DHX Media Ltd.
(Formerly "The Halifax Film Company Limited")

Consolidated Interim Financial Statements
(Unaudited)
March 31, 2006

May 24, 2006

Management's responsibility for financial reporting

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

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

(signed) "Michael Donovan"
Chief Executive Officer

(signed) "Dana Landry"
Chief Financial Officer

DHX Media Ltd.

(Formerly "The Halifax Film Company Limited)"

Consolidated Interim Balance Sheets

(expressed in Canadian dollars)

	March 31, 2006 $ (unaudited)	June 30, 2005 $
Assets		
Current assets		
Cash	3,922,040	6,563,055
Short-term investments	1,051,189	1,025,873
Amounts receivable	7,947,022	8,279,207
Prepaid expenses and deposits	35,375	118,638
Current portion of investment in film and television programs (note 5)	989,102	3,383,000
	13,944,728	19,369,773
Investment in film and television programs (note 5)	3,404,524	2,713,484
Restricted cash	792,511	–
Deferred financing fees and other costs (note 6)	3,537,123	1,146,253
Property, plant and equipment	4,615,964	2,909,484
	26,294,850	26,138,994
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	5,448,198	5,256,615
Income taxes payable	30,037	67,822
Deferred revenue	549,648	965,659
Obligation to an investee production company (note 7)	2,956	–
Interim production financing (note 8)	5,626,392	5,818,179
Demand loan	–	125,000
Current portion of loan payable (note 9)	226,100	166,200
	11,883,331	12,399,475
Loan payable (note 9)	2,682,228	1,709,100
Other long-term liabilities	153,716	373,657
Class A preferred shares (note 10 (c))	5,800,151	5,178,200
Non-controlling interest (note 10 (f))	538,919	–
	21,058,345	19,660,432
Shareholders' Equity		
Share capital and contributed surplus (note 10)	7,438,728	7,349,887
Deficit	(2,202,223)	(871,325)
	5,236,505	6,478,562
	26,294,850	26,138,994

DHX Media Ltd.

(Formerly "The Halifax Film Company Limited)"

Consolidated Interim Statement of Operations and Deficit

(expressed in Canadian dollars)

	For the three-month period ended March 31, 2006 $ (unaudited)	For the three-month period ended March 31, 2005 $ (unaudited)	For the nine-month period ended March 31, 2006 $ (unaudited)	For the nine-month period ended March 31, 2005 $ (unaudited)
Revenues	1,885,390	1,582,125	6,523,290	2,140,866
Direct production costs and amortization of film and television programs	1,611,876	1,278,221	5,347,549	1,618,221
	273,514	303,904	1,175,741	522,645
Operating expenses				
Amortization	2,540	1,821	5,975	5,020
Development expenses	–	–	201,315	–
Selling, general and administrative	351,211	156,946	1,346,879	476,462
	353,751	158,767	1,554,169	481,482
Income (loss) before the following	(80,237)	145,137	(378,428)	41,163
Interest (note 10 (c)) and amortization of deferred financing fees	(256,986)	–	(763,802)	–
Interest and other income	6,942	–	73,281	–
Equity loss (note 7)	(15,109)	–	(222,185)	–
Non-controlling interest	(4,353)	–	(8,157)	–
Income (loss) before income taxes	(349,743)	145,137	(1,299,291)	41,163
Provision for income taxes				
Large corporation taxes	10,000	–	31,607	–
Net income (loss) for the period	(359,743)	145,137	(1,330,898)	41,163
Deficit – Beginning of period	(1,842,480)	(343,388)	(871,325)	(78,789)
Dividends	–	(160,563)	–	(321,188)
Deficit – End of period	(2,202,223)	(358,814)	(2,202,223)	(358,814)
Basic and fully diluted earnings (loss) per common share (note 11)	(0.03)	0.01	(0.09)	0.00

DHX Media Ltd.

(Formerly "The Halifax Film Company Limited)"

Consolidated Interim Statement of Cash Flows

(expressed in Canadian dollars)

	For the three-month period ended March 31, 2006 $ (unaudited)	For the three-month period ended March 31, 2005 $ (unaudited)	For the nine-month period ended March 31, 2006 $ (unaudited)	For the nine-month period ended March 31, 2005 $ (unaudited)
Cash provided by (used in)				
Operating activities				
Net income (loss) for the period	(359,743)	145,137	(1,330,898)	41,163
Charges (credits) to operations not involving cash				
Amortization of film and television programs	1,526,139	–	3,748,306	–
Amortization of property, plant and equipment	2,540	1,821	5,975	5,020
Amortization of deferred financing fees	52,695	–	141,851	–
Interest (note 10 (c))	204,291	–	621,951	–
Equity income (note 7)	(196,129)	–	(305,921)	–
Non-controlling interest	4,353		8,157	
	1,234,146	146,958	2,889,421	46,183
Investment in film and television programs	(2,674,564)	(1,384,365)	(3,942,792)	(4,085,048)
Net change in non-cash working capital balances related to operations (note 12)	701,296	(909,133)	(2,520,742)	846,862
	(739,122)	(2,146,540)	(3,574,113)	(3,192,003)
Financing activities				
Proceeds from issuance of common shares, net of issuance costs and share purchase loans	92,500	24,311	92,039	1,505,295
Proceeds from issuance of shares of a subsidiary net of issuance costs	22,760	–	530,762	–
Proceeds from issuance of preferred shares, net of issuance costs	–	–	436,802	–
Dividends paid	–	(160,563)	–	(264,375)
Deferred financing fees and other costs	(2,046,668)	(253,392)	(2,532,721)	(319,267)
Repayment to a director	–	–	–	(47,747)
Proceeds from interim production financing	2,191,281	1,846,195	2,813,179	3,139,007
Proceeds from (repayment of) demand loan	–	–	(125,000)	1,900,000
Proceeds from loan payable	712,468	–	1,157,678	–
Repayment of loan payable	(41,550)	–	(124,650)	–
	930,791	1,456,551	2,248,089	5,912,913
Investing activities				
Short-term investments	(4,268)	(607)	(25,316)	(1,025,264)
Net cash advances from investee	992,331	–	17,233	–
Acquisition of property, plant and equipment	(445,564)	(88,615)	(1,306,908)	(2,428,337)
	542,499	(89,222)	(1,314,991)	(3,453,601)
Net change in cash during the period	734,168	(779,211)	(2,641,015)	(732,691)
Cash – Beginning of period	3,187,872	1,481,996	6,563,055	1,435,476
Cash – End of period	3,922,040	702,785	3,922,040	702,785

(expressed in Canadian dollars)

1 Nature and status of operations

The Halifax Film Company Limited, incorporated on February 12, 2004 under the laws of the Province of Nova Scotia, Canada, develops and produces films and television programs for the domestic and international markets. The address of the head office is Suite 501, 1559 Brunswick Street, Halifax, Nova Scotia, Canada, B3J 2G1. On March 27, 2006, the Company changed its name from "The Halifax Film Company Limited" to "DHX Media Ltd."

2 Significant accounting policies

The accompanying unaudited interim financial statements have been prepared in accordance with the requirements of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1751 "Interim Financial Statements". Accordingly, certain information and note disclosure normally included in annual financial statements prepared in accordance with Canadian generally accepted accounting principles have been omitted or condensed. These unaudited interim financial statements should be read in conjunction with the audited financial statements of the Company for the year ended June 30, 2005.

3 Change in accounting policies

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.

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.

(expressed in Canadian dollars)

3 Change in accounting policies (continued)

Variable Interest Entities

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

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

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

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 variable interest entity in the amount of $291,644.

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

(expressed in Canadian dollars)

4 Acquisition

During the year ended June 30, 2005, the Company acquired all of the issued and outstanding shares of Lucky Number Slevin Productions Inc., a film production company. The purchase price was $30,813.

The acquisition has been accounted for using the purchase method and the results of operations are included in the consolidated statement of income from February 18, 2005, the date of acquisition.

The following table summarizes the estimated fair value of the net assets acquired at the date of acquisition:

	$
Cash	3,922,301
Amounts receivable	
Trade	983,601
Goods and services taxes recoverable	576,426
Federal and provincial film tax credits	1,182,443
Deposits	716,996
Investment in film and television programs	41,855
Accounts payable	(1,890,721)
Interim financing	(5,502,088)
	30,813

5 Investment in film and television programs

	March 31, 2006 $ (unaudited)	**June 30, 2005 $**
Development costs	854,790	690,791
Non-theatrical productions in progress		
Cost, net of government and third party assistance and third party participation	384,331	3,133,810
Acquired participation rights-theatrical	779,084	287,575
Non-theatrical productions completed and released		
Cost, net of government and third party assistance and third party participation	6,715,591	4,942,927
Accumulated amortization	(4,340,170)	(2,958,619)
	2,375,421	1,984,308
	4,393,626	6,096,484
Less: Current portion	989,102	3,383,000
	3,404,524	2,713,484

(expressed in Canadian dollars)

5 Investment in film and television programs (continued)

The Company expects that 28% of the costs related to non-theatrical productions completed and released will be amortized during the year ending June 30, 2006. The Company expects that 68% of the costs related to non-theatrical productions completed and released will be amortized during the three-year period ending June 30, 2008. The Company expects that over 81% of the costs related to productions completed will be amortized by June 30, 2010.

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

Interest of $352,841 (year ended June 30, 2005 - $79,440) has been capitalized to investment in film and television.

6 Deferred financing fees and other costs

	March 31, 2006		
	Cost $	**Accumulated amortization $ (unaudited)**	**Net $**
Deferred financing fees and other costs	3,678,974	141,851	3,537,123

	June 30, 2005		
	Cost $	**Accumulated amortization $**	**Net $**
Deferred financing fees and other costs	1,146,253	–	1,146,253

Costs of $2,095,623 (June 30, 2005 - $nil), related to the initial public offering and $409,173 related to a pending acquisition (June 30, 2005 - $nil) have been incurred and are included in deferred financing fees and other costs. These costs will be netted against the share proceeds or will be accounted for as part of the acquisition costs, as applicable (note 14).

(expressed in Canadian dollars)

7 Investment in production company

As described in note 3, effective July 1, 2005, the Company began accounting for its investment in LJ 2003 Productions Limited using the equity method. A summary of the financial information of this company, as at March 31, 2006, is outlined below:

	$
Assets	4,893,781
Liabilities	(4,896,737)
Net assets (obligation)	(2,956)
Revenues	2,790,134
Expenses	2,484,213
Net income	305,921
The Company's share of net income	305,921
Equity loss comprises:	
Equity income	305,921
Less: Elimination of intercorporate profit	(528,106)
	222,185
The continuity of investment in (obligation to) production company is as follows:	
Opening balance	(291,644)
Equity income	305,921
Net cash advances from investee	(17,233)
	(2,956)

8 Interim production financing

	March 31, 2006 $ (unaudited)	**June 30, 2005 $**
Revolving demand bank loans, bearing interest at bank prime plus 0.75% – 2.00%. Assignment and direction of specific production financing and licensing contracts receivable, with a net book value of approximately $5,229,000 (June 30, 2005 - $3,506,000) and general security agreements have been pledged as security	4,037,166	4,909,557
Revolving demand loans, bearing interest at prime plus 1%, secured by specific tax credits receivable with a net book value of approximately $1,909,000 (June 30, 2005 - $1,826,000)	1,589,226	908,622
	5,626,392	5,818,179

(expressed in Canadian dollars)

9 Loan payable

	March 31, 2006 $ (unaudited)	June 30, 2005 $
Loan payable, to a maximum authorized amount of $3,575,000, bearing interest at Business Development Bank of Canada prime plus 1.5%, maturing in May 2021, repayable in monthly principal instalments of $13,850 plus interest, increasing to $19,880 plus interest in July 2006. A first mortgage on land and building having a net book value of $3,744,495, a general assignment of rents, a $530,000 guaranteed investment certificate and guarantees by two shareholders have been pledged as security	2,908,328	1,875,300
Less: Current portion	226,100	166,200
	2,682,228	1,709,100

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

	$
Year ending June 30, 2006	166,200
2007	238,560
2008	238,560
2009	238,560
2010	238,560

(expressed in Canadian dollars)

10 Share capital and contributed surplus

a) Authorized

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

b) Issued and outstanding

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

	Number	For the nine-month period ended March 31, 2006 Amount $ (unaudited)	Number	For the year ended June 30, 2005 Amount $
Class A preferred shares[1] (note 10 (c))				
Opening balance	3,893,673	1,603,992	–	–
Issued for cash consideration	–	–	3,893,673	7,203,300
Less: present value of redemption amount classified as a liability	–	–	–	(5,144,374)
Share issuance costs	–	(3,198)	–	(454,934)
	3,893,673	1,600,794	3,893,673	1,603,992
Common shares				
Opening balance	14,037,268	5,027,566	11,302,500	1,383,632
Issued for cash consideration	50,000	92,500	2,673,334	3,626,046
Share issuance costs	–	(461)	–	(40,489)
Issued in lieu of cash dividends on common shares	–	–	61,434	58,377
	14,087,268	5,119,605	14,037,268	5,027,566
Common share purchase loans receivable				
Opening balance	–	(175,000)	–	–
Loans made during the period	–	–	–	(175,000)
	–	(175,000)	–	(175,000)
Warrants (note 10 (d))				
Opening balance	389,367	720,329	–	–
Value of warrants issued in connection with a Class A preferred share issuance	–	–	389,367	720,329
	389,367	720,329	389,367	720,329
Contributed surplus				
Stock based compensation (note 10 (e))				
Opening balance	275,000	173,000	–	–
Issued to a director and an employee	–	–	275,000	173,000
	275,000	173,000	275,000	173,000
		7,438,728		7,349,887

[1] The Class A preferred shares amounts classified as share capital represent the conversion rights associated with this financial liability. Subsequent to the period end, these shares were converted to common shares (note 10(c)).

(expressed in Canadian dollars)

10 Share capital and contributed surplus (continued)

c) Class A preferred shares

The Class A preferred shares can be redeemed, at the option of the holder, on or after June 16, 2010. As such, the fair value of the redemption price of 1.5 times the face value, must be classified as a liability under Canadian generally accepted accounting principles. Management has determined that the fair value of the redemption amount of $10,804,943, assuming a 16% discount rate and no dividends being paid, is $5,144,374.

The difference between the fair value and the total redemption value will be accreted to interest expense over the five year "term" of the underlying security.

The difference between the gross proceeds of $7,203,300 and the above fair value has been attributed to the conversion feature and has been included in equity.

Share issuance costs, including the value of the warrants issued in connection with this issuance, have been allocated to deferred financing fees (for the debt portion) and share issuance costs (for the equity portion), consistent with the above accounting, on a pro rata basis.

The Class A preferred share liability comprises:

	March 31, 2006 $ (unaudited)	**June 30, 2005 $**
Class A preferred share liability, opening	5,178,200	5,144,374
Interest expense recorded	621,951	33,826
	5,800,151	5,178,200

Subsequent to the period end, all of the Class A preferred shares were converted to common shares on a one-for-one basis. Each holder of Class A preferred shares was granted 0.1 warrants for each Class A preferred share. Each whole warrant entitles the holder to purchase one common share for $2.35 and expires in May, 2007.

(expressed in Canadian dollars)

10 Share capital and contributed surplus (continued)

d) Warrants

In connection with the Class A preferred share issuance, the Company issued a non-transferable preferred share compensation warrant to the transaction agent. The warrant entitles the agent to acquire 389,367 compensation options, each of which entitles the agent to acquire one common share for $1.85, which approximates the fair value of the common shares at the date of issuance of the warrant. The warrant expires on June 14, 2007.

The fair value of the warrant was estimated by management using the Black Scholes option pricing model. Assumptions used in the pricing model to value the warrants were as follows:

Risk-free interest rate	3%
Expected life	2 years
Expected volatility	85%
Expected dividend yield	nil

The Company estimated the expected volatility using the change in share price over the last year.

e) Stock options

During the year ended June 30, 2005, the Company issued stock options to a director and an employee of the Company to acquire common shares. At June 30, 2005, the Company had the following stock options outstanding:

Issued	Exercised	Expired	Closing	Exercise price $	Year of expiry
275,000	–	–	275,000	1.8	2007

As at June 30, 2005, all of the above options granted have vested, however, 87,500 options are not exercisable until April 1, 2006 and another 87,500 options are not exercisable until March 1, 2007. If the Company obtains a public listing for its shares, all options will become immediately exercisable. At the time of issuance, the exercise price of the options granted was equal to management's estimate of the fair value of the common shares. The weighted average grant date fair value of these options was $0.63.

On March 22, 2006, the Company issued 746,547 additional stock options to certain directors and employees. The options, which vest over four years, have an exercise price of $2.25 and expire on March 22, 2011. The grant date fair value of these options was estimated at $1.05.

During the periods ended March 31, 2006, a total of $nil (periods ended March 31, 2005 - $nil) has been recognized as compensation expense.

(expressed in Canadian dollars)

10 Share capital and contributed surplus (continued)

e) Stock options (continued)

The fair value of stock options has been estimated using the Black Scholes option pricing model. Changes in the assumptions can materially affect the fair value estimate and therefore the existing models do not necessarily provide a reliable measure of the fair value of the stock options.

Risk-free interest rate	3.0 – 4.0%
Expected life	1 – 3.5 years
Expected volatility	60 – 85%
Expected dividend yield	nil

f) Put options

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

The common shares of Media Fund are redeemable by January 15, 2009 if a listing of the Company has occurred and after October 15, 2009, if a listing has not occurred for an amount up to the stated capital of the shares. However, as these common shares of Media Fund are residual equity in Media Fund, these shares have been presented as non-controlling interest.

The put option was issued for no consideration. At March 31, 2006, 425,420 shares in Media Fund carried the put option described above.

(expressed in Canadian dollars)

11 Earnings (loss) per common share

Earnings (loss) per common share is calculated as follows:

	For the three-month period ended March 31, 2006 $ (unaudited)	For the three-month period ended March 31, 2005 $ (unaudited)	For the nine-month period ended March 31, 2006 $ (unaudited)	For the nine-month period ended March 31, 2005 $ (unaudited)
Net income (loss) for the period	(359,743)	145,137	(1,330,898)	41,163
Weighted average number of common shares	14,076,714	12,882,256	14,050,226	12,674,803
Basic and fully diluted loss per common share	(0.03)	0.01	(0.09)	0.00

For the three and nine-month period ended March 31, 2006, the effect of convertible preferred shares, warrants, stock options and put options has been excluded from the calculations because they are anti-dilutive as a result of the net loss. The weighted average number of potentially dilutive instruments, comprised of shares issuable in respect of convertible preferred shares, warrants, stock options and put options, at March 31, 2006 is 6,506,340.

12 Supplemental cash flow information

	For the three-month period ended March 31, 2006 $ (unaudited)	For the three-month period ended March 31, 2005 $ (unaudited)	For the nine-month period ended March 31, 2006 $ (unaudited)	For the nine-month period ended March 31, 2005 $ (unaudited)
Decrease (increase) in restricted cash	83,565	–	(792,511)	–
Increase in amounts receivable	(802,934)	(550,383)	(1,506,658)	(868,651)
Decrease (increase) in prepaid expenses and deposits	(17,649)	24,444	78,263	(22,374)
Increase (decrease) in accounts payable and accrued liabilities and other long-term liabilities	1,094,487	112,236	(296,881)	217,617
Increase (decrease) in income taxes payable	10,062	–	(37,785)	–
Increase (decrease) in deferred revenue	333,765	(495,430)	34,830	1,520,270
	701,296	(909,133)	(2,520,742)	846,862
Interest paid	103,982	58,122	239,252	114,341
Interest received	14,200	607	83,827	1,664

(expressed in Canadian dollars)

13 Seasonality

Results of operations for any period are dependent on the number and timing of film and television programs delivered which cannot be predicted with certainty. Consequently, the Company's results from operations may fluctuate materially from period to period and the results of any one period are not necessarily indicative of results for future periods. Cash flows may also fluctuate and are not necessarily closely correlated with revenue recognition.

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

14 Subsequent events

a) On March 22, 2006, the Company entered into a Share Purchase Agreement with the shareholders of Decode Entertainment Inc. ("Decode") under which it agreed to acquire 100% of the issued and outstanding shares of Decode for the following consideration:

- Cash of $2,500,000;
- $3,200,000 promissory note payable December 15, 2006, bearing interest at the Royal Bank of Canada prime rate;
- 5,793,011 common shares of the Company; and
- An "Earnout amount" calculated as 7.25 times the lesser of $1,300,000 and the amount by which "EBITDA" (as that term is defined in the agreement) exceeds $2,700,000 for the twelve-month period ended June 30, 2007. This consideration will be satisfied by the payment of readily available funds and/or by the issuance of additional common shares of the Company.

This acquisition was completed on May 19, 2006.

b) In connection with the initial public offering of the Company that closed on May 19, 2006, the Company issued 8,702,500 common shares for cash proceeds of $20,450,875 less the offering costs estimated at $4,000,000.