loss	(359,743)	145,137	(1,330,898)	41,163
Basic and fully diluted (loss) per common share	(.03)	.01	(.09)	.00
Weighted average common shares outstanding				
Basic and Fully Diluted	14,076,714	12,882,256	14,050,226	12,674,803

	March 31, 2006	June 30, 2005
Consolidated Balance Sheet Data:		
Cash and short-term investments	$ 4,973,229	$ 7,588,928
Investment in film and television programs	4,393,626	6,096,484
Total assets	26,294,850	26,138,994
Total debts	21,058,345	19,660,432
Shareholder equity	5,236,505	6,478,562

SELECTED CONSOLIDATED QUARTERLY FINANCIAL INFORMATION

The following tables set out selected consolidated financial information for each of the last eight quarters with the last one being the most recent quarter ended March 31, 2006. In the opinion of management, this information has been prepared on the same basis as the audited consolidated financial statements appearing in the Company's final prospectus posted May 11, 2006 on www.sedar.com, and all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly the unaudited quarterly results when read in conjunction with the audited consolidated financial statements and the notes to those statements. The financial information in the table below is for periods prior to the acquisition of Decode Entertainment Inc. ("Decode") (see "Subsequent Events –Acquisition" section of this MD&A for further details on the Decode acquisition). The operating results for any quarter should not be relied upon as any indication of results for any future period.

Quarter Ended in

	Fiscal 2006			**Fiscal 2005**				**Fiscal 2004**
	Q3 Mar 31	**Q2 Dec 31**	**Q1 Sept 30**	**Q4 June 30**	**Q3 March 31**	**Q2 Dec 31**	**Q1 Sept 30**	**Q4 (1) June 30**
Revenue	$1,885,390	$2,133,167	$2,504,733	$18,749,311	$1,582,125	$474,770	$ 83,971	$ –
Net income (loss)	(359,743)	(608,552)	(362,603)	(350,947)	145,137	16,602	(120,576)	(78,789)
Basic and Diluted Earnings (Loss) Per Share	(0.03)	(0.04)	(0.03)	(0.01)	0.01	0.00	(0.02)	(0.19)

(1) This period commenced on February 12, 2004, the date of incorporation of the Company, to June 30, 2004.

Results for the Three-Months Ended March 31, 2006 Compared to the Three-Months Ended March 31, 2005

Revenues

Revenues for the three months ended March 31, 2006 ("Q3 2006") were $1.885 million, up from $1.582 million for the three months ended March 31, 2005 ("Q3 2005"), an increase of 19%. The increase is mainly due to the delivery of 17 half-hours of higher revenue generating proprietary television programs (8 half-hour of *Lunar Jim* Season I and 9 half-hour of *This Hour Has 22 Minutes* Season XIII) versus the delivery of lower revenue generating shows totalling 28 half-hours (2 half-hour of *POKO* Season II, 25 half-hour of *Open Book* Season III and 1 half-hour pilot for *North South*). The increase for Q3 2006 is consistent with the Company's strategic goal to increase production budgets for its proprietary television production and therefore increase the revenue generated from home-grown productions both in absolute dollars and as a percentage of the total productions revenues earned. For Q3 2006 the $1.885 million in production revenues was generated 100% from proprietary productions. The breakdown for the $1.885 million in proprietary television production was approximately $1.747 million and $210,000 for *This Hour Has 22 Minutes* Season XIII and *Lunar Jim* Season I, respectively, and a reversal of $72,000 for production service revenue for *Ambition*. In Q3 2005 revenues were split $1.493 million for proprietary television production and $89,000 from service producing Season XII of This Hour Has 22 Minutes. The breakdown for Q3 2005 proprietary television production revenue of $1.493 million was approximately $252,000, $207,000 and $1.034 million for *POKO* Season II, the pilot for *North South* and *Open Book* Season III respectively. The Company, in June 2005, acquired the rights to produce Season XIII and beyond of *This Hour Has 22 Minutes* and therefore, on a go forward basis all revenues are shown as proprietary production revenue.

Gross Margin

Gross Margin for Q3 2006 was $274,000, an overall 14.5% of revenue versus $304,000 or 19.2% of revenue for Q3 2005, a decrease of 24%. The Gross Margin for Q3 2006 was lower than Q3 2005 because in Q3 2006 there were no amounts earned from service producing fees versus $89,000 for Q3 2005 earned from service producing Season XII of *This Hour Has 22 Minutes.* The cost of which are fixed operating costs of the Company and are reflected as selling, general and administrative expenses ("SG&A") and therefore have no direct cost of goods sold associated with earning these service fees. When this is removed the margin for Q3 2005 is approximately 14% or consistent with Q3 2006. The Gross Margin for Q3 2006 was in line with management's projected margins for proprietary productions of 10 to 25%. As each production is financed differently, these Gross Margins can vary greatly with the Company maintaining a larger share of the copyright on certain programs over others. This is due to certain projects requiring a larger percentage of pre-licensing in order to get the necessary production revenues to get the program produced. As more of the program territories are pre-licensed in advance it naturally reduces the number of territories available for distribution revenues. With lower distribution revenues comes a lower margined production. On a go forward basis the Gross Margin for the Company will depend on the ultimate mix of production services revenues to proprietary revenue, however, it is projected to be in the 10-25% range for the remainder of Fiscal 2006.

Operating Expenses

Operating expenses for Q3 2006 were $354,000 compared to $159,000 for Q3 2005, an increase of 123%. The increase is mainly due to a 123% increase of SG&A to $351,000 up from $157,000 for Q3 2005. SG&A have increased 123% as a result of the Company hiring people and expanding facilities. Operating expenses for Q3 2006 are composed of $3,000 and $351,000 for amortization and SG&A, respectively. Also related to the Company reviewing potential new production deals, further sales and distribution relationships as well as potential rights acquisitions and investor relations there was a requirement for increased professional and consulting advice and this has resulted in increases to consultation, legal and investor relations fees in the amount of $32,000.

EBITDA

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

Amortization

For Q3 2006 amortization of property, plant and equipment remained relatively consistent at $3,000 (Q3 2005 - $2,000).

Interest

Interest expense, net of interest revenue, for Q3 2006 was $250,000 up from no amounts for Q3 2005. Interest expense consists of interest expense accreted on the Class A Preferred Shares of $204,000 and $53,000 of amortization and deferred financing fees compared to no amounts for Q3 2005 (see Notes to the audited and unaudited interim consolidated financial statements on www.sedar.com). This interest expense was offset by interest revenue in Q3 2006 of $7,000 (Q3 2005 - $Nil) earned on cash balances and short-term investments.

Equity Loss and Non-Controlling Interest

Equity loss for Q3 2006 was comprised of $196,000 equity income (Q3 2005 - $Nil) offset by $211,000 for the elimination of intercorporate profit for the Company's investment in LJ 2003 Productions Ltd. (Q3 2005 - $Nil). Non-controlling interest for Q3 2006 was an expense of $4,000 (Q3 2005 - $Nil).

Income Taxes

Income taxes expense for Q3 2006 was $10,000 up from to $Nil for Q3 2005. The amount was made up of a $10,000 provision for large corporation tax.

Net Loss

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

Results for the Nine-Months Ended March 31, 2006 Compared to the Nine-Months Ended March 31, 2005

Revenues

Revenues for the nine months ended March 31, 2006 were $6.523 million, up from $2.141 million for the nine months ended March 31, 2005, an increase of 205%. The increase is mainly due to the delivery of 50 half-hours of proprietary television (14 half-hours of *POKO* Season II, 20 half-hours of *Lunar Jim* Season I and 16 half-hours of *This Hour Has 22 Minutes* Season XIII) versus the delivery for the nine months ended March 31, 2005 of only 34 half-hours of proprietary television (6 half-hours of *Body of Knowledge* Season I, 2 half-hours of *POKO* Season II, 25 half-hours of *Open Book* Season III and 1 half-hour pilot for *North South*). The increase for the nine months ended March 31, 2006 is consistent with the Company's strategic goal to increase home grown or proprietary television production both in absolute dollars and as a percentage of the total productions revenues earned. For the nine months ended March 31, 2006 the breakdown for the $6.502 million in production revenues was $5.031 million for proprietary productions or 77%, a significant improvement over the 18% for proprietary production for the year ended June 30, 2005, and $1.472 million of production service revenues or 23% of total revenues. The breakdown for the $5.031 million in proprietary television production was $1.397 million and $3.106 million for *POKO* and *This Hour Has 22 Minutes*, respectively, and $0.528 million in producer and service fees for *Lunar Jim*. The breakdown for the $1.471 million in production service revenue was $1.427 million and $44,000 for the motion pictures entitled *Slevin* ("Slevin") and *Ambition* ("Ambition") respectively. For the nine months ended March 31, 2006 the Company earned $8,000 from its VIE Media Fund (for a more detailed discussion of VIEs see "Change in Accounting Policies" section of this MD&A) and $13,000 in revenue from the distribution of its proprietary production *POKO* Season I. For the nine months ended March 31, 2005 revenues were split $1.870 million for proprietary television production and $271,000 from service producing Season XII of This Hour Has 22 Minutes. The breakdown for the nine months ended March 31, 2005 for proprietary television production revenue of $1.870 million was approximately $377,000, $252,000, $207,000 and $1.034 million for *Body of Knowledge* Season I, *POKO* Season II, the pilot for *North South* and *Open Book* Season III respectively.

Gross Margin

Gross Margin for the nine months ended March 31, 2006 was $1.176 million an overall 18% of revenue versus $523,000 or 24% of revenue for the nine months ended March 31, 2005, a decrease of 25%. The Gross Margin for the nine months ended March 31, 2006 was lower than the nine months ended March 31, 2005 because for the nine months ended March 31, 2006 there were no amounts earned from service producing fees versus $271,000 for 2005 earned from Season XII of *This Hour Has 22 Minutes.* The cost of which are fixed operating costs of the Company and are reflected as selling, general and administrative expenses ("SG&A") and therefore have no direct cost of goods sold associated with earning these service fees. The Gross Margin for the nine months ended March 31, 2006 was more in line with management's projections which are between 10 to 25% for proprietary productions. As each production is financed differently, these Gross Margins can vary greatly with the Company maintaining a larger share of the copyright on certain programs over others. This is due to certain projects requiring a larger percentage of pre-licensing in order to get the necessary production revenues to get the program produced. As more of the program territories are pre-licensed in advance it naturally reduces the number of territories available for distribution revenues. With lower distribution revenues comes a lower margined production. On a go forward basis the Gross Margin for the Company will depend on the ultimate mix of production services revenues to proprietary revenue, however, it is projected to be in the 10-25% range for the remainder of Fiscal 2006.

Operating Expenses

Operating expenses for the nine months ended March 31, 2006 were $1.554 million compared to $481,000 for the nine months ended March 31, 2005, an increase of 223%. The increase is due to a write down of development fees of $201,000 and a 183% increase of SG&A to $1.347 million up from $477,000 for the nine months ended March 31, 2005. Operating expenses for the nine months ended March 31, 2006 are composed of $6,000,

$201,000 and $1.347 million for amortization, development expenses and SG&A, respectively. The $201,000 for development expenses were for write-downs on projects that the Company decided not to move forward into production. SG&A have increased 183% as a result of the Company hiring people and expanding facilities. Also related to the Company reviewing potential new production deals, further sales and distribution relationships as well as potential rights acquisitions and investor relations there was a requirement for increased professional and consulting advice and this has resulted in increases to consultation, legal, investor relations and audit fees in the amount of $184,000.

EBITDA

For the nine months ended March 31, 2006 EBITDA was a loss of $171,000 as compared to earnings of $46,000 for the nine months ended March 31, 2005, a decrease of 472%. For the nine months ended March 31, 2006 this loss was due to the increase in Gross Margin dollars of $653,000 offset by an increase in SG&A expense in absolute dollars of $870,000 for a total dollar change of $217,000 as a reduction in EBITDA.

Amortization

For the nine months ended March 31, 2006 amortization of property, plant and equipment remained relatively consistent at $6,000 (2005 - $5,000).

Interest

Interest expense, net of interest revenue, for the nine months ended March 31, 2006 was $691,000 up from no amounts for the nine months ended March 31, 2005. Interest expense consists of interest expense accreted on the Class A Preferred Shares of $622,000 and $142,000 of amortization and deferred financing fees compared to no amounts for 2005 (see Notes to the audited and unaudited interim consolidated financial statements on www.sedar.com). This interest expense was offset by interest revenue for the nine months ended March 31, 2006 of $73,000 (2005 - $Nil) earned on cash balances and short-term investments.

Equity Loss and Non-Controlling Interest

Equity loss for the nine months ended March 31, 2006 was comprised of $306,000 equity income (2005 - $Nil) offset by $528,000 for the elimination of intercorporate profit for the Company's investment in LJ 2003 Productions Ltd. (2005 - $Nil). Non-controlling interest for the nine months ended March 31, 2006 was an expense of $8,000 (2005 - $Nil).

Income Taxes

Income taxes expense for the nine months ended March 31, 2006 was $32,000 up from $Nil for the nine months ended March 31, 2005. The amount was made up of a $32,000 provision for large corporation tax.

Net Loss

Net loss for the nine months ended March 31, 2006 was $1.331 million down from net income for the nine months ended March 31, 2005 of $41,000, a decrease of 3344%. For the nine months ended March 31, 2006 the overall decrease of $1.372 million was due to changes over 2005 of the following amounts: a gross margin increase of $652,000 offset by an increase in SG&A of $870,000, and increases of $201,000, $691,000, $222,000, $8,000 and $32,000 for development expenses, net interest expense, an equity loss, non-controlling interest and income taxes, respectively.

Liquidity and Capital Resources

	Nine Months Ended March 31,		Year Ended June 30,
	2006	2005	2005
	(Amounts in Thousands, Except Balance Sheet Ratios)		
Key Balance Sheet Amounts and Ratios:			
Cash, restricted cash[1] and short-term investments	$ 5,766		$ 6,563
Long-term assets	12,350		6,769
Working capital	2,061		6,970
Long-term liabilities	9,175		7,261
Working capital ratio[2]	1.17		1.56
Cash Inflows and (Outflows) by Activity:			
Operating activities	$ (3,574)	$(3,192)	$ (8,048)
Investing activities	(1,315)	(3,454)	(3,563)
Financing activities	2,248	5,913	16,739
Net cash inflows (outflows)	$ (2,641)	$ (733)	$ 5,128

(1) Restricted cash is the balance of cash on hand in Media Fund. The use of this cash is restricted to specified uses related to the production and development of film and television programs.

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

Changes in Cash

Cash at March 31, 2006 was $3.922 million compared to $6.563 million as at June 30, 2005 a decrease of $2.641 million.

Cash flows from operating activities were a use of cash of $3.574 million for the nine months ended March 31, 2006. Cash flows from operating activities resulted from a net loss of $1.331 million, which was reduced by non-cash items of amortization of film and television programs, property, plant and equipment and deferred financing charges of $3.748 million, $6,000 and $142,000 respectively, accretion of interest of $622,000 and non-controlling interest of $8,000, reduced by non-cash equity income of $306,000 increased by uses of cash of $3.943 million for investments in film and television programs and $2.520 for net change in non-cash working capital balances related to operations.

Cash flows generated from financing activities were $2.248 million for the nine months ended March 31, 2006. Cash flows from financing activities resulted primarily from cash generated from new borrowings of $2.813 million from interim financing and $1.158 million from a loan payable, proceeds of $437,000 from issuance of preferred shares- net, $531,000 from the issuance of shares of a subsidiary – net and $92,000 from issuance of common shares- net. This was offset by uses of cash of $2.533 million, $125,000 and $125,000 for increase in deferred financing and other issuance costs related to the Company's Initial Public Offering which closed May 19, 2006, repayment of a demand loan and repayment of a loan payable respectively.

Cash flows used in investing activities were $1.315 million for the nine months ended March 31, 2006. Cash flows used in investing activities were $25,000 and $1.307 million for investment in short-term investments, and acquisition of property, plant and equipment respectively offset by cash provided for of $17,000 for cash receipts from an investee. The $17,000 net cash receipts from an investee were from LJ 2003 Productions Ltd.

Other potential capital resources as at March 31, 2006 were stock options exercisable to acquire 275,000 Common Shares at a weighted average exercise price of $1.85 with an expiry date in 2007 and warrants that entitle the holder to acquire options that are exercisable to purchase an aggregate of 389,367 Common Shares for $1.85 per share (see the annual MD&A and audited consolidated financial statements and accompanying notes for the years ended June 30, 2005 and 2004 contained in the Company's Final Prospectus posted on May 11, 2006 on www.sedar.com).

Working Capital

Working capital represents the Company's current assets less current liabilities ("Working Capital"). Changes in working capital were predominantly driven by the results of operating activities of the Company. Working capital decreased by $4.909 million for the nine months ended March 31, 2006 to $2.061 million. The working capital ratio decreased to 1.17:1 for the nine months ended March 31, 2006 down from Fiscal 2005 of 1.56:1. The decrease for the nine months ended March 31, 2006 was mainly as a result of the following net decreases to Working Capital:

Short-term investments and prepaid expenses and deposits decreased by a net $58,000 as a result of $25,000 increase in short-term investments offset by $83,000 being expensed from prepaid expenses and deposits for the nine months ended March 31, 2006;

Amounts receivable balance during the nine months ended March 31, 2006 was a net decrease of 332,000 to $7.947 million made up of an increase of amounts receivable of $1.507 million offset by the removal of $1.399 million in amounts receivable as a result of the deconsolidation of LJ 2003 Productions Ltd. as, effective July 1, 2005, the Company accounted for its investment using the equity method (see Notes of the consolidated unaudited financial statement of the Company posted on www.sedar.com) and a $440,000 decrease for common share subscriptions receivable;

Accounts payable and accrued liabilities increased by $192,000 as at March 31, 2006 as compared to June 30, 2005 mainly due to net increases to trade accounts payables;

Deferred revenue was a net decrease of $416,000 as at March 31, 2006 as compared to June 30, 2005. The balance was made up of increases in deferred revenue of $35,000 offset by the removal of $451,000 in deferred revenue receivable as a result of the deconsolidation of LJ 2003 Productions Ltd;

Current portion of investment in film and television programs decreased by $2.394 million as at March 31, 2006 as compared to June 30, 2005 mainly as a result of a $2.749 million decrease in non-theatrical productions in progress offset by $355,000 in increases in completed film and television programs moving into current from long term;

Interim production financing increased by a net $192,000 as at March 31, 2006 as compared to June 30, 2005, however, taking into consideration the $3.005 million impact of the deconsolidation of LJ 2003 Productions Limited as at July 1, 2005, interim production financing increased by $2.813 million as compared to June 30, 2005 as the requirement for producing financing increased as production levels increased for the nine months ended March 31, 2006.

Contractual obligations

As of March 31, 2006 **Payments Due by Period**	**Total**	**Less than 1 year**	**1–3 years**	**4 - 5 years**	**After 5 years**
Purchase Obligations					
Rights purchase for *This Hour Has 22 Minutes*(1)	$ 375,000	$ 375,000	$ –	$ –	$ –
Rights purchase for *POKO*(2)	635,000	333,200	301,800	–	–
Long Term Loan payments principal and interest(3)	5,416,117	486,748	945,318	871,364	3,112,687
Total Contractual Obligations	$6,426,117	$1,194,948	$1,247,118	$ 871,364	$ 3,112,687

(1) Pursuant to an agreement whereby the Company acquired the right to develop, produce, distribute and otherwise exploit future seasons of the television series entitled "*This Hour Has 22 Minutes*", the Company is required to pay the vendor the following amounts, contingent upon producing future seasons of the series, as follows: i) $25,000 per half-hour episode for seasons thirteen and fourteen; ii) $20,000 per half-hour episode for seasons fifteen and sixteen; iii) $15,000 per half-hour episode for seasons seventeen and eighteen; iv) $10,000 per half-hour episode for seasons nineteen and twenty; and v) $5,000 per half-hour episode for all subsequent seasons. Season thirteen is the only season contracted as at March 31, 2006 15 half-hour at $25,000 per half-hour has been included in payments due less than one year.

(2) Pursuant to an agreement whereby the Company acquired the right to develop, produce, distribute and otherwise exploit future seasons of the television series entitled "*POKO*". The amount remaining as at March 31, 2006 was $635,000. The Company is required to pay the vendor the following amounts: i) $83,300 on February 28, 2006; ii) $83,300 on May 31, 2006; iii) $83,300 on August 31, 2006; iv) $83,300 on November 30, 2006; v) $83,300 on February28, 2007; vi) $83,300 on May 31, 2007; vii) $83,300 on August 31, 2007; viii) $51,600 on November 30, 2007.

(3) Loan payable, to a maximum authorized amount of $3,575,000, bearing interest at Business Development Bank of Canada's floating base rate plus 1.5%, maturing in May 2021. Amount is repayable in monthly payments of principal of $13,850 plus interest, increasing to $19,880 plus interest in July 2006.

Liquidity and Capital Resources

Based on the Company's current revenue expectations based on contracted and expected production and distribution revenue, the Company believes cash generated from operations would be sufficient to satisfy working capital needs for at least the next twelve months but would not be sufficient to support contemplated strategic initiatives including potential acquisitions and to expand the Company's presence in international markets. For the Company to meet these extra needs has, subsequent to March 31, 2006 on May 19, 2006, completed an initial public offering where the Company issued 8,702,500 common shares for gross proceeds of $20,450,875 (see "Subsequent Events – Initial Public Offering" section in this MD&A). The Company also has an available revolving operating demand loan to a maximum of $500,000, bearing interest at bank prime plus 0.5% per annum. The availability of the revolving demand loan is subject to the Company maintaining certain accounts receivable balances and a ratio of total liabilities to tangible net worth of not greater than 2:1. With the adjustment to add back the Class A Preferred Shares to equity, the ratio at March 31, 2006 is 1.38:1. The Company has made no borrowings on this facility to date.

Outlook

The Company believes that the initial public offering of common shares completed on May 19, 2006 to raise approximately $20.45 million in capital is key to building on the Company's recent successes, with a view to taking advantage of the Company's strengths and opportunities and creating further value for shareholders. In particular, the Company believes that it will be able to utilize its net proceeds of this offering to carry forward its contemplated strategic initiatives, including expanding revenue growth in production and distribution, expanding the Company's presence in international markets, leveraging the Company's experience to focus on children, youth and family content and merchandising, and undertaking potential acquisitions.

Capital Stock Financings Since July 1, 2005

Between June 15, 2005 and August 12, 2005 the Company issued an aggregate of 3,893,673 Class A Preferred Shares for gross proceeds of $7,203,300 or $1.85 per share. The Class A Preferred Shares automatically convert into Common Shares upon the completion of the initial public offering on a one-for-one basis (see "Description of Share Capital – Class A Preferred Shares" in the Company's Final Prospectus filed on May 11, 2006 on www.sedar.com for more details).

Distribution Arrangement

In addition, the Company has recently entered into a distribution arrangement with a European distributor of television productions. The distribution arrangement will provide the Company the opportunity to underwrite production distribution advances in exchange for a share of the sales commissions and certain exclusive distribution rights to these productions.

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

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

As of March 31, 2006 there were no amounts recorded for revenues, expenses, receivables or payables from this distribution arrangement. As at March 31, 2006 the Company has made its first two commitments under this distribution arrangement of $294,000 and $298,000 for the licensing of two properties entitled "*Everest*" and "*Wallis and Edward*" respectively. These amounts are shown in acquired participation rights included in investment in film and television programs. During the remainder of Fiscal 2006, under this distribution arrangement, the Company expects to commit to no additional amounts. For the year ended and as at June 30, 2006 and based on the licensing of "*Everest*" and "*Wallis and Edward"*, the Company expects no amounts to be to recorded for revenues, expenses, margin, assets and liabilities as the timing of any receipts on these projects are expected to fall into fiscal 2007. For fiscal 2007, under this distribution arrangement, the Company expects to commit to licensing of up to six films for a total investment in license fees of approximately $1.0 -1.5 million. For the year ended and as at June 30, 2007 and based on the expected licensing of six films from this distribution arrangement, the Company expects to record the following approximate amounts for revenues, expenses, margin, assets and liabilities: $3 to 5 million, $750,000 to 1.2 million, $2.25 to $3.8 million, 3 to $5 million and $750,000 to $1.2 million, respectively.

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

Related Party Transactions

The Company earned $210,000 and $528,000 for the three and nine months ended March 31, 2006 (2005 - $Nil and $Nil), respectively, in producer and service fees from LJ 2003 Productions Limited, an investee production company, for the production of *Lunar Jim* Season I.

Subsequent Events

Initial Public Offering

In connection with the initial public offering of the Company completed on May 19, 2006, the Company issued 8,702,500 common shares for gross cash proceeds of $20,450,875 less offering costs estimated at approximately $4,000,000. (See the Company's Final Prospectus filed on May 11, 2006 for further details).

Acquisition

On May 19, 2006, in conjunction with the initial public offering, the Company completed the acquisition of Decode Entertainment Inc. ("Decode") under which it acquired 100% of the issued and outstanding shares of Decode for the following consideration:

- Cash of $2.5 million;
- $3.2 million promissory note payable December 15, 2006, bearing interest at the Royal Bank of Canada prime rate;
- 5,793,011 common shares of the Company; and
- An "Earn out Amount" calculated as 7.25 times the lesser of $1.3 million and the amount by which "EBITDA" (as that term is defined in the "Decode Purchase Agreement" contained in the Final Prospectus filed May 11, 2006 on www.sedar.com) exceeds $2.7 million for the twelve-month period ended June 30, 2007. The Earn out Amount cannot exceed $9.425 million and is to be paid 50% in cash and 50% by the issuance of common shares (see "Business of the Company – Recent Developments – Acquisition of Decode Entertainment Inc" contained in the Final Prospectus filed May 11, 2006 on www.sedar.com for further details).

Post-acquisition, the Company expects to have increases in all key revenue categories including production, distribution and merchandising.

Change in Accounting Policies

Stock-based Compensation

Effective July 1, 2005, the Company adopted the amended recommendations of section 3870 of the CICA Handbook, "Stock-based Compensation and Other Stock-based Payments". Under the amended standards of this Section, the fair value of all stock options granted to employees are recorded in operations or production costs, as applicable over their vesting periods.

The fair value of options is determined using the Black Scholes option pricing model that takes into account, as of the grant date, the exercise price, the expected life of the option, the current price of the underlying stock and its expected volatility, expected dividends on the stock, and the risk-free interest rate over the expected life of the option. The resulting fair value of the options is expensed on a straight-line basis over their vesting periods. Cash consideration received from employees when options are exercised is credited to share capital.

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

Variable Interest Entities

Effective July 1, 2005, the Company is required to follow AcG 15. AcG 15 provides criteria for the identification of VIEs and further criteria for determining what entity, if any should consolidate them. AcG 15 defines a VIE as an entity that either does not have sufficient equity at risk to finance its activities without subordinated financial support or where the equity investors lack the characteristic of a controlling financial interest. VIEs are subject to consolidation by a company if that company is deemed the primary beneficiary of the VIE. The primary beneficiary is the party that is either exposed to a majority of the expected losses from the VIE's activities or is entitled to receive a majority of the VIE's residual returns or both.

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

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

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

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

On July 15, 2005, the Company, by virtue of its granting of the Put Options to investors in Media Fund (Atlantic) Ltd. ("Media Fund"), obtained a variable interest in and became the primary beneficiary of Media Fund. The Company is party to a management agreement dated November 30, 2004 between the Company and Media Fund (the "Management Agreement") and the shareholder agreement dated December 10, 2004 between the Company, Media Fund and all of the shareholders of Media Fund (the "Media Fund Shareholder Agreement"). Media Fund is a community economic development corporation, incorporated under the Companies Act, with the objectives of promoting and supporting job creation and economic development initiatives in the film and television industry in Nova Scotia in accordance with the NS ETC Act. On July 15, 2005, Media Fund closed its only financing to date. Pursuant to the terms of the Media Fund Shareholder Agreement and the offering of Media Fund shares, the new shareholders of Media Fund were granted 425,420 Put Options by the Company for no additional consideration. Accordingly, as of July 15, 2005, the Company consolidated Media Fund's assets and liabilities consisting of restricted cash of $957,195, accounts payable and accrued liabilities of $449,193 and non-controlling interest of $508,002.

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

Financial Instruments

Fair Value of Financial Instruments

Management believes that the carrying amounts reported on the financial statements for short-term investments, amounts receivable, accounts payable and accrued liabilities, due to shareholders, interim production financing, demand loan and mortgage payable all approximate their fair values due to their immediate or short-term maturities or variable interest rates. The fair value of the Preferred Share liability, which approximates book value, has been calculated using the assumptions described in the Notes to the audited consolidated financial statements contained the Company's Final Prospectus filed May 11, 2006 on www.sedar.com.

Credit Risk

Accounts receivable from the Canadian federal government and other government agencies in connection with production financing represents 77% of total accounts receivable at March 31, 2006 (June 30, 2005 - 57%). The Company believes that there is minimal risk associated with the collection of these amounts based on its experience and past track record in collecting receivables from these parties. The balance of trade accounts receivable are mainly with Canadian broadcasters and large distribution companies and therefore, the Company believes that there is also minimal risk associated with the collection of these amounts based on the Company's track record and experience with the parties involved.

Interest Rate Risk

The Company is exposed to interest rate risk arising from fluctuations in interest rates as its interim production financing and its loan payable bear interest at floating rates. The Company feels there is minimal risk associated with interest rate fluctuations, as increases in Canadian Prime in recent quarters have not been substantial. As an example, as at March 31, 2006, even a 1% rate increase would only result in an annualized increase of approximately $80,000 in interest expense.

Risk Assessment

The following are the specific and general risks that could affect the Company: risks related to the nature of the entertainment industry, risks related to television and film industries, risks related to doing business internationally, loss of Canadian status, competition, limited ability to exploit filmed and television content library, protecting and defending against intellectual property claims, fluctuating results of operations, raising additional capital, concentration risk, reliance on key personnel, influence of founders, risks associated with acquisitions and joint ventures, potential for budget overruns and other production risks, management estimates in revenues and earnings, stoppage of incentive programs, financial risks resulting from the Company's capital requirements, government incentive program, change in regulatory environment, litigation, risk connected to the NS ETC Act, technological change, labour relations and exchange rates. *For further details see "Risk Factors" contained in the Company's Final Prospectus posted on May 11, 2006 on www.sedar.com.*

Reconciliation of Historical Results to EBITDA

EBITDA is a not recognized earnings measure under GAAP and does not have standardized meanings prescribed by GAAP. Therefore EBITDA may not be comparable to similar measures presented by other issuers. Investors are cautioned that EBITDA should not be construed as alternatives to net income or loss determined in accordance with GAAP as an indicator of the Company's performance or to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows. The following table reconciles loss before income taxes, EBITDA and Gross Margin, based the unaudited financial statements of the Company for the three and nine-month periods ended March 31, 2006 and 2005 and notes thereto as posted on www.sedar.com. See "Use of Non-GAAP Financial Measures" above in this MD&A.

	For the nine-month period ended March 31, 2006	For the nine-month period ended March 31, 2005	For the three-month period ended March 31, 2006	For the three-month period ended March 31, 2005
Loss before income taxes for the period	$(1,299,291)	$ 41,163	$(349,743)	$145,137
Interest and amortization of deferred financing fees	763,802	–	256,986	–
Interest and other income	(73,281)	–	(6,942)	–
Equity loss and non-controlling interest	230,342	–	19,462	–
Amortization	5,975	5,020	2,540	1,821
Development expenses	201,315	–	–	–
EBITDA	(171,138)	46,183	(77,697)	146,958
Selling, general and administrative	1,346,879	476,462	351,211	156,946
Gross Margin	$ 1,175,741	$522,645	$ 273,514	$303,904

DHX Media Ltd.

Q3 - 2006

Supplemental Information
For the Three and Nine Months Ended March 31, 2006
(Unaudited)

1. Summary of securities issued and options and warrants granted during the nine month period ended March 31, 2006

A. Summary of securities issued

Common Shares	**Number of common shares**	**Value $**
Balance – June 30, 2005	14,037,268	5,027,566
Share issue cost adjustment		(461)
Balance – September 30, 2005 and December 31, 2005	14,037,268	5,027,105
Issued to a Director, net of issue costs	50,000	92,500
Balance – March 31, 2006	**14,087,268**	**5,119,605**

Class A Preferred Shares	**Number of preferred shares**	**Value $**
Balance – June 30, 2005	3,893,673	1,603,992
Share issue cost adjustment		(3,198)
Balance – September 30, 2005, December 31, 2005 and March 31, 2006	**3,893,673**	**1,600,794**

B. Summary of options and warrants

Options	**Number of options**	**Weighted-average exercise price**
Balance – June 30, 2005, September 30, 2005 and December 31, 2005	275,000	$1.85
Granted to Sir Graham Day, Director	100,000	$2.25
Granted to J. William Ritchie, Director	100,000	$2.25
Granted to Joe Medjuck, Director	100,000	$2.25
Granted to Donald Wright, Director	100,000	$2.25
Granted to Dana Landry, CFO	322,500	$2.25
Granted to Employees	24,047	$2.25
Balance – March 31, 2006	**1,021,547**	**$2.14**

B. Summary of options and warrants (continued)

Put Options	Number of put options	Weighted-average exercise price
Balance – June 30, 2005	-	Nil
Media Fund (Atlantic) Ltd. issued 425,420 shares at $2.25 on July 15, 2005 [1]	425,420	Nil
Balance – September 30, 2005, December 31, 2005 and March 31, 2006	**425,420**	**Nil**

[1] Each convert on a one-to-one basis to common shares of the company (see Note 10(f) to the interim consolidated financial statements for further details).

Warrants	Number of warrants	Weighted-average exercise price
Balance – June 30, 2005 (Balance forward pertains to warrants issued to transfer agent for June 16, 2005 private placement)	389,367	$1.85
Balance – September 30, 2005, December 31, 2005 and March 31, 2006	**389,367**	**$1.85**

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

a. Authorized share capital

90,000,000 common shares without nominal or par value;
10,000,000 preferred shares, convertible to common shares at the option of the holder, redeemable at the option of the holder or the Company on or after June 16, 2010 at 1.5 times the issue price, voting.

b. Shares outstanding and recorded value

14,087,268 common shares at a recorded value of $4,944,605;
3,893,673 preferred shares at a recorded value of $1,600,794.

c. Description of options and warrants

Please refer to Note 10 d, e & f of the interim consolidated financial statements for the nine months ended March 31, 2006.

2. Directors and officers as at March 31, 2006

Michael Donovan	Chairman, CEO, and Director
Charles Bishop	President and Director
Dana Landry	CFO
David Regan	VP Corporate Development
Floyd Kane	VP Creative & Business Affairs
Sir Graham Day	Director
J. William Ritchie	Director
Donald Wright	Director
Joe Medjuck	Director