DHX Media Ltd.

(Formerly "The Halifax Film Company Limited")

Consolidated Financial Statements

June 30, 2006 and 2005

September 27, 2006

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of **DHX Media Ltd.** have been prepared by the Company's management. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and contain estimates based on management's judgment. Internal control systems are maintained by management to provide reasonable assurances that assets are safeguarded and financial information is reliable.

The Board of Directors of the Company is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements and the accompanying management discussion and analysis. The Board carries out this responsibility through its Audit Committee.

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

PricewaterhouseCoopers LLP, appointed as the Company's auditors by the shareholders, have examined these consolidated financial statements and their report follows.

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

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

PRICEWATERHOUSECOOPERS

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September 27, 2006

Auditors' Report

To the Shareholders of
DHX Media Ltd.

We have audited the consolidated balance sheets of **DHX Media Ltd.** (formerly "The Halifax Film Company Limited") as at June 30, 2006 and June 30, 2005 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2006 and June 30, 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) *"PricewaterhouseCoopers LLP"*

Chartered Accountants

PricewaterhouseCoopers refers to the Canadian firm of PricewaterhouseCoopers LLP and the other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

DHX Media Ltd.

(Formerly "The Halifax Film Company Limited")

Consolidated Balance Sheets

As at June 30, 2006 and June 30, 2005

	2006 $	2005 $
Assets		
Current assets		
Cash	6,111,391	6,563,055
Short-term investments (note 4)	2,658,430	1,025,873
Amounts receivable (note 5)	30,786,367	8,279,207
Prepaid expenses and deposits	468,927	118,638
Current portion of investment in film and television programs (note 6)	11,863,610	3,383,000
	51,888,725	19,369,773
Investment in film and television programs (note 6)	9,386,042	2,713,484
Restricted cash (note 7)	802,908	–
Investment in production company (note 8)	61,939	–
Deferred financing fees and other costs (note 9)	–	1,146,253
Property, plant and equipment (note 10)	5,843,757	2,909,484
Intangible assets (note 11)	3,202,016	–
Goodwill	6,613,053	–
	77,798,440	26,138,994
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	12,087,411	5,630,272
Income taxes payable	203,647	67,822
Deferred revenue	2,619,267	965,659
Interim production financing (note 12)	16,369,455	5,818,179
Demand loan (note 13)	–	125,000
Current portion of long-term debt (note 14)	238,560	166,200
Note payable (note 15)	2,000,000	–
	33,518,340	12,773,132
Long-term debt (note 14)	3,012,513	1,709,100
Class A preferred shares (note 16 (d))	–	5,178,200
Future income taxes (note 18)	1,128,000	–
Non-controlling interest (note 16 (i))	543,469	–
	38,202,322	19,660,432
Shareholders' Equity		
Share capital and contributed surplus (note 16)	41,382,333	7,349,887
Deficit	(1,786,215)	(871,325)
	39,596,118	6,478,562
	77,798,440	26,138,994

Commitments and contingencies (note 20)

Approved by the Board of Directors

By: (signed) *"Michael Donovan"*
Director

By: (signed) *"J. William Ritchie"*
Director

DHX Media Ltd.

(Formerly "The Halifax Film Company Limited")
Consolidated Statements of Operations and Deficit
For the years ended June 30, 2006 and June 30, 2005

	2006 $	2005 $
Revenues	15,935,639	20,890,177
Direct production costs and amortization of film and television programs	12,928,759	19,885,888
	3,006,880	1,004,289
Operating expenses		
Amortization	129,686	8,369
Development expenses	201,315	42,632
Selling, general and administrative	2,627,177	1,197,861
Total expenses	2,958,178	1,248,862
Income (loss) before the following	48,702	(244,573)
Interest (note 16 (d)) and amortization of deferred financing fees	(905,511)	(33,826)
Interest and other income	175,107	37,615
Equity loss (note 8)	(294,481)	–
Non-controlling interest	(12,707)	–
Loss before income taxes	(988,890)	(240,784)
Provision for (recovery of) income taxes (note 18)		
Large corporation taxes	150,000	35,000
Current income taxes	(73,000)	34,000
Future income taxes	(151,000)	–
	(74,000)	69,000
Net loss for the year	(914,890)	(309,784)
Deficit – Beginning of year	(871,325)	(78,789)
Dividends paid	–	(482,752)
Deficit – End of year	(1,786,215)	(871,325)
Basic and fully diluted loss per common share (note 21)	(0.06)	(0.02)

DHX Media Ltd.

(Formerly "The Halifax Film Company Limited")

Consolidated Statements of Cash Flows

For the years ended June 30, 2006 and June 30, 2005

	2006 $	2005 $
Cash provided by (used in)		
Operating activities		
Net loss for the year	(914,890)	(309,784)
Charges (credits) to income not involving cash		
Amortization of film and television programs	11,645,345	2,958,619
Amortization of property, plant and equipment	52,202	8,369
Amortization of deferred financing charges	168,569	–
Amortization of intangible assets	77,484	
Stock-based compensation (note 16 (f) and (h))	136,737	173,000
Interest (note 16 (d))	730,906	33,826
Equity loss (note 8)	294,481	–
Non-controlling interest	(12,707)	–
Future income tax recovery	(151,000)	–
	12,027,127	2,864,030
Investment in film and television programs	(17,550,193)	(8,522,114)
Net change in non-cash working capital balances related to operations (note 22)	1,160,583	(2,390,387)
	(4,362,483)	(8,048,471)
Financing activities		
Proceeds from issuance of share capital, net of issuance costs	14,542,064	3,510,557
Proceeds from issuance of shares of a subsidiary, net of costs	556,176	–
Proceeds from issuance of preferred shares, net of issuance costs	440,000	5,892,007
Dividends paid	–	(424,375)
Deferred financing fees and other costs	977,684	(9,565)
Repayment to a director	–	(47,747)
Proceeds from interim production financing	744,155	5,818,179
Proceeds from (repayment of) demand loan	(125,000)	125,000
Proceeds from long-term debt	1,375,773	1,903,000
Repayment of subordinated debt	(8,500,000)	(27,700)
	10,010,852	16,739,356
Investing activities		
Business acquisitions	(1,893,218)	–
Short-term investments	(1,632,557)	(1,025,873)
Acquisition of property, plant and equipment	(1,926,194)	(2,537,433)
Net cash advances to investee	(648,064)	–
	(6,100,033)	(3,563,306)
Net change in cash during the year	(451,664)	5,127,579
Cash – Beginning of year	6,563,055	1,435,476
Cash – End of year	6,111,391	6,563,055

(expressed in Canadian dollars)

1 Nature of the business and significant accounting policies

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

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Principles of consolidation

The consolidated financial statements include the accounts of DHX Media Ltd. and all of its subsidiaries and all variable interest entities (''VIEs'') for which it is the primary beneficiary (see note 2) with provision for minority interests, and its proportionate share of assets, liabilities, revenues and expenses for jointly controlled operations. Investments in entities over which the Company has significant influence are accounted for using the equity method. Intercompany accounts and transactions among consolidated companies have been eliminated upon consolidation.

Revenue recognition

Revenue from the licensing of film and television programs is recognized 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.

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

(expressed in Canadian dollars)

1 Nature of the business and significant accounting policies (continued)

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 and the Company's right to participate in certain future cash flows of film and television programs produced and distributed by other unrelated parties ("acquired participation rights"). Investment in film and television programs also includes acquired film and television libraries or properties that are in production.

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, 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. Acquired participation costs are recognized initially at the amounts paid to the counterparty.

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. Ultimate revenues for acquired participation rights are based on the same principles depending on the classification of the underlying film or television program.

Ultimate revenue estimates are prepared on a title-by-title basis and are reviewed periodically based on current market conditions. For film, ultimate revenue estimates include box office receipts, sale of videocassettes, and DVDs, licensing of television broadcast rights and licensing of other ancillary film rights to third parties. For television programs, ultimate 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. Ultimate 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.

(expressed in Canadian dollars)

1 Nature of the business and significant accounting policies (continued)

Investment in film and television programs (continued)

The valuation of investment in film and television programs (including acquired participation rights), 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 or the acquired participation right 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 or acquired participation right.

Development costs

Development costs include costs of acquiring film rights to books, stage plays or original screenplays and costs to adapt such projects. Such costs are capitalized and, upon commencement of production, are added to investment in film and television programs or film and television programs in progress. Advances or contributions received from third parties to assist in development are deducted from these costs. Projects in development are written off at the earlier of the date determined not to be recoverable or when projects under development are abandoned, and three years from the date of the initial investment.

Deferred financing fees

Financing fees relating to the issue of convertible, Class A preferred shares were deferred and amortized to operations on a straight-line basis over the term to redemption. On conversion of the Class A preferred shares to common shares, the unamortized portion of the financing costs were transferred to capital stock as share issuance costs.

Property, plant and equipment

Property, plant and equipment are carried at cost, including capitalized interest on major projects, less accumulated amortization. Amortization is provided, commencing when the asset is placed into service, over the estimated useful life of the asset, using the following annual rates and methods:

Building	4% by declining-balance
Furniture, fixtures and other equipment	20% by declining-balance
Computer equipment	30% by declining-balance
Post-production equipment	30% by declining-balance
Computer software	2 years straight-line
Leasehold improvements	5 years straight-line and straight-line over lease term

(expressed in Canadian dollars)

1 Nature of the business and significant accounting policies (continued)

Intangible assets

Intangible assets include amounts of the purchase price allocation upon the acquisition of Decode. Amortization is provided over the estimated useful life of the asset, using the following annual rates and methods:

Production backlog	2 years straight-line
Broadcaster relationships	7 years straight-line
Customer and distributor relationships	10 years straight-line
Non-compete contracts and brand	3 years straight-line

Government financing and assistance

The Company has access to several government programs that are designed to assist film and television production and distribution in Canada. Amounts received or receivable in respect of production assistance are recorded as a reduction of the production costs of the applicable production. Government assistance with respect to distribution rights is recorded as a reduction of investment in film and television programs. Government assistance towards current expenses is recorded as a reduction of the applicable expense item.

Income taxes

Future income taxes are provided for using the liability method whereby future income taxes are recognized for the expected future income tax consequences of all significant temporary differences between the tax and financial statement bases of assets and liabilities.

Future income tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of the enactment or substantive enactment.

Foreign currency

Assets and liabilities denominated in currencies other than Canadian dollars are translated at exchange rates in effect at the balance sheet date. Revenue and expense items are translated at average rates of exchange for the year. Translation gains or losses are included in the determination of earnings.

Loss per share

Loss per share is computed based on the weighted average number of common shares outstanding during the year. Diluted loss per share has not been disclosed since the exercise of the employee stock options, the put options and warrants would be anti-dilutive.

(expressed in Canadian dollars)

1 Nature of the business and significant accounting policies (continued)

Goodwill

Goodwill represents the cost of acquired businesses in excess of the fair value of net identifiable assets acquired. Goodwill is not subject to amortization and is tested for impairment annually, or more frequently if events or circumstances indicate that the asset might be impaired. Impairment is tested by comparing the fair value of goodwill assigned to a particular reporting unit to its carrying value.

Management estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those reported.

2 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 contributed surplus 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 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

(expressed in Canadian dollars)

2 Change in accounting policies (continued)

Variable Interest Entities (continued)

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 consisted 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)

3 Acquisitions

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

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

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

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

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

(expressed in Canadian dollars)

3 Acquisitions (continued)

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

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

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

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

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

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

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

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

(expressed in Canadian dollars)

3 Acquisitions (continued)

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

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

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

(d) 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 for cash consideration of $30,813.

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

	$
Assets	
Cash	3,922,301
Amounts receivable	2,742,470
Investment in film and television programs	41,855
Deposits	716,996
	7,423,622
Less: liabilities assumed	
Accounts payable and accrued liabilities	1,890,721
Interim production financing	5,502,088
	7,392,809
	30,813

(expressed in Canadian dollars)

4 Short-term investments

	2006 $	2005 $
Treasury bills	–	222,273
Guaranteed investment certificates	2,331,075	803,600
Other investments, at cost	327,355	–
	2,658,430	1,025,873

Guaranteed investment certificates in the amount of $1,500,000 and $273,600 (2005 - $nil) have been pledged as security for the interim production financing in note 12. A $530,000 (2005 - $530,000) guaranteed investment certificate is pledged as security for the loans payable detailed in note 14.

The other investments have a market value of $882,750 at June 30, 2006. The market value of the guaranteed investment certificates and treasury bills approximates the book value.

5 Amounts receivable

	2006 $	2005 $
Trade	8,634,493	2,623,256
Income taxes receivable	38,618	–
Subscriptions	–	440,000
Goods and services taxes recoverable	1,162,036	518,034
Federal and provincial film tax credits and other government assistance	20,701,220	4,697,917
Due from an officer and director	250,000	–
	30,786,367	8,279,207

The amount due from an officer and director bearing interest at bank prime and has been secured by a pledge of common shares of the Company held by the officer and director.

(expressed in Canadian dollars)

6 Investment in film and television programs

	2006 $	2005 $
Development costs	681,181	690,791
Theatrical and non-theatrical productions in progress		
Cost, net of government and third party assistance and third party participation	8,461,916	3,133,810
Acquired participation and distribution rights – theatrical and non-theatrical	679,141	287,575
Non-theatrical productions completed and released		
Cost, net of government and third party assistance and third party participation	25,041,290	4,942,927
Accumulated amortization	(13,613,876)	(2,958,619)
	11,427,414	1,984,308
	21,249,652	6,096,484
Less: Current portion	11,863,610	3,383,000
	9,386,042	2,713,484

The Company expects that 60% of the costs related to non-theatrical and theatrical productions completed and released will be amortized during the year ending June 30, 2007. The Company expects that 76% of the costs related to non-theatrical productions completed and released will be amortized during the three-year period ending June 30, 2009. The Company expects that over 89% of the costs related to productions completed will be amortized by June 30, 2011.

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

Interest of $245,373 (2005 - $79,440) has been capitalized to investment in film and television.

(expressed in Canadian dollars)

6 Investment in film and television programs (continued)

The continuity of investment in film and television programs is as follows:

	2006 $	2005 $
Net opening investment in investment in film and television programs	6,096,484	532,989
Adjustment due to deconsolidation (note 2)	(1,897,344)	–
Productions acquired during the year	11,145,664	–
Cost of productions during the year, net of government assistance and third party participation	16,968,237	7,765,578
Cost of acquired participation rights	591,566	287,575
Increase (decrease) in development costs	(9,610)	468,961
Amortization	(11,645,345)	(2,958,619)
	21,249,652	6,096,484

7 Restricted cash

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

(expressed in Canadian dollars)

8 Investment in production company

As described in note 2, effective July 1, 2005, the Company began accounting for its investment in LJ 2003 Productions Limited using the equity method.

	$
The continuity of investment in production company is as follows:	
Opening balance	(291,644)
Equity loss	(294,481)
Net cash advances	648,064
	61,939

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

9 Deferred financing fees and other costs

			2006
	Cost $	**Accumulated amortization $**	**Net $**
Deferred financing fees and other costs	–	–	–

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

The costs associated with the initial public offering ("IPO") that were previously deferred and the unamortized balance of financing fees relating to the issue of Class A preferred shares have been recorded as common share issuance costs against the proceeds of the IPO and the conversion of the Class A preferred shares to common shares respectively. Costs associated with the acquisition of Decode that were previously deferred have been included in the purchase price allocation.

(expressed in Canadian dollars)

10 Property, plant and equipment

			2006
	Cost $	**Accumulated amortization $**	**Net $**
Land	800,000	–	800,000
Building under construction	4,323,177	–	4,323,177
Furniture, fixtures and other equipment	289,773	19,974	269,799
Computer equipment	219,453	25,226	194,227
Post-production equipment	237,171	8,406	228,765
Computer software	26,121	3,086	23,035
Leasehold improvements	8,633	3,879	4,754
	5,904,328	60,571	5,843,757

			2005
	Cost $	**Accumulated amortization $**	**Net $**
Land	800,000	–	800,000
Building under construction	2,090,090	–	2,090,090
Furniture, fixtures and other equipment	12,918	2,584	10,334
Computer equipment	11,213	3,364	7,849
Leasehold improvements	3,632	2,421	1,211
	2,917,853	8,369	2,909,484

Interest of $195,796 (2005 - $109,575), at an average rate of 8.15% (2005 - 7.72%) has been capitalized to building under construction during the period.

The continuity of property, plant and equipment is as follows:

	2006 $	**2005 $**
Net opening balance, property, plant and equipment	2,909,484	18,645
Acquired in the Decode acquisition	702,603	–
Acquisitions of property, plant and equipment	2,283,872	2,899,208
Amortization	(52,202)	(8,369)
	5,843,757	2,909,484

(expressed in Canadian dollars)

11 Intangible assets

Intangible assets are as follows:

	2006 $	2005 $
Production backlog	150,000	–
Broadcaster relationships	1,910,000	–
Customer/distribution relationships	545,500	–
Non-compete contracts and brand	674,000	–
	3,279,500	–
Less: accumulated amortization	77,484	
	3,202,016	–

12 Interim production financing

	2006 $	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 $44,618,317 (2005 - $3,506,000), a $1,500,000 and a $273,600 guaranteed investment certificate and general security agreements have been pledged as security	16,198,378	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 $168,347 (2005 - $1,826,000)	171,077	908,622
	16,369,455	5,818,179

During the year ended June 30, 2006, the bank prime rate averaged 5.04% (2005 - 4.14%).

13 Demand loan

The Company has an available revolving operating demand loan to a maximum of $500,000, bearing interest at bank prime plus 0.5% per annum. A general security agreement over all property of the Company has been pledged as security. As at June 30, 2006, there are no amounts outstanding (2005 - $125,000).

(expressed in Canadian dollars)

14 Long-term debt

	2006 $	2005 $
Loans payable, to a maximum authorized amount of $3,575,000, bearing interest at Business Development Bank of Canada prime plus 1.5%, maturing in May 2021, repayable in monthly principal instalments of $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 $5,123,177, a general assignment of rents, a $530,000 guaranteed investment certificate and guarantees by two directors have been pledged as security	3,251,073	1,875,300
Less: Current portion	238,560	166,200
	3,012,513	1,709,100

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

	$
Year ending June 30, 2007	238,560
2008	238,560
2009	238,560
2010	238,560
2011	238,560

15 Note payable

As described in note 3 (a), as consideration for the acquisition of Decode, the Company committed to a $2,000,000 promissory note payable December 15, 2006 bearing interest at the Royal Bank of Canada prime rate.

16 Share capital and contributed surplus

a) Authorized

100,000,000 Preferred Variable Voting Shares, redeemable at the option of the Company at any time at a millionth of a cent per share, no entitlement to dividends, voting
10,000,000 Class A preferred shares, convertible to common shares at the option of the holder, redeemable at the option of the holder or the Company on or after June 16, 2010, at 1.5 times the issue price, voting
90,000,000 common shares without nominal or par value

(expressed in Canadian dollars)

16 Share capital and contributed surplus (continued)

b) Issued and outstanding

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

	Number	2006 Amount $	Number	2005 Amount $
Preferred variable voting shares (note 16 (c))				
Opening balance	–	–	–	–
Issued for cash	100,000,000	100	–	–
	100,000,000	100	–	–
Class A preferred shares (note 16 (d))				
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)
Conversion to common shares in connection with IPO	(3,893,673)	(1,600,794)	–	–
	–	–	3,893,673	1,603,992
Common shares (note 16 (e))				
Opening balance	14,037,268	5,027,566	11,302,500	1,383,632
Issued for cash consideration	8,852,500	20,832,707	2,673,334	3,626,046
Share issuance costs, net of tax effect of $1,873,000	–	(3,452,988)	–	(40,489)
Issued in lieu of cash dividends on common shares	–	–	61,434	58,377
Conversion of preferred shares	3,893,673	8,624,814		–
Share issuance costs transferred from preferred shares	–	(2,104,038)		–
Issued as consideration for acquisition (note 3 (a))	5,793,011	11,571,539		–
	32,576,452	40,499,600	14,037,268	5,027,566
Common share purchase loans receivable				
Opening balance	–	(175,000)	–	–
Loans to an officer during the year net of compensation expense of $98,858 and interest received on notes of $3,256 (note 16 (f))	–	(285,134)	–	(175,000)
	–	(460,134)	–	(175,000)
Warrants (note 16 (g))				
Opening balance	389,367	720,329	–	–
Value of warrants issued in connection with a Class A preferred share issuance	–	–	389,367	720,329
Value of warrants issued in connection with initial public offering	824,492	411,559	–	–
	1,213,859	1,131,888	389,367	720,329
Contributed surplus (note 16 (h))				
Stock options				
Opening balance	275,000	173,000	–	–
Issued during the year	746,547	37,879	275,000	173,000
	1,021,547	210,879	275,000	173,000
		41,382,333		7,349,887

(expressed in Canadian dollars)

16 Share capital and contributed surplus (continued)

c) Preferred Variable Voting Shares

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

d) Class A preferred shares

At June 30, 2005, in accordance with Canadian generally accepted accounting principles, the fair value of the redemption amount of the Class A preferred shares was classified as a liability. 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, was $5,144,374.

The difference between the fair value and the total redemption value was accreted to interest expense over the period from July 1, 2005 to May 18, 2006.

On May 19, 2006, in connection with the IPO, all the issued and outstanding Class A preferred shares were converted to common shares by the holders on a one-for-one basis.

The Class A preferred share liability comprises:

	2006 $	2005 $
Class A preferred share liability, opening	5,178,200	5,144,374
Interest expense recorded	730,906	33,826
Conversion to common shares	(5,909,106)	–
	–	5,178,200

e) On May 19, 2006, in connection with the initial public offering ("IPO") of the Company, the Company issued 8,702,500 common shares for total proceeds of $20,450,875 less offering costs of $3,452,988 net of tax. Immediately prior to the closing of the aforementioned IPO, the Company completed the acquisition of all outstanding shares of Decode. (see note 3 (a)).

(expressed in Canadian dollars)

16 Share capital and contributed surplus (continued)

f) Share purchase financing

During the year, the Company issued share purchase financing totaling $387,250 to an officer of the Company. The loan bears interest at bank prime less 1.5% and is secured by the shares of the Company acquired with the loan proceeds.

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

As a result of applying this guidance, compensation expense of $98,858 was recognized during the year. Interest and any payments received on these loans are being recorded as a capital contribution.

g) Warrants

During the year, in connection with the IPO and the subsequent conversion of preferred shares to common, the Company issued common share warrants to the Class A preferred shareholders as additional compensation for the conversion of the shares to common shares. The warrants entitle the shareholders to acquire 389,367 common shares for $2.35 and expire on May 19, 2007. Also, in connection with the IPO, the Company granted 435,125 common share warrants to the brokers of the offering. The warrants entitle the holders to acquire 435,125 common shares for $2.35 and expire on May 19, 2007. During 2005, 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.

	Number of warrants	Weighted average exercise price
Outstanding at June 30, 2004	–	–
Granted	389,367	1.85
Outstanding at June 30, 2005	389,367	1.85
Granted	824,492	2.35
Outstanding at June 30, 2006	1,213,859	2.19

(expressed in Canadian dollars)

16 Share capital and contributed surplus (continued)

g) Warrants (continued)

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

	2006	**2005**
Risk-free interest rate	4.25%	3.00%
Expected option life	1 year	2 years
Expected volatility	50%	85%
Expected dividend yield	nil	nil

h) Stock options

On March 22, 2006, the Board of Directors approved an employee share option plan which provides for the issuance of up to 3,500,000 common shares. On the same date, the Company issued options under this plan to purchase 746,547 shares at $2.25 per share, vesting at various times over four years and expiring on March 22, 2013. During the year ended June 30, 2005, the Company issued 275,000 stock options to a director and an employee of the Company to acquire common shares. 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.

At June 30, 2006 and 2005, the Company had the following stock options outstanding:

	Number of options	**Weighted average exercise price**
Outstanding at June 30, 2004	–	–
Granted to a director and an employee	275,000	1.85
Outstanding at June 30, 2005	275,000	1.85
Granted to directors, an officer and employees	746,547	2.25
Outstanding at June 30, 2006	1,021,547	2.14
Exercisable at June 30, 2006 and 2005	275,000	1.85

The weighted average grant date value of stock options granted in 2006 has been estimated at $1.27 (2005 - $0.63) using the Black Scholes option pricing model. The following weighted average assumptions were used in the calculations:

	2006	**2005**
Risk-free interest rate	4.25%	3.00%
Expected option life	7 years	1-1.5 years
Expected volatility	50%	85%
Expected dividend yield	nil	nil

(expressed in Canadian dollars)

16 Share capital and contributed surplus (continued)

h) Stock options (continued)

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

During the year ended June 30, 2006, a total of $37,879 (2005 - $173,000) was recognized as compensation expense.

i) Put options

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

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

The put option was issued for no consideration. At June 30, 2006, 425,420 (2005 - $nil) shares in Media Fund carried the put option described above.

17 Government financing and assistance

During the year ended June 30, 2006, investment in film and television programs was reduced by $270,078 (year ended June 30, 2005 - $932,202) related to production financing from government agencies. This financing is related to equity participation by government agencies and is repayable from distribution revenue of the specific productions for which the financing was made. In addition, during the year, investment in film also has been reduced by $1,274,955 (year ended June 30, 2005 - $1,061,363) related to non-repayable contributions from the Canadian Television Fund license fee program. Lastly, during the year, investment in film and television programs has been reduced by $4,346,467 (year ended June 30, 2005 - $4,544,026) in tax credits relating to production activities.

(expressed in Canadian dollars)

18 Future income taxes

Significant components of the Company's future tax assets and liabilities as at June 30, 2006 and 2005 are as follows:

	2006 $	2005 $
Property, plant and equipment	4,000	–
Share issue costs and deferred financing fees	1,711,000	43,000
Investment in film and television programs	(2,179,000)	165,000
Intangible assets	(1,153,000)	–
Non-capital losses	489,000	13,000
Valuation allowance	–	(221,000)
Future income taxes	(1,128,000)	–

The reconciliation of income taxes computed at the statutory tax rates to income tax expense is as follows:

	2006 $	2005 $
Income tax expense based on combined federal and provincial tax rates of 37.42% (2005 - 38.12%)	(370,000)	(92,000)
Income tax increased (reduced) by		
Income subject to taxes at the small business rate	–	(37,000)
Interest accretion on preferred shares	279,000	13,000
Stock-based compensation	52,000	66,000
Large corporation tax	150,000	35,000
Non-deductible expenses and other	42,000	3,000
Foreign losses	30,000	–
Valuation allowance	(221,000)	81,000
Non-taxable portion of capital gains	(36,000)	–
Provision for (recovery of) income taxes	(74,000)	69,000

(expressed in Canadian dollars)

19 Financial instruments

a) Fair value of financial instruments

Management believes that the carrying amounts reported on the financial statements for amounts receivable, accounts payable and accrued liabilities, interim production financing, demand loan, note payable and long-term debt all approximate their fair values due to their immediate or short-term maturities or variable interest rates. The fair value of the Class A preferred share liability which approximates book value, has been calculated using the assumptions described in note 16 (d).

b) Credit risk

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

c) Interest rate risk

The Company is exposed to interest rate risk arising from fluctuations in interest rates as its interim production financing and its long-term debt bear interest at floating rates.

20 Commitments and contingencies

a) 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 fourteen is currently in pre-production.

(expressed in Canadian dollars)

20 Commitments and contingencies (continued)

b) The Company has entered into various operating leases for operating premises and equipment. The future minimum payments under these operating leases are as follows:

	$
Year ending June 30, 2007	246,257
2008	78,853
2009	14,392

c) The Company has entered into an agreement to acquire certain distribution rights to a television mini-series. The agreement requires the Company to pay $1,126,505 twelve months following satisfactory completion and delivery of the mini-series. At June 30, 2006, the mini-series had not yet been delivered.

21 Loss per common share

Loss per common share is calculated as follows:

	2006 $	**2005** $
Net loss for the year	(914,890)	(309,784)
Weighted average number of common shares	15,076,332	12,776,671
Basic and fully diluted loss per common share	(0.06)	(0.02)

The effect of convertible, warrants, stock options and put options has been excluded from the calculations because they are anti-dilutive as a result of the net loss. The weighted average number of potentially dilutive instruments, comprised of shares issuable in respect of convertible warrants, stock options and put options, at June 30, 2006 is 1,376,014 (2005 - 267,924).

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

	2006 $	**2005** $
Decrease (increase) in amounts receivable	4,662,135	(7,793,110)
Decrease (increase) in prepaid expenses and deposits	(242,401)	(93,638)
Decrease (increase) in restricted cash	(802,908)	–
Increase (decrease) in accounts payable and accrued liabilities	(1,898,288)	5,063,586
Increase (decrease) in income taxes payable	(27,226)	67,822
Increase (decrease) in deferred revenue	(530,729)	364,953
	1,160,583	(2,390,387)
During the year, the Company paid and received the following:		
Interest paid	374,084	189,015
Interest received	123,916	18,414

(expressed in Canadian dollars)

23 Interests in joint ventures

The Company's interest in joint ventures is summarized below:

	2006 $	2005 $
Statement of operations		
Revenues	6,314,497	–
Direct production costs and amortization of film and television programs	6,286,658	–
Income from joint ventures before income taxes	27,839	–
Balance sheet		
Current assets	6,966,195	–
Client liabilities	(6,992,261)	–
	(26,066)	–
Statement of cash flows		
Operating activities	(2,244,346)	–
Financing activities	2,428,054	–
Increase in cash position	183,708	–

24 Revenue

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

	2006 $	2005 $
Production and broadcast license fees	14,115,052	4,363,381
Production services revenue	1,325,824	16,526,796
Other	494,763	–
	15,935,639	20,890,177

(expressed in Canadian dollars)

25 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.

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

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

a) Judgments made by management

IFRS requires disclosure of judgments that have been made by management in the preparation of the financial statements. In this regard, other than estimates which are disclosed under Canadian GAAP, management has made judgments about which development projects, with total costs of $617,187 at June 30, 2006 (2005 - $690,791) are likely to result in productions. Development projects which, during the reporting period, have not been assessed as likely to proceed have been written off.

b) Dividends per share

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

	2006 $	2005 $
Dividends per share	–	0.0375

c) Leases

Under IFRS total costs charged to expenses under operating leases must be disclosed. The Company incurred rent expense of $344,858 for the year ended June 30, 2006 (2005 - $237,783).

(expressed in Canadian dollars)

d) Financial instruments

Under IFRS, transaction costs directly attributable to the issuance of financial instruments are deducted from the proceeds of the offering whereas under Canadian GAAP, such costs are recorded as a deferred financing fees. Accordingly, deferred financing fees as at June 30, 2006 of $nil (June 30, 2005 - $1,136,688) would be applied to reduce the financial liability component of the Class A preferred shares. This difference has no impact on the statements of operations and deficit as the amortization method used under Canadian GAAP results in a charge to the statement consistent with the use of the effective interest rate method under IFRS.

27 Subsequent events

On July 1, 2006, the Company acquired all of the outstanding shares of Electropolis Studios Incorporated for cash consideration of $30,650.