DHX Media Ltd.

Consolidated Financial Statements
June 30, 2012 and 2011
(expressed in thousands of Canadian dollars)

September 28, 2012

Management's Responsibility for Financial Reporting

The accompanying 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"). The Board is responsible for ensuring that management fulfills its responsibilities for financial reporting, and is ultimately responsible for reviewing and approving the consolidated financial statements and MD&A. The Board carries out this responsibility through its Audit Committee. The Audit Committee reviews the Company's consolidated financial statements and recommends their approval by the Board of Directors.

The Audit Committee is appointed by the Board and all of its members are independent directors. It meets with the Company's management 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.

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). When alternative methods of accounting exist, management has chosen those it deems most appropriate in the circumstances. The consolidated financial statements and information in the MD&A necessarily include amounts based on informed judgments and estimates of the expected effects of current events and transactions with appropriate consideration to materiality. In addition, in preparing the consolidated financial statements, 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.

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

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

(signed) *"Dana Landry"*
Chief Financial Officer
Halifax, Nova Scotia

September 28, 2012

Independent Auditor's Report

To the Shareholders of
DHX Media Ltd.

We have audited the accompanying consolidated financial statements of **DHX Media Ltd.** and its subsidiaries, which comprise the consolidated balance sheets as at June 30, 2012, June 30, 2011 and July 1, 2010 and the consolidated statements of changes in equity, income, comprehensive income and cash flows for the years ended June 30, 2012 and June 30, 2011, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of DHX Media Ltd. and its subsidiaries as at June 30, 2012, June 30, 2011 and July 1, 2010 and their financial performance and their cash flows for the years ended June 30, 2012 and June 30, 2011 in accordance with International Financial Reporting Standards.

(signed) *"PricewaterhouseCoopers LLP"*

Chartered Accountants

PricewaterhouseCoopers LLP, Chartered Accountants
Summit Place, 1601 Lower Water Street, Suite 400, Halifax, Nova Scotia, Canada B3J 3P6
T: +1 (902) 491 7400, F: +1 (902) 422 1166, www.pwc.com/ca

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

DHX Media Ltd.

Consolidated Balance Sheets

As at June 30, 2012 and 2011 and July 1, 2010

(expressed in thousands of Canadian dollars)

	June 30, 2012 $	June 30, 2011 $	July 1, 2010 $
Assets			
Current assets			
Cash	19,166	19,525	17,276
Short-term investments (note 7)	3,323	6,060	6,098
Amounts receivable (note 8)	41,823	54,892	59,364
Prepaid expenses and deposits	1,581	880	622
Investment in film and television programs (note 9)	44,163	39,184	30,566
	110,056	120,541	113,926
Investment in associates (note 10)	1,541	1,687	2,020
Property, plant and equipment (note 11)	8,520	9,807	7,545
Long-term investment	330	330	330
Intangible assets (note 12)	2,714	3,552	4,068
Goodwill (note 13)	11,800	11,763	11,088
Deferred income taxes (note 18)	–	342	–
	134,961	148,022	138,977
Liabilities			
Current liabilities			
Bank indebtedness (note 14)	2,665	5,200	250
Accounts payable and accrued liabilities (note 15)	14,019	15,911	12,480
Deferred revenue	10,647	9,499	3,901
Interim production financing (note 14)	21,177	31,404	38,796
Current portion of long-term debt and obligations under capital leases (note 14)	1,948	1,017	541
	50,456	63,031	55,968
Other liabilities (note 6)	1,319	1,251	–
Long-term debt and obligations under capital lease (note 14)	3,845	2,893	2,623
Deferred income taxes (note 18)	441	–	514
	56,061	67,175	59,105
Shareholders' Equity (note 16)	78,900	80,847	79,872
	134,961	148,022	138,977

Commitments and contingencies (note 22)

The accompanying notes form an integral part of these consolidated financial statements.

DHX Media Ltd.

Consolidated Statements of Changes in Equity

For the years ended June 30, 2012 and 2011

(expressed in thousands of Canadian dollars)

	Common shares $	Share purchase financing $	Warrants $	Contributed surplus $	Accumulated other comprehensive income (loss) $ (note 27)	Retained earnings (deficit) $	Total $
Balance - July 1, 2010	76,548	(268)	1,840	4,293	12	(2,553)	79,872
Net income for the year	–	–	–	–	–	1,316	1,316
Other comprehensive loss for the year	–	–	–	–	(469)	–	(469)
Comprehensive income (loss) for the year	–	–	–	–	(469)	1,316	847
Share issuance costs, net of tax effect of $38	(82)	–	–	–	–	–	(82)
Stock options exercised	30	–	–	(11)	–	–	19
Normal course issuer bid shares repurchased and cancelled	(43)	–	–	–	–	–	(43)
Repayment of share purchase financing	–	2	–	–	–	–	2
Shares issued pursuant to the employee share purchase plan	9	–	–	–	–	–	9
Shares cancelled pursuant to an employee loan forgiven	(25)	25	–	–	–	–	–
Compensation expense on share purchase financing	–	47	–	–	–	–	47
Interest received on share purchase financing	–	5	–	–	–	–	5
Share-based compensation	–	–	–	442	–	–	442
Expiration of warrants, net of tax effect of $271	–	–	(1,630)	1,359	–	–	(271)
Balance - June 30, 2011	76,437	(189)	210	6,083	(457)	(1,237)	80,847
Net income for the year	–	–	–	–	–	3,047	3,047
Other comprehensive income for the year	–	–	–	–	689	–	689
Comprehensive income for the year	–	–	–	–	689	3,047	3,736
Shares issued pursuant to the employee share purchase plan	9	–	–	–	–	–	9
Shares cancelled pursuant to an employee loan forgiven	(50)	50	–	–	–	–	–
Normal course issuer bid shares repurchased and cancelled	(1,698)	–	–	620	–	–	(1,078)
Substantial issuer bid shares repurchased and cancelled, including costs of $116, net of tax effect of $35	(8,857)	–	–	3,776	–	–	(5,081)
Repayment of share purchase financing	–	5	–	–	–	–	5
Interest received on share purchase financing	–	3	–	–	–	–	3
Compensation expense on share purchase financing	–	46	–	–	–	–	46
Share-based compensation	–	–	–	446	–	–	446
Expiration of warrants, net of tax effect of $33	–	–	(210)	177	–	–	(33)
Balance - June 30, 2012	65,841	(85)	–	11,102	232	1,810	78,900

The accompanying notes form an integral part of these consolidated financial statements.

DHX Media Ltd.

Consolidated Statements of Income

For the years ended June 30, 2012 and 2011

(expressed in thousands of Canadian dollars, except for amounts per share)

	2012 $	2011 $
Revenues (note 26)	72,647	55,409
Direct production costs and amortization of film and television produced	47,928	33,137
	24,719	22,272
Operating expenses (income)		
Amortization of acquired library	617	611
Amortization of property, plant and equipment and intangible assets	2,538	2,134
Development expenses and other	773	1,186
Impairment in value of investment in film and television programs	515	450
Selling, general and administrative	16,077	15,930
Share of loss of associates	146	333
Realized loss on disposals of short-term investment and property, plant and equipment	224	–
Finance income, net (note 19)	(151)	(2)
	20,739	20,642
Income before income taxes	3,980	1,630
Provision for (recovery of) income taxes		
Current income taxes	147	978
Deferred income taxes	786	(664)
	933	314
Net income for the years	3,047	1,316
Basic earnings per common share (note 24)	0.05	0.02
Diluted earnings per common share (note 24)	0.05	0.02

The accompanying notes form an integral part of these consolidated financial statements.

DHX Media Ltd.

Consolidated Statements of Comprehensive Income

For the years ended June 30, 2012 and 2011

(expressed in thousands of Canadian dollars)

	2012 $	2011 $
Net income for the years	3,047	1,316
Other comprehensive income (loss)		
Cumulative translation adjustment	602	(476)
Realized loss on available-for-sale investments, net of tax	80	–
Changes in fair value of available-for-sale investments, net of tax	7	7
Other comprehensive income (loss) for the years	689	(469)
Comprehensive income for the years	3,736	847

The accompanying notes form an integral part of these consolidated financial statements.

DHX Media Ltd.

Consolidated Statements of Cash Flows

For the years ended June 30, 2012 and 2011

(expressed in thousands of Canadian dollars)

	2012 $	2011 $
Cash provided by (used in)		
Operating activities		
Net income for the years	3,047	1,316
Charges (credits) to income not involving cash		
Amortization of film and television programs	9,967	13,099
Amortization of acquired library	617	611
Amortization of property, plant and equipment	1,700	1,184
Amortization of intangible assets	838	949
Unrealized foreign exchange loss	57	11
Impairment in value of investment in film and television programs	515	450
Realized loss on sale of short-term investment	80	–
Share of loss of associates	146	333
Share-based compensation	492	489
Interest on promissory notes	3	5
Deferred tax expense (recovery)	786	(664)
	18,248	17,783
Net investment in film and television programs	(16,078)	(16,646)
Net change in non-cash working capital balances related to operations (note 25)	12,084	14,242
Cash provided by operating activities	14,254	15,379
Financing activities		
Proceeds from issuance of common shares and warrants, net of issuance costs	–	(163)
Proceeds from issuance of common shares related to employee share purchase plan	9	29
Proceeds from repayment of employee share purchase loan	5	2
Common shares repurchased and cancelled	(6,193)	–
Proceeds from (repayment of) bank indebtedness	(2,535)	4,950
Repayment of interim production financing	(10,227)	(7,392)
Proceeds from of long-term debt	4,000	–
Repayment of long-term debt and obligations under capital leases	(1,478)	(545)
Cash provided by (used in) financing activities	(16,419)	(3,119)
Investing activities		
Business acquisitions	–	(8,016)
Acquisitions of short-term investments	(7,185)	(4,009)
Proceeds on disposal of short-term investments	10,009	4,030
Acquisition of property, plant and equipment	(1,197)	(1,944)
Loss on disposal of property, plant and equipment	144	–
Cash provided by (used in) investing activities	1,771	(9,939)
Effect of foreign exchange rate changes on cash	35	(72)
Net change in cash during the years	(359)	2,249
Cash - Beginning of years	19,525	17,276
Cash - End of years	19,166	19,525

The accompanying notes form an integral part of these consolidated financial statements.

(expressed in thousands of Canadian dollars, except for amounts per share)

1 Nature of business

DHX Media Ltd. (the "Company") is a public company, and the ultimate parent, whose common shares are traded on the Toronto Stock Exchange (TSX), admitted 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 on April 25, 2006 under the Canada Business Corporation Act, develops, produces and distributes films and television programs for the domestic and international markets. The address of the Company's head office is 1478 Queen Street, Halifax, Nova Scotia, Canada, B3J 2H7.

2 Basis of preparation and adoption of IFRS

The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting in accordance with IFRS in these consolidated financial statements. In these consolidated financial statements, the term "Canadian GAAP" refers to Canadian generally accepted accounting principles prior to the adoption of IFRS.

These consolidated financial statements have been prepared in accordance with IFRS. Subject to certain transition elections disclosed in note 4, the Company has consistently applied the same accounting policies in its opening IFRS balance sheet at July 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 4 discloses the impact of the transition to IFRS on the Company's reported balance sheets, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended June 30, 2011.

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of September 27, 2012, the date the Board of Directors approved the statements.

3 Significant accounting policies, judgments and estimation uncertainty

Significant accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements are described below:

Basis of measurement

The consolidated financial statements have been prepared under a historical cost basis, except for certain financial assets and financial liabilities, including derivative instruments that are measured at fair value.

(expressed in thousands of Canadian dollars, except for amounts per share)

3 Significant accounting policies, judgments and estimation uncertainty (continued)

Consolidation

The consolidated financial statements include the accounts of DHX Media Ltd. and all of its subsidiaries. The financial statements of all subsidiaries are prepared for the same reporting period, using the consistent accounting policies. Intercompany accounts, transactions, income and expenses and unrealized gains and losses resulting from transactions amongst the consolidated companies have been eliminated upon consolidation.

Subsidiaries are those entities, including special purpose entities, which the Company controls by having the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are de-consolidated from the date that control ceases.

Certain special purpose entities are consolidated by the Company where it does not own, directly or indirectly, through subsidiaries, more than half of the voting power, but where the Company has determined that it has either sufficient power to govern the financial and operating policies of the entities, the power to appoint or remove the majority of the members of Board of Directors of the entities or the power to cast the majority of votes at meetings of the Board of Directors of the entities in such a manner that control is considered to exist.

Investments in associates

Associates are entities over which the Company has significant influence, but not control. The financial results of the Company's investments in its associates are included in the Company's results according to the equity method. Subsequent to the acquisition date, the Company's share of profits or losses of associates is recognized in the statement of income and its share of other comprehensive income of associates is included in the other comprehensive income account.

Unrealized gains on transactions between the Company and an associate are eliminated to the extent of the Company's interest in the associate. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising from changes in interests in investments in associates are recognized in the statement of income.

The Company assesses at each year-end whether there is any objective evidence that its interests in associates are impaired. If impaired, the carrying value of the Company's share of the underlying assets of associates is written down to its estimated recoverable amount (being the higher of fair value less cost to sell and value in use) and charged to the statement of income.

(expressed in thousands of Canadian dollars, except for amounts per share)

3 Significant accounting policies, judgments and estimation uncertainty (continued)

Segmented reporting

The Company has a single operating segment which is reported in a manner consistent with the internal reporting provided to the chief operating decision making group. The chief operating decision making group that is responsible for allocating resources and assessing performance of the operating segment has been identified as the Chief Executive Officer, Chief Financial Officer and Chief Operating Officer. In measuring performance, the Company does not distinguish or group its operations on a geographical or any other basis and, accordingly, has a single reportable segment for disclosure purposes.

Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each consolidated entity of the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Primary and secondary indicators are used to determine the functional currency (primary indicators have priority over secondary indicators). The primary indicator which applies to the Company is the currency that mainly influences revenues and expenses. Secondary indicators include the currency in which funds from financing activities are generated. For the Company and all subsidiaries other than Wildbrain, the Canadian dollar has been determined to be the functional currency. For Wildbrain, the functional currency is the US dollar. These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. The financial statements of consolidated entities that have a functional currency other than Canadian dollars (“foreign operations”) are translated into Canadian dollars as follows:

(a) assets and liabilities - at the closing rate at the date of the balance sheet, and
(b) income and expenses - at the average rate for the period (as this is considered to be a reasonable approximation of actual rates).

All resulting changes are recognized in other comprehensive income as cumulative translation adjustments.

When the Company disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the foreign currency gains or losses accumulated in other comprehensive income related to the foreign operation are recognized in profit or loss. If the Company disposes of part of an interest in a foreign operation which remains a subsidiary, a proportionate amount of foreign currency gains or losses accumulated in other comprehensive income related to the subsidiary is reallocated between controlling and non-controlling interests.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation, at year-end exchange rates, of monetary assets and liabilities denominated in currencies other than the functional currency are recognized in the statement of income.

(expressed in thousands of Canadian dollars, except for amounts per share)

3 Significant accounting policies, judgments and estimation uncertainty (continued)

Revenue recognition

Revenue from the licensing of film and television programs is recognized when:

(a) the production has been completed;
(b) the contractual delivery arrangements have been satisfied and the Company retains neither continuing managerial involvement to the degree usually associated with the ownership nor effective control over the goods sold;
(c) the licensing period has commenced;
(d) the amount of revenue can be measured reliably;
(e) collectability of proceeds is probable; and
(f) the costs incurred or to be incurred in respect of the contractual arrangement can be measured reliably.

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 and new media revenue on the Company's proprietary productions are recognized on a percentage-of-completion basis. 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.

Revenue from live tours is recorded in the period in which the show is performed, amount of revenue can be reliably measured, the costs incurred or to be incurred can be measured and collectability is reasonably assured. Merchandising revenue is recognized at the point of sale to customers.

Royalty revenue is accrued for royalty streams for which the receipt of revenue is probable and is recognized in accordance with the substance of the relevant agreements and statements received from third party agents.

Investment in film and television programs

Investment in film and television programs represents the balance of 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.

(expressed in thousands of Canadian dollars, except for amounts per share)

3 Significant accounting policies, judgments and estimation uncertainty (continued)

Investment in film and television programs (continued)

Costs of acquiring and producing film and television programs are capitalized. The costs are measured net of federal and provincial program contributions earned and are charged to income using the individual film forecast method, whereby capitalized costs are charged to income 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 substantially all of the activities necessary to prepare the film or television program for delivery are complete. Capitalized production costs do not include 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 or the fair value of amounts due 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. For acquired film and television libraries previously released, ultimate revenue includes estimates of revenue over a period not to exceed twenty years from the date of acquisition.

Investments in film and television programs are included within current assets. The normal operating cycle of the Company can be greater than 12 months.

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 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.

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 net realizable value of a film or television program or the acquired participation right is less than its cost. The net realizable 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 costs exceed the estimated net realizable value of the film or television program or acquired participation right.

(expressed in thousands of Canadian dollars, except for amounts per share)

3 Significant accounting policies, judgments and estimation uncertainty (continued)

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 included in investment in film and television programs upon commencement of production. Advances or contributions received from third parties to assist in development are deducted from these costs. Projects in development are written off as development expenses at the earlier of the date determined not to be recoverable or when projects under development are abandoned, or three years from the date of the initial recognition of the investment, if there have been no active development milestones or significant development expenditures within the last year.

Property, plant and equipment

Property, plant and equipment are carried at historical cost, less accumulated amortization and accumulated impairment losses. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charges to the statement of income during the period in which they are incurred. Amortization is provided, commencing when the asset is available for use, 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	5% - 20% by declining balance
Computer equipment	30% by declining balance
Post-production equipment	30% by declining balance
Computer software	2 years straight-line
Website design	2 years straight-line
Leasehold improvements	5 years straight-line and straight-line over term of lease

The Company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in the statement of income.

Goodwill

Goodwill represents the cost of acquired businesses in excess of the fair value of net identifiable assets acquired at the date of acquisition. Goodwill is carried at cost less any accumulated impairment losses and is not subject to amortization. Goodwill is tested for impairment annually or more frequently if events or circumstances indicate that the asset might be impaired. Goodwill is allocated to a cash generating unit ("CGU"), or group of CGU's, which is the lowest level within an entity at which the goodwill is monitored for internal management purposes, which is not higher than an operating segment. Impairment is tested by comparing the recoverable amount of goodwill assigned to a CGU or group of CGU's to its carrying value.

(expressed in thousands of Canadian dollars, except for amounts per share)

3 Significant accounting policies, judgments and estimation uncertainty (continued)

Identifiable intangible assets

Identifiable intangible assets are carried at cost, including amounts of purchase price allocations upon acquisitions. Amortization is provided on a straight-line basis over the estimated useful life of the assets, using the following annual rates and methods:

Production backlog	2 to 3 years straight-line
Broadcaster relationships	7 to 10 years straight-line
Customer and distribution relationships	10 years straight-line
Non-compete contracts and brands	3 to 9 years straight-line
Production software	5 years straight-line

Impairment of non-financial assets

Property, plant and equipment and intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Long-lived assets that are not amortized are subject to an annual impairment test. For the purposes of measuring recoverable amounts, assets are grouped into CGU's. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use, being the present value of the expected future cash flows of the relevant CGU. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, including investment in films and property, plant and equipment, are added to the cost of those assets, until such time as the assets are substantially complete and ready for use. All other borrowing costs are recognized as a finance expense in the statement of income in the period in which they are incurred.

Government financing and assistance

The Company has access to several government programs, including tax credits 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.

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. The Company performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

(expressed in thousands of Canadian dollars, except for amounts per share)

3 Significant accounting policies, judgments and estimation uncertainty (continued)

Leases

Upon initial recognition, the Company classifies all leases as either a finance lease or an operating lease, depending on the substance of the transaction. Finance leases are classified as such because they are found to transfer substantially all the rewards incidental to ownership of the asset to the lessee, whereas operating leases are classified as such because they are not found to meet the criteria required for classification as a finance lease. Upon commencement of the lease, finance leases are recorded as assets with corresponding liabilities in the statements of financial position at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The rate used to discount the payments is either the interest rate implicit in the lease or the Company's incremental borrowing rate. The asset is amortized over the term of the lease while the liability is decreased by the actual lease payments and increased by any accretion expense. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Income taxes

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous periods.

Deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements, as well as the benefit of losses that are probable to be realized and are available for carry forward to future years to reduce income taxes. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

The effect of a change in tax rates on deferred tax assets and liabilities is included in earnings in the period that the change is substantively enacted, except to the extent it relates to items previously recognized outside earnings in which case the rate change impact is recognized in a manner consistent with how the items were originally recognized.

Deferred income tax assets and liabilities are presented as non-current. Tax on income in interim periods is accrued using the tax rate that would be applicable to expected annual total earnings.

(expressed in thousands of Canadian dollars, except for amounts per share)

3 Significant accounting policies, judgments and estimation uncertainty (continued)

Share-based compensation

The Company grants stock options to certain directors, officers, employees and consultants of the Company. Stock options vest over periods of up to 4 years and expire after 5 years. Each vesting tranche of stock options is considered a separate award with its own vesting period and estimated grant date fair value. The estimated grant date fair value of each vesting tranche is estimated using the Black-Scholes option pricing model. Compensation expense is recognized over each tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. The number of awards expected to vest is reviewed at least annually with any impact being recognized immediately.

Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the net income (loss) for the period attributable to equity owners of the Company by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method. The Company's potentially dilutive common shares comprise stock options granted to employees, and warrants.

Financial instruments

Financial instruments are classified as follows:

- Short-term investments and long-term investment are classified as "Available-for-Sale". Financial assets classified as Available-for-Sale are recognized initially at fair value plus transaction costs and are subsequently carried at fair value with the changes in fair value recorded in other comprehensive income. Available-for-Sale assets are classified as non-current, unless the investment matures or management expects to dispose of them within twelve months.

- Derivative financial instruments are classified as "Held-for-Trading" and recognized initially on the balance sheet at fair value. Financial assets classified as Held-for-Trading are recognized at fair value with the changes in fair value recorded in net income.

- Cash and trade receivables are classified as "Loans and Receivables". After their initial fair value measurement, they are measured at amortized cost using the effective interest method, less a provision for impairment, established on an account-by-account basis, based on, among other factors, prior experience and knowledge of the specific debtor and management's assessment of the current economic environment.

- Bank indebtedness, accounts payable and accrued liabilities, interim production financing, long-term debt and other liabilities are classified as "Other Financial Liabilities". Other Financial Liabilities are initially recognized at fair value less transaction costs. Subsequent to initial recognition, Other Financial Liabilities are measured at amortized cost using the effective interest method.

(expressed in thousands of Canadian dollars, except for amounts per share)

3 Significant accounting policies, judgments and estimation uncertainty (continued)

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. A significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If such evidence exists, the Company recognizes an impairment loss, as follows:

- Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

- Available-for-Sale financial assets: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of income. This amount represents the cumulative loss in accumulated other comprehensive income that is reclassified to net income.

Impairment losses on financial assets carried at amortized cost and available-for-sale debt instruments are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for-sale equity instruments are not reversed.

Accounting standards issued but not yet applied

The Company does not expect to early adopt the following revised standards and amendments. Accordingly, the Company expects to adopt these standards on the effective dates listed below.

IFRS 9, Financial Instruments

The International Accounting Standards Board ("IASB") has issued IFRS 9, "Financial Instruments" ("IFRS 9"), effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. IFRS 9 introduces new classification and measurement requirements for financial instruments. The Company is assessing the impact of IFRS 9 on its consolidated statement of income and balance sheet.

IFRS 10, Consolidated Financial Statements

The IASB issued IFRS 10, "Consolidated Financial Statements" ("IFRS 10"), effective for annual periods beginning on or after January 1, 2013. IFRS 10 replaces portions of IAS 27, "Consolidated and Separate Financial Statements" ("IAS 27") that addresses consolidation, and supersedes Standing Interpretations Committee ("SIC") SIC-12 in its entirety. The objective of IFRS 10 is to define the principles of control and establish the basis of determining when and how an entity should be included within a set of consolidated financial statements. IAS 27 has been amended to reflect the issuance of IFRS 10 and retains guidance only for separate financial statements. The Company is assessing the impact of IFRS 10 on its consolidated statement of income and balance sheet.

(expressed in thousands of Canadian dollars, except for amounts per share)

3 Significant accounting policies, judgments and estimation uncertainty (continued)

Accounting standards issued but not yet applied (continued)

IFRS 11, Joint Ventures

The IASB issued IFRS 11, "Joint Ventures" ("IFRS 11"), effective for annual periods beginning on or after January 1, 2013. IFRS 11 supersedes IAS 31, "Interest in Joint Ventures" and SIC-13, "Jointly Controlled Entities - Non Monetary Contributions by Venturers". Through an assessment of the rights and obligations in an arrangement, IFRS 11 establishes principles to determine the type of joint arrangement and guidance for financial reporting activities required by the entities that have an interest in arrangements which are controlled jointly. As a result of the issuance of IFRS 10 and IFRS 11, IAS 28, "Investments in Associates and Joint Ventures" ("IAS 28") was amended to reflect the guidance provided in IFRS 10 and IFRS 11. The Company is assessing the impact of this standard on its consolidated statement of income and balance sheet.

IFRS 12, Disclosure of Interests in Other Entities

The IASB issued IFRS 12, "Disclosure of Interests in Other Entities" ("IFRS 12") effective for annual periods beginning on or after January 1, 2013. IFRS 12 requires extensive disclosures relating to a company's interests in subsidiaries, joint arrangements, associates, and unconsolidated structured entities. IFRS 12 enables users of the financial statements to evaluate the nature and risks associated with its interests in other entities and the effects of those interests on its financial position and performance. The Company is assessing the impact of IFRS 12 on its consolidated statement of income and balance sheet.

IFRS 13, Fair Value measurement

The IASB issued IFRS 13, "Fair Value Measurement" ("IFRS 13") effective for annual periods beginning on or after January 1, 2013. IFRS 13 defines fair value, provides guidance in a single framework for measuring fair value and identifies the required disclosures pertaining to fair value measurement. The Company is assessing the impact of IFRS 13 on its consolidated statement of income and balance sheet.

Amendments to standards

IFRS 7, "Financial Instruments: Disclosures," has been amended to include additional disclosure requirements in the reporting of transfer transactions and risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendment is applicable for annual periods beginning on or after July 1, 2011, with earlier application permitted. The Company is assessing the impact of all other changes to IFRS 7 on its consolidated statement of income and financial position.

IAS 1, "Presentation of Financial Statements," has been amended to require entities to separate items presented in OCI into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted. The Company is assessing the impact of all other changes to IAS 1 on its consolidated statement of income and financial position

(expressed in thousands of Canadian dollars, except for amounts per share)

3 Significant accounting policies, judgments and estimation uncertainty (continued)

Significant accounting judgments and estimation uncertainty

The preparation of consolidated financial statements under IFRS requires the Company to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable. Actual results may differ materially from these estimates. The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are as follows:

(i) Investment in film and television programs

The 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 charged to income 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. The estimate of ultimate revenue and ultimate costs depends on management judgment and assumptions based on the pattern of historical experience and other factors. A 1% fluctuation in ultimate revenues would have an approximate $250 effect on net income.

(ii) Goodwill

The Company is required to test for impairment at least annually, or more frequently if events or circumstances indicate that the asset might be impaired. Impairment is tested by comparing the recoverable amount, which is the greater of fair value less cost to sell and value in use, of goodwill to its carrying value. The value in use calculation of recoverable amount requires the estimation of future cash flows and the choice of a suitable discount rate (see note 13).

(iii) Income taxes and deferred income taxes

Deferred tax assets and liabilities require management's judgment in determining the amounts to be recognized. In particular, judgment is used when assessing the extent to which deferred tax assets should be recognized with respect to the timing of deferred taxable income.

The current income tax provision for the year is determined according to complex tax laws and regulations. Where the effect of these laws and regulations is unclear, estimates are used in determining the provision for current income taxes which are recognized in the consolidated financial statements. The Company considers the estimates, assumptions and judgments to be reasonable but this can involve complex issues which may take an extended period to resolve. The final determination of prior years' tax provisions could be different from the estimates reflected in the financial statements.

(expressed in thousands of Canadian dollars, except for amounts per share)

3 Significant accounting policies, judgments and estimation uncertainty (continued)

Significant accounting judgments and estimation uncertainty (continued)

(iv) Consolidation

Consistent with the film and television industry, the Company utilizes various financing structures and production arrangements, including Special Purpose Entities ("SPE's") to finance its film and television projects. Under IFRS, an SPE shall be consolidated when the substance of the relationship between the Company and the SPE indicates that the SPE is controlled by the Company. Determining the presence of control depends on a number of management judgments and assumptions.

4 Transition to IFRS

The Company adopted IFRS on July 1, 2011. Prior to adoption of IFRS, the Company prepared its financial statements in accordance with Canadian GAAP.

The accounting policies in note 3 have been applied in preparing the consolidated financial statements for the year ended June 30, 2012, the comparative information for the year ended June 30, 2011 and the opening consolidated IFRS balance sheet at July 1, 2010 ("Transition Date").

In preparing its opening consolidated IFRS balance sheet, the Company has adjusted amounts reported previously in its consolidated financial statements prepared in accordance with Canadian GAAP and has prepared its opening consolidated IFRS balance sheet and the consolidated balance sheets at June 30, 2011 and June 30, 2012 in accordance with IFRS.

An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's balance sheet, financial performance and cash flows is summarized in this note as follows:

- Initial elections upon adoption;

  a) IFRS mandatory exceptions
  b) IFRS optional exemptions

- Reconciliation of comprehensive income and equity as previously reported under Canadian GAAP to IFRS;

- Reconciliation of statement of cash flows as previously reported under Canadian GAAP to IFRS; and

- Notes to the reconciliation of Canadian GAAP to IFRS.

(expressed in thousands of Canadian dollars, except for amounts per share)

4 Transition to IFRS

i) Initial elections upon adoption

(a) IFRS mandatory exceptions

IFRS 1 contains certain mandatory exceptions to retrospective application which must be applied at the time of transition from Canadian GAAP to IFRS.

Exception for estimates

IFRS estimates as at July 1, 2010 and June 30, 2011 are consistent with the estimates as at the same dates in conformity with Canadian GAAP.

The other mandatory exceptions in IFRS as follows are not relevant to the Company:

- Hedge accounting;
- De-recognition of financial assets and financial liabilities; and
- Non-controlling interests.

(b) IFRS optional exemptions

IFRS 1 contains certain optional exemptions which may be applied at the time of transition from Canadian GAAP to IFRS.

Exemption for business combinations

IFRS 1 provides the option to apply IFRS 3 - Business Combinations prospectively from the Transition Date or from a specific date prior to the Transition Date. This provides relief from full retrospective application that would require restatement of business combinations prior to the Transition Date. The Company elected to apply IFRS 3 prospectively to business combinations occurring after its Transition Date; accordingly, business combinations prior to the Transition Date have not been restated.

The Company has elected not to apply the remaining optional exemptions available at the time of transition from Canadian GAAP to IFRS.

ii) Reconciliation of comprehensive income and equity as previously reported under Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile equity and comprehensive income for certain prior periods. The following represents the reconciliations from Canadian GAAP to IFRS for the respective periods for comprehensive income and equity.

(expressed in thousands of Canadian dollars, except for amounts per share)

4 Transition to IFRS (continued)

ii) Reconciliation of comprehensive income and equity as previously reported under Canadian GAAP to IFRS (continued)

Comprehensive income

The following is a summary of transition adjustments to the Company's comprehensive income from Canadian GAAP to IFRS:

	Note 4 (iv)	Year ended June 30, 2011 $
Comprehensive income - Canadian GAAP		1,713
IFRS adjustments increase (decrease)		
Share-based compensation	(a)	39
Business combinations and deferred acquisition costs	(b)	(470)
Cumulative translation adjustment	(d)	(476)
Withholding taxes payable	(e)	(102)
Deferred income taxes	(f)	143
Comprehensive income - IFRS		847

Equity

The following is a summary of transition adjustments to the Company's shareholders' equity from Canadian GAAP to IFRS:

	Note 4 (iv)	June 30, 2011 $	July 1, 2010 $
Equity - Canadian GAAP		82,059	80,179
IFRS adjustments increase (decrease)			
Business combinations and deferred acquisition costs	(b)	(470)	–
Cumulative translation adjustment	(d)	(476)	–
Withholding taxes payable	(e)	(409)	(307)
Deferred income taxes	(f)	143	–
Equity - IFRS		80,847	79,872

iii) Reconciliation of statement of cash flows as previously reported under Canadian GAAP to IFRS

As explained in note 4(iv) (c), as a result of the consolidation of certain subsidiaries previously considered variable interest entities under Canadian GAAP, the cash balance increased by $1,356 at July 1, 2010 (see summary of the impact of the transition adjustments below). The transition from Canadian GAAP to IFRS had no other significant impact on the statement of cash flows.

(expressed in thousands of Canadian dollars, except for amounts per share)

4 Transition to IFRS (continued)

iii) Reconciliation of statement of cash flows as previously reported under Canadian GAAP to IFRS (continued)

The following is a summary of the impact of the transition adjustments on the Company's statement of cash flows from Canadian GAAP to IFRS:

	Year ended June 30, 2011 $
Decrease in net income for the year	(397)
Decrease in charges to income not involving cash	(104)
Increase in net investment in film and television programs	602
Increase in change in non-cash working capital balances related to operations	3,388
Increase in cash provided by operating activates	3,489
Increase in repayment of interim production financing	(3,896)
Increase in cash used in financing activities	(3,896)
Decrease in consideration paid for business acquisitions	159
Increase in net cash advances to investees	(173)
Increase in cash used in investing activities	(14)
Effect of foreign exchange rate changes on cash	(72)
Decrease in net change in cash during the year	(493)
Increase in cash - Beginning of year (note 4 (iv) (c))	1,356
Increase in cash - End of year	863
Cash under Canadian GAAP - Beginning of year	15,920
Cash under IFRS - Beginning of year	17,276
Increase in cash under IFRS - Beginning of year	1,356
Cash under Canadian GAAP - End of year	18,662
Cash under IFRS - End of year	19,525
Increase in cash under IFRS - End of year	863

(expressed in thousands of Canadian dollars, except for amounts per share)

4 Transition to IFRS (continued)

iv) Notes to the reconciliation of Canadian GAAP and IFRS

a) Share-based compensation

Under IFRS, the Company expenses the estimated fair value of stock options over the vesting period using the graded vesting method of amortization, rather than the straight-line method, which was the Company's policy under Canadian GAAP. To estimate the fair value of the stock options using the Black-Scholes valuation model, the Company included an estimated forfeiture rate which was not previously included under Canadian GAAP. As a result, contributed surplus and deficit increased at the Transition Date by $246, and selling, general and administrative by expenses decreased $39 for the year ended June 30, 2011.

b) Business combinations and deferred acquisition costs

In accordance with IFRS transitional provisions, the Company elected to apply IFRS 3 - Business Combination prospectively to business combinations occurring after its Transition Date. As detailed in note 6, on September 14, 2010, the Company acquired all the outstanding shares in W!LDBRAIN Entertainment Inc. ("Wildbrain"). The acquisition was accounted for using the purchase method under Canadian GAAP and IFRS; however, in accordance with IFRS, the consideration was increased by a total of $1,166, reflecting a decrease of $159 related to the expensing of transaction costs in accordance with IFRS and an increase of $1,325 related to the recognition of the fair value of contingent consideration, including an earnout. As a result, professional fees increased by $159 for the year ended June 30, 2011.

In addition to the transaction costs associated with the acquisition of Wildbrain, at June 30, 2011 under Canadian GAAP the Company had deferred acquisition costs of $311 related to potential acquisitions under consideration. In accordance with IFRS, such costs were expensed during the year ended June 30, 2011. As a result, at June 30, 2011, prepaid expenses decreased by $311 and development expenses and other increased by $311 for the year ended June 30, 2011.

c) Consolidation

Certain subsidiaries considered variable interest entities under Canadian GAAP were not subject to full consolidation and were reported in the financial statements under the equity method. These subsidiaries have been fully consolidated for IFRS purposes. As a result, at July 1, 2010, the Transition Date, cash increased $1,356, accounts receivable increased $5,032, investment in film increased $674, investment in production companies decreased $1,389, accounts payable decreased $311, deferred revenue increased $3 and interim production financing increased $5,981, but did not result in any change to net income for the year ended June 30, 2011.

(expressed in thousands of Canadian dollars, except for amounts per share)

4 Transition to IFRS (continued)

iv) Notes to the reconciliation of Canadian GAAP and IFRS (continued)

d) Cumulative translation adjustment

Under Canadian GAAP, the Company used the temporal method of foreign exchange translation for its integrated wholly-owned subsidiary, Wildbrain. Under the temporal method, non-monetary assets were converted to the presentation currency using historical foreign exchange rates and the resulting difference between the translation of Wildbrain's balance sheet and statement of income was recorded in the Company's statement of income. Under IFRS, the temporal method is not recognized and the translation methodology used to translate the financial statements of entities with presentation currencies other than Canadian dollars is driven by the determination of the functional currency in each entity in the group. Because the functional currency of Wildbrain has been determined to be the US dollar, the Company translated the assets and liabilities of Wildbrain at the exchange rate in effect at each balance sheet date. Because the acquisition of Wildbrain did not occur until September 14, 2010, there was no impact on the Company's consolidated balance sheet or statement of changes in equity at July 1, 2010.

As a result, other comprehensive income decreased by $476 for the year ended June 30, 2011.

e) Withholding taxes payable

Under Canadian GAAP, the Company assessed the likelihood of withholding taxes being payable. If management considered it likely, an amount payable was recorded for withholding taxes. If it considered it unlikely that the related withholding tax would be payable, no accrual was recorded. Under IFRS, the Company assesses whether an uncertain tax position is probable of being sustained on examination by the taxing authority. A liability is recognised in connection with each item that is not probable of being sustained. As a result of applying the guidance under IFRS, retained earnings decreased by $307 at July 1, 2010 and comprehensive income decreased by $102 for the year ended June 30, 2011.

f) Deferred income taxes

Deferred income tax liabilities were adjusted to give effect to both the recognition of the earnout and the expensing of the transaction costs associated with the acquisition of Wildbrain and other deferred acquisition costs (note 4(iv)(b)) in accordance with IFRS. As a result, deferred tax liabilities decreased by $568 at June 30, 2011 and the deferred income taxes recovered increased by $143 for the year ended June 30, 2011.

(expressed in thousands of Canadian dollars, except for amounts per share)

5 Compensation of key management

Key management includes all directors, including both executive and non-executive directors, as well as the Chief Operating Officer and Chief Financial Officer. The compensation earned by key management is as follows:

	2012 $	2011 $
Salaries and employee benefits	1,267	1,540
Share-based compensation	234	336
	1,501	1,876

6 Acquisitions

On September 14, 2010 ("Wildbrain Effective Date"), the Company acquired all the outstanding shares in Wildbrain, for consideration as follows:

- Cash consideration (including bank indebtedness incurred) of $8,291 on the Wildbrain Effective Date; and
- An earnout in US$ calculated as 50% of cash receipts over $10,500 - $11,500 from the Yo-Gabba-Gabba! property over the 36 month period from closing ("Earnout Period"). The ultimate threshold amount within the range of $10,500 - $11,000 of cash receipts will be determined based on a minimum of $10,000 in cash receipts plus, once achieved, $500 per year in operating expenses for the remaining life of the Earnout Period. The fair value of the earnout has been estimated at $1,319 and is shown in other liabilities at June 30, 2012 (2011 - $1,251) by discounting expected cash receipts using a discount rate of 9.5%.

The acquisition was accounted for using the purchase method. As such, the results of operations reflect revenue and expenses of the assets of Wildbrain from the Wildbrain Effective Date. All special purpose entities have been identified and are accounted for in accordance with the principles of consolidation disclosed in these financial statements.

The purchase price has been allocated to the assets acquired and liabilities assumed based on their fair value as follows:

	$
Assets acquired	
Cash	275
Short-term investments	10
Accounts receivable	1,145
Prepaid expenses and deposits	67
Investment in film and television programs	5,903
Development costs	713
Property, plant and equipment	212
Intangible assets	433
Goodwill	715
Deferred income taxes	450
	9,923
Less: Liabilities assumed	
Accounts payable and accrued liabilities	307
	9,616

(expressed in thousands of Canadian dollars, except for amounts per share)

6 Acquisitions (continued)

The purchase agreement includes a contingent payment, based on an earnout amount as described above. The purchase consideration includes $1,325 related to the earnout amount. Subsequent changes to the value of the earnout amount are recorded in net income.

7 Short-term investments

The investments are shown on the balance sheet at fair value. As at June 30, 2012, the cost of the short-term investments were $3,217 (June 30, 2011 - $6,041, July 1, 2010 - $6,086). As at June 30, 2012, short-term investments consist of Canadian government grade bonds which bear interest at rates from 3.25% to 3.80% respectively.

8 Amounts receivable

	June 30, 2012 $	June 30, 2011 $	July 1, 2010 $
Trade receivables	15,939	19,807	18,481
Less: provision for impairment of trade receivables	(105)	(70)	(131)
	15,834	19,737	18,350
Goods and services taxes recoverable	1,105	1,267	393
Federal and provincial film tax credits and other government assistance	24,884	33,888	40,621
Amounts receivable	41,823	54,892	59,364

The aging of trade receivables is as follows:

	June 30, 2012 $	June 30, 2011 $	July 1, 2010 $
Less than 60 days	13,537	17,789	15,130
Between 60 to 90 days	535	1,375	699
Over 90 days	1,762	573	2,521
	15,834	19,737	18,350

The Company does not have security over these balances. All impaired trade receivables are older than 90 days.

Trade receivables, goods and services taxes recoverable and federal and provincial film tax credits receivable and other government assistance are provided for based on estimated irrecoverable amounts as determined by using a combination of historical default experience, any changes to credit quality and management estimates. Goods and services taxes recoverable and federal and provincial film tax credits receivable and other government assistance do not contain any impaired receivables.

(expressed in thousands of Canadian dollars, except for amounts per share)

8 Amounts receivable (continued)

Provision for impairment of trade receivables:

	2012 $	2011 $
Opening balance	70	131
Provision for receivables	35	–
Receivables written off during the year	–	(61)
Closing balance	105	70

9 Investment in film and television programs

	June 30, 2012 $	June 30, 2011 $	July 1, 2010 $
Development costs	2,943	2,372	2,162
Theatrical and non-theatrical productions in progress			
Cost, net of government and third party assistance and third party participation	2,459	4,448	4,584
Acquired participation rights - theatrical and non-theatrical			
Cost	5,860	5,860	5,860
Accumulated amortization	(5,070)	(4,453)	(3,842)
	790	1,407	2,018
Non-theatrical productions completed and released			
Cost, net of government and third party assistance and third party participation	184,070	166,574	143,870
Accumulated amortization	(141,301)	(131,334)	(118,235)
Accumulated impairment in value of investment in film and television programs	(4,798)	(4,283)	(3,833)
	37,971	30,957	21,802
	44,163	39,184	30,566

The Company expects that 12% of the costs related to theatrical and non-theatrical productions completed and released will be realized during the year ending June 30, 2013. The Company expects that 57% of the costs related to theatrical and non-theatrical productions completed and released will be realized during the period ending June 30, 2015. The Company expects that over 81% of the costs related to productions completed will be realized by June 30, 2017.

During the year ended June 30, 2012, interest of $1,294 (2011 - $1,714) has been capitalized to investment in film and television programs.

(expressed in thousands of Canadian dollars, except for amounts per share)

9 Investment in film and television programs (continued)

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

	2012 $	2011 $
Net opening investment in film and television programs	39,184	30,566
Productions acquired	–	5,903
Cost of productions (completed and released and productions in progress), net of government assistance and third party participation	14,928	17,149
Increase in acquired participation rights	–	713
Increase in development costs	571	(502)
Amortization	(10,584)	(13,710)
Impairment in value of certain investment in film and television programs	(515)	(450)
Exchange differences	579	(485)
	44,163	39,184

10 Investment in associates

Investment in associates is accounted for using the equity method. The continuity of investment in associates is as follows:

	2012 $	2011 $
Opening balance	1,687	2,020
Share of loss of associates	(146)	(333)
	1,541	1,687

As at June 30, 2012, the Company held a 27.9% (2011 - 34%) interest in Tribal Nova, which had assets and liabilities of $1,794 and $864 respectively (2011 - $868 and $1,243). During the year ended June 30, 2012, Tribal Nova earned a profit of $301 (2011 - loss of $250) from revenues of $2,751 (2011 - $1,692). The Company recorded additional amounts related to the fair value of the underlying assets it acquired through its interest in Tribal Nova which are included in the balance above and subsequently records amortization expense in its share of the associate's income.

(expressed in thousands of Canadian dollars, except for amounts per share)

11 Property, plant and equipment

	Land $	Buildings $	Furniture, fixtures and equipment $	Computer equipment $	Post production equipment $	Website design $	Computer software $	Lease-holds $	Total $
At July 1, 2010									
Cost	800	4,329	3,138	3,130	1,420	104	956	1,948	15,825
Accumulated amortization	–	(643)	(2,232)	(2,373)	(1,138)	(103)	(811)	(980)	(8,280)
Net book value	800	3,686	906	757	282	1	145	968	7,545
For the year ended June 30, 2011									
Opening net book value	800	3,686	906	757	282	1	145	968	7,545
Acquired in Wildbrain acquisition	–	–	9	146	–	–	41	16	212
Additions	–	–	182	1,695	108	–	1,050	232	3,267
Amortization	–	(145)	(193)	(363)	(98)	(1)	(236)	(148)	(1,184)
Disposals	–	–	–	(14)	(7)	–	–	–	(21)
Exchange differences	–	–	(1)	(8)	–	–	(2)	(1)	(12)
Net book value	800	3,541	903	2,213	285	–	998	1,067	9,807
At June 30, 2011									
Cost	800	4,329	3,328	4,945	1,485	104	2,045	2,195	19,231
Accumulated amortization	–	(788)	(2,425)	(2,732)	(1,200)	(104)	(1,047)	(1,128)	(9,424)
Net book value	800	3,541	903	2,213	285	–	998	1,067	9,807
For the year ended June 30, 2012									
Opening net book value	800	3,541	903	2,213	285	–	998	1,067	9,807
Additions	–	–	48	827	1	–	440	–	1,316
Amortization	–	(143)	(195)	(688)	(88)	–	(407)	(179)	(1,700)
Disposals	–	–	(6)	(692)	–	–	(133)	(30)	(861)
Gain (loss) on disposals	–	–	(4)	(169)	–	–	29	–	(144)
Exchange difference	–	–	2	77	–	–	18	5	102
Net book value	800	3,398	748	1,568	198	–	945	863	8,520
At June 30, 2012									
Cost	800	4,329	3,366	4,911	1,486	104	2,381	2,165	19,542
Accumulated amortization	–	(931)	(2,620)	(3,420)	(1,288)	(104)	(1,454)	(1,307)	(11,124)
Exchange differences	–	–	2	77	–	–	18	5	102
Net book value	800	3,398	748	1,568	198	–	945	863	8,520

As at June 30, 2012, included in the net book value of property, plant and equipment were leased assets in furniture fixtures and equipment, computer equipment, post production equipment, computer software and leaseholds in the amounts of $55, $257, $12, $57 and $675 respectively (2011 - $69, $1,152, $18, $162 and $778).

(expressed in thousands of Canadian dollars, except for amounts per share)

12 Intangible assets

	Production backlog $	Broadcaster relationships $	Customer and distribution relationships $	Non-compete contracts and brands $	Production software $	Total $
At July 1, 2010						
Cost	1,033	4,417	546	1,788	394	8,178
Accumulated amortization	(907)	(1,781)	(227)	(993)	(202)	(4,110)
Net book value	126	2,636	319	795	192	4,068
For the year ended June 30, 2011						
Opening net book value	126	2,636	319	795	192	4,068
Additions	52	210	–	171	–	433
Amortization	(138)	(540)	(55)	(137)	(79)	(949)
Net book value	40	2,306	264	829	113	3,552
At June 30, 2011						
Cost	1,085	4,627	546	1,959	394	8,611
Accumulated amortization	(1,045)	(2,321)	(282)	(1,130)	(281)	(5,059)
Net book value	40	2,306	264	829	113	3,552
For the year ended June 30, 2012						
Opening net book value	40	2,306	264	829	113	3,552
Amortization	(16)	(544)	(55)	(144)	(79)	(838)
Net book value	24	1,762	209	685	34	2,714
At June 30, 2012						
Cost	1,085	4,627	546	1,959	394	8,611
Accumulated amortization	(1,061)	(2,865)	(337)	(1,274)	(360)	(5,897)
Net book value	24	1,762	209	685	34	2,714

13 Goodwill

The continuity of goodwill is as follows:

	2012 $	2011 $
Opening net book value	11,763	11,088
Acquired on Wildbrain (note 6)	–	715
Exchange differences	37	(40)
	11,800	11,763

(expressed in thousands of Canadian dollars, except for amounts per share)

13 Goodwill (continued)

Goodwill is tested for impairment annually or more frequently if events or circumstances indicate that the asset might be impaired. The Company tested goodwill for impairment at June 30, 2012, June 30, 2011 and July 1, 2010 in accordance with its policy described in note 3. For the purposes of allocating goodwill, the Company considers itself to be a single CGU engaged in the production, distribution and licensing of film and television programs. As the recoverable amount of the CGU was greater than its carrying value, the Company determined there was no impairment of goodwill as at June 30, 2012, June 30, 2011 and July 1, 2010.

For determining the recoverable amount of its CGU, the Company uses both the value in use and fair value less costs to sell approaches. Under the value in use approach, management estimates the discounted future cash flows for 5 years and a terminal value for the CGU. The future cash flows are based on management's best estimates considering historical and expected production, distribution and other revenue deliveries, economic conditions and general outlook for the industry. The pre-tax discount rates used by the Company are based on the debt equity ratio and considers the average debt ratio, market equity risk premium and size premium for possible variations from management's projections. The terminal value is the value attributed to the CGU's operations beyond the projected period of 5 years using a perpetuity growth rate based on industry, revenue and operating income trends and growth prospects. Under the fair value less costs to sell approach, the Company estimates fair value by multiplying maintainable earnings before interest, income taxes, depreciation, amortization and other non-recurring costs by multiples based on market comparables less reasonable costs to sell. The estimation process results in a range of values for which management uses the simple average of the mid-points under each approach.

The Company's assumptions are affected by current market conditions which may affect expected revenues, particularly production and distribution revenues. In addition, while the Company has implemented cost savings initiatives, selling, general and administrative costs may increase more significantly than expected. The Company also has significant competition in the markets in which it operates which may impact its revenue and operating costs. The Company has made certain assumptions for the discount and terminal growth rates to reflect possible variations in the cash flows; however, the risk premiums expected by market participants related to uncertainties about the industry or specific intangible assets may differ or change quickly depending on economic conditions and other events. Accordingly, it is reasonably possible that future changes in assumptions may negatively impact future valuations of goodwill and the Company would be required at that time to recognize impairment losses.

The key assumptions used in the analysis of the CGU under the value in use model are as follows:

	June 30, 2012	**June 30, 2011**	**July 1, 2010**
Budgeted gross margin	37%	37%	37%
Growth rate	2-3%	2-3%	2-3%
Pre-tax discount rate	14.8%	14.8%	14.8%

(expressed in thousands of Canadian dollars, except for amounts per share)

14 Bank indebtedness, interim production financing, long-term debt and obligations under capital lease

	June 30, 2012 $	June 30, 2011 $	July 1, 2010 $
Bank indebtedness	2,665	5,200	250
Interim production financing	21,177	31,404	38,796
Long-term debt and obligations under capital lease	5,793	3,910	3,164
Total interest bearing debt and obligations under capital lease	29,635	40,514	42,210
Amount due within 12 months	(25,790)	(37,621)	(39,587)
Amount due beyond 12 months	3,845	2,893	2,623

a) Bank indebtedness

As of June 30, 2012, the maximum amount of all borrowing, including Interim Production Financing, with the Royal Bank of Canada ("RBC") is $55,000 ("RBC Master Agreement"). The RBC Master Agreement matures November 30, 2012. As part of the RBC Master Agreement, bank indebtedness was $2,665 at June 30, 2012 (June 30, 2011 - $5,200 and July 1, 2010 - $250) (the "RBC Revolving Operating Credit Facility"). The maximum amount of the RBC Revolving Operating Credit Facility for general working capital purposes is $3,510.

A general security agreement over all property of the Company has been pledged as security for the RBC Revolving Operating Credit Facility. The RBC Revolving Operating Credit Facility bears interest at RBC prime plus 1.25% (June 30, 2011 - RBC prime plus 1.25%). The availability of the RBC Revolving Operating Credit Facility is subject to the Company maintaining interest and consolidated indebtedness coverage ratios and certain other covenants.

b) Interim production financing

	June 30, 2012 $	June 30, 2011 $	July 1, 2010 $
Revolving production credit facility ("RBC Revolving Production Credit Facility"), bearing interest at bank prime plus 0.5% - 2.0%. Assignment and direction of specific production financing and licensing contracts receivable, with a net book value of approximately $19,369 at June 30, 2012 (2011 - $27,887 and July 1, 2010 - $21,214)	13,701	17,448	19,468
Interim production credit facilities with various institutions, bearing interest at bank prime plus 0.5% - 2.25%. Assignment and direction of specific production financing and licensing contracts receivable, with a net book value of approximately $7,686 at June 30, 2012 (2011 - $19,552 and July 1, 2010 - $25,531)	7,476	13,956	19,328
	21,177	31,404	38,796

(expressed in thousands of Canadian dollars, except for amounts per share)

14 Bank indebtedness, interim production financing, long-term debt and obligations under capital lease (continued)

b) Interim production financing (continued)

During the year ended June 30, 2012, the bank prime rate averaged 3.00% (2011 - 2.94%).

As part of the RBC Master Agreement, the Company also has a RBC Revolving Production Credit Facility with a maximum authorized amount of $40,284. The RBC Revolving Production Credit Facility is the aggregate of interim production financing of individual programs financed through RBC which are subject to individual approved tranches (collectively the "RBC Individual Approved Tranches"). Substantially all of the Company's assets and certain of its subsidiaries have been pledged as security for borrowing under the RBC Revolving Production Credit Facility. The RBC Revolving Production Credit Facility matures at various dates up to December 2013, but specifically twenty-four months following the first drawdown of funds in respect of each RBC Individual Approved Tranche.

c) Long-term debt and obligations under capital leases

	June 30, 2012 $	June 30, 2011 $	July 1, 2010 $
Loans payable, bearing interest at Business Development Bank of Canada prime minus 1.5%, maturing in May 2021, repayable in monthly principal installments of $20 plus interest, secured by a first mortgage on land and building having a net book value of $4,198 at June 30, 2012 (June 30, 2011 - $4,341 and July 1, 2010 - $4,486) and a general assignment of rents	1,947	2,186	2,424
Obligation under various capital leases, with total quarterly instalments of $106, bearing interest at rates ranging from 4.0% to 9.8%, maturing on dates ranging from February 2013 to March 2014 of which $342 is denominated in USD (June 30, 2011 - $1,290 and July 1, 2010 - $nil)	513	1,724	740
RBC Acquisition Facility, bearing interest at RBC prime plus 2.5%, repayable in quarterly installments of $333 plus interest, maturing in November 2014	3,333	–	–
	5,793	3,910	3,164
Less: Current portion	(1,948)	(1,017)	(541)
	3,845	2,893	2,623

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

	$
Year ending June 30, 2013	1,948
2014	1,687
2015	928
2016	239
2017	239
beyond 2017	752

(expressed in thousands of Canadian dollars, except for amounts per share)

14 Bank indebtedness, interim production financing, long-term debt and obligations under capital lease (continued)

c) Long-term debt and obligations under capital leases (continued)

The RBC Master Agreement, includes a term facility with a maximum amount of $10,000 (“RBC Acquisition Facility”) upon which $3,333 is drawn at June 30, 2012 (June 30, 2011 and July 1, 2010 - $nil and $nil) to fund acceptable acquisitions as defined in the RBC Master Agreement. A general security agreement over all property of the Company has been pledged as security for the RBC Acquisition Facility. The RBC Acquisition Facility bears interest at RBC prime plus 2.50%. The availability of the RBC Acquisition Facility is subject to the Company maintaining interest and consolidated indebtedness coverage ratios and certain other covenants.

The Company has the following undrawn borrowing facilities:

	June 30, 2012 $	June 30, 2011 $	July 1, 2010 $
Bank indebtedness	845	2,310	3,260
Interim production financing	26,583	22,836	25,484
Acquisition facility	6,667	10,000	–
Other	995	387	475
	35,090	35,533	29,219

15 Accounts payable and accrued liabilities

Accounts payable and accrued liabilities include the following:

	June 30, 2012 $	June 30, 2011 $	July 1, 2010 $
Accounts payable	728	5,082	2,961
Accrued liabilities	13,291	10,829	9,519
	14,019	15,911	12,480

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

Unlimited common shares without nominal or par value

(expressed in thousands of Canadian dollars, except for amounts per share)

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:

	June 30, 2012		June 30, 2011	
	Number	Amount $	Number	Amount $
Preferred variable voting shares (note 16 (c))	100,000,000	–	100,000,000	–
Common shares (note 16 (d))				
Opening balance	61,596,615	76,437	61,626,836	76,548
Substantial issuer bid shares repurchased and cancelled, including costs of $116 net of tax of $35	(7,142,857)	(8,857)	–	–
Share issuance costs net of tax effect of $38	–	–	–	(82)
Shares issued pursuant to the employee share purchase plan	12,454	9	9,293	9
Shares cancelled pursuant to an employee loan forgiven	(27,000)	(50)	(13,514)	(25)
Normal course issuer bid shares repurchased and cancelled	(1,369,500)	(1,698)	(51,000)	(43)
Options exercised	–	–	25,000	30
Ending balance	53,069,712	65,841	61,596,615	76,437
Share purchase financing (note 16 (e))				
Opening balance	–	(189)	–	(268)
Repayments made by an officer	–	5	–	2
Loan forgiven	–	50	–	25
Compensation expense	–	46	–	47
Interest received	–	3	–	5
Ending balance	–	(85)	–	(189)
Warrants (note 16 (f))				
Opening balance	937,500	210	5,860,250	1,840
Expiration of warrants	(937,500)	(210)	(4,922,750)	(1,630)
Conditional warrants granted	1,000,000	–	–	–
Ending balance	1,000,000	–	937,500	210
Contributed surplus and stock options (note 16 (g))				
Opening balance	4,020,000	6,083	4,111,547	4,293
Shares repurchased and cancelled	–	4,396	–	–
Issued to an officer or employee	1,080,000	191	870,000	108
Share based compensation	–	255	–	334
Stock options exercised	–	–	(25,000)	(11)
Options forfeited	(306,250)	–	(190,000)	–
Options expired	(450,000)	–	(746,547)	–
Warrants expired, net of tax effect of $33 (2011 - $271)	–	177	–	1,359
Ending balance	4,343,750	11,102	4,020,000	6,083

(expressed in thousands of Canadian dollars, except for amounts per share)

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) Common shares

During the year ended June 30, 2012, the Company issued 12,454 common shares, at an average price of $0.81, respectively as part of the Company's employee share purchase plan (2011 - 9,293 at $0.96 per share).

During the year ended June 30, 2012, as part of the Company's previously announced normal course issuer bid, 1,369,500 common shares were repurchased and cancelled for $1,077, respectively (year-ended June 30, 2011 - 51,000 for $43). The amounts recorded as a reduction to common shares were $1.24 per share (based on the average book value per common share) or $1,698 with a credit to contributed surplus of $620.

During the year ended June 30, 2012, 27,000 shares were returned and cancelled as settlement of an existing employee's share purchase financing loan of $50 (2011 - 13,514 for $25) (note 16 (e)).

On December 30, 2011, as part of the Company's previously announced substantial issuer bid, 7,142,857 common shares were repurchased for $5,000 plus costs of $116 and cancelled (2011 - $nil). The amount recorded as a reduction to common shares was $1.24 per share (based on the average book value per common share) or $8,857 with a credit to contributed surplus of $3,776.

e) Share purchase financing

During the years ended June 30, 2012 and 2011, the Company issued no amounts for share purchase financing. During the year ended June 30, 2012, $46 of compensation expense was recognized on an employee loan forgiven (2011 - $47). During the year ended June 30, 2012, $3 of interest (2011 - $5) received on these loans was recorded as a capital contribution. During the year ended June 30, 2012, $3 was received (2011 - $2) as principal repayment of an employee loan. During the year ended June 30, 2012, a $50 reduction in share purchase financing was recorded for common shares returned and cancelled (2011 - $25) (note 16 (d)).

f) Warrants

During the year ended June 30, 2012, 1,000,000 conditional warrants ("Conditional Warrants") were granted to consultants of the Company at a strike price of $0.785 per share (2011 - $nil). The vesting for the Conditional Warrants is conditional upon the Cookie Jar Entertainment ("Cookie Jar") transaction closing by November 16, 2012. Specified vesting conditions are not taken into account when estimating the fair value of the warrants at the measurement date. Instead, vesting conditions are taken into account for consideration purposes based on the number of warrants that eventually vest. As at the balance sheet date, the vesting conditions have not been met as the condition was not considered probable. In the subsequent period following June 30, 2012, the condition was considered probable and accordingly, the expense was recorded in the subsequent period.

During the year ended June 30, 2012, 937,500 warrants expired (2011 - 4,922,750). For the year ended June 30, 2012, the amount recorded to warrants was $210 and the amount recorded as a credit to contributed surplus was $177 (2011 - $1,630 and $1,359, respectively).

(expressed in thousands of Canadian dollars, except for amounts per share)

16 Share capital and contributed surplus (continued)

f) Warrants (continued)

	Number of warrants	Weighted average exercise price per warrant $
Outstanding at July 1, 2010	5,860,250	1.95
Warrants issued	(4,922,750)	2.10
Outstanding at June 30, 2011	937,500	1.15
Warrants expired	(937,500)	1.15
Warrants granted	1,000,000	0.78
Outstanding at June 30, 2012	1,000,000	0.78

The fair value of the Conditional Warrants has been estimated at $390 by management using the Black-Scholes option pricing model. The assumptions used in the pricing model to value the Conditional Warrants are as follows:

Risk-free interest rate	1.12%
Expected option life	2 years
Expected volatility	54%
Expected dividend yield	nil

(expressed in thousands of Canadian dollars, except for amounts per share)

16 Share capital and contributed surplus (continued)

g) Stock options

At June 30, 2012 and June 30, 2011, the Company had the following stock options outstanding:

	Number of options	Weighted average exercise price per stock option $
Outstanding at July 1, 2010	4,111,547	1.33
Granted to employees	170,000	0.96
Granted to directors	700,000	0.93
Exercised	(25,000)	0.78
Expired	(746,547)	2.25
Forfeited	(190,000)	1.45
Outstanding at June 30, 2011	4,020,000	1.07
Forfeited	(306,250)	1.22
Expired	(450,000)	2.05
Granted	1,080,000	0.82
Outstanding at June 30, 2012	4,343,750	0.90
Exercisable at June 30, 2011	2,081,250	1.16
Exercisable at June 30, 2012	2,683,750	0.94

The total maximum number of common shares to be reserved for issuance through the Company's stock option plan is 9% of the total number of issued and outstanding common shares at any time. As at June 30, 2012, this amounted to 4,776,274 (2011 - 5,543,695).

On September 21, 2011, 300,000 stock options were issued to an employee at $0.83 per share, all of which vested upon granting, expiring on September 21, 2016.

On October 1, 2011, 80,000 stock options were issued to employees at $0.83 per share, vesting over four years and expiring on October 1, 2016.

On November 1, 2011, 150,000 stock options were issued to an employee at $0.83 per share, vesting over four years and expiring on November 1, 2016.

On November 30, 2011, 150,000 stock options were issued to an employee at $0.83 per share, vesting over four years and expiring on November 30, 2016.

On December 15, 2011, 200,000 stock options were issued to employees at $0.69 per share, vesting over four years and expiring on December 15, 2016.

On May 24, 2012, 200,000 stock options were issued to employees at $0.90 per share, vesting 50% immediately and 50% after one year and expiring on May 24, 2017.

(expressed in thousands of Canadian dollars, except for amounts per share)

16 Share capital and contributed surplus (continued)

g) Stock options (continued)

During the year ended June 30, 2012, no stock options were exercised (2011 - 25,000 at a price of $0.78 per common share).

During the year ended June 30, 2012, 306,250 options were forfeited and 450,000 expired (2011 - 190,000 and 746,547).

The weighted average grant date fair value of stock options and assumptions using the Black-Scholes option pricing model for the year ended June 30, 2012 and 2011 are as follows:

	2012	2011
Weighted average grant value date	0.32	0.48
Risk-free interest rate	1.25%	2.14%
Expected option life	4 years	4 years
Expected volatility	65%	66%
Expected dividend yield	nil	nil

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, 2012, a total of $492 (2011 - $489) was recognized as compensation expense. Included in the compensation expense for the year ended June 30, 2012 was $46 related to employee share purchase loans (2011 - $47).

Information related to options outstanding at June 30, 2012 is presented below:

Range of exercise prices $	Number outstanding at June 30, 2012	Weighted average remaining contractual life	Weighted average exercise price $	Number exercisable at June 30, 2012	Weighted average exercise price $
0.58 - 0.99	3,913,750	2.70 years	0.82	2,253,750	0.81
1.00 - 1.62	430,000	0.02 years	1.62	430,000	1.62
Total	4,343,750	2.72 years	0.90	2,683,750	0.94

Information related to options outstanding at June 30, 2011 is presented below:

Range of exercise prices $	Number outstanding at June 30, 2011	Weighted average remaining contractual life	Weighted average exercise price $	Number exercisable at June 30, 2011	Weighted average exercise price $
0.58 - 0.99	3,000,000	3.47 years	0.82	1,178,750	0.79
1.00 - 2.35	1,020,000	0.94 years	1.79	902,500	1.81
Total	4,020,000	2.83 years	1.07	2,081,250	1.23

(expressed in thousands of Canadian dollars, except for amounts per share)

17 Government financing and assistance

During the year ended June 30, 2012, investment in film and television programs was reduced by $1,209 (2011 - $2,737) 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 ended June 30, 2012, investment in film also has been reduced by $4,396 (2011 - $2,376) related to non-repayable contributions from the Canadian Television Fund license fee program. During the year ended June 30, 2012, investment in film and television programs has been reduced by $12,586 (2011 - $11,754) for tax credits relating to production activities. Lastly, during the year ended June 30, 2012, the Company received $20,070, in government financing and assistance (2011 - $19,358).

Amounts receivable from the Canadian federal government and other government agencies in connection with production financing represents 62% of total amounts receivable at June 30, 2012 (2011 - 61%). Certain of these amounts are subject to audit by the government agency. Management believes that the net amounts recorded are fully collectible. The Company adjusts amounts receivable from Canadian federal government and other government agencies including federal and provincial tax credits receivable, in connection with production financing, quarterly and yearly, for any known differences arising from internal or external audit of these balances.

18 Income taxes

Significant components of the Company's deferred income tax asset (liability) as at June 30, 2012, June 30, 2011 and July 1, 2010 are as follows:

	June 30, 2012 $	June 30, 2011 $	July 1, 2010 $
Cultural donations	–	4	432
Leasehold inducement	250	124	–
Foreign tax credits	320	296	245
Deferred production revenue	75	426	–
Participation payables and capital lease obligations and other liabilities	585	714	249
Property, plant and equipment	(250)	(263)	(77)
Share issuance costs and deferred financing fees	252	452	656
Investment in film and television programs	(3,730)	(3,448)	(2,239)
Intangible assets	(1,801)	(1,848)	(2,153)
Non-capital losses and other	3,858	3,885	2,373
Deferred income taxes asset (liability)	(441)	342	(514)

Deferred income tax liabilities have not been recognized for the withholding tax and other taxes that would be payable on unremitted earnings of certain subsidiaries, as such amounts are permanently reinvested. Unremitted earnings totalled $2,898 at June 30, 2012 (June 30, 2011 - $1,300; July 1, 2010 - $nil).

(expressed in thousands of Canadian dollars, except for amounts per share)

18 Income taxes (continued)

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

	June 30, 2012 $	June 30, 2011 $
Income tax expense (recovery) based on combined federal and provincial tax rates of 33.2% (2011 - 28.6%)	1,321	496
Income taxes increased (reduced) by:		
Share based compensation	156	163
Large corporation tax	60	60
Deferred tax rates differential	(9)	333
Recognition of previously unrecognized tax assets	(224)	(651)
Other and adjustment in respect of prior years	(220)	24
Foreign gain (losses) and California state tax expense, net	(61)	72
Cultural donations	(90)	(174)
Non-taxable portion of capital (gains) losses	–	(9)
Provision for income taxes	933	314

As at June 30, 2012, the Company has losses carried forward of $1.2 million for which no deferred tax asset has been recorded. The Company operates in multiple jurisdictions with differing tax rates. The Company's effective tax rates are dependent on the jurisdiction to which income relates. In fiscal 2012, the Company's effective tax rate was 33.2% (2011- 28.6%) based on jurisdictions in which the income was earned.

19 Finance income and finance expense

Finance income and finance expense are comprised of the following:

	2012 $	2011 $
Finance income		
Interest income	220	183
Net foreign exchange gain	132	54
	352	237
Finance expense		
Interest expense on bank indebtedness	80	7
Interest expense on long-term debt and obligations capital leases	121	228
	201	235
Net finance income	151	2

(expressed in thousands of Canadian dollars, except for amounts per share)

20 Expenses by nature and employee benefit expense

The following sets out the expenses by nature:

	2012 $	2011 $
Direct production and new media costs	37,961	20,038
Amortization of film and television programs	9,967	13,099
Impairment in value of investment in film and television programs	515	450
Amortization of acquired library	617	611
Development expenses and other	773	1,186
Office and administrative	3,368	3,544
Share of loss of associates	146	333
Finance income	(151)	(2)
Realized loss on disposals of short-term investment and property, plant and equipment	224	–
Investor relations and marketing	738	763
Professional and regulatory	1,186	1,457
Amortization of property, plant and equipment and intangible assets	2,538	2,134
	57,882	43,613
The following sets out the components of employee benefits expense:		
Salaries and employee benefits	10,209	9,645
Share-based compensation	492	489
Termination benefits	84	32
	10,785	10,166
	68,667	53,779

21 Financial instruments

a) Credit risk

Credit risk arises from cash, short-term investments and deposits, as well as credit exposure to customers, including outstanding receivables. The Company manages credit risk on cash and cash equivalents and short-term investments by ensuring that the counterparties are banks, governments and government agencies with high credit ratings.

The balance of trade amounts receivable are mainly with Canadian broadcasters and large international distribution companies. Management believes that the net amounts recorded are fully collectible. Management manages credit risk by regularly reviewing aged accounts receivables and appropriate credit analysis. The Company has booked an allowance for doubtful accounts of approximately 1% against the gross amounts for certain trade amounts receivable and management believes that the net amount of trade amounts receivable is fully collectible.

(expressed in thousands of Canadian dollars, except for amounts per share)

21 Financial instruments (continued)

b) Interest rate risk

The Company is exposed to interest rate risk arising from fluctuations in interest rates as its interim production financing, certain long-term debt and a portion of cash bear interest at floating rates. A 1% fluctuation would have an approximate $250 affect on net income

c) Liquidity risk

The Company manages liquidity by forecasting and monitoring operating cash flows and through the use of capital leases and maintaining revolving credit facilities (note 14). As at June 30, 2012, the Company had cash on hand of $19,166 (2011 - $19,525).

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. During the initial broadcast of the rights, the Company is somewhat reliant on the broadcaster's budget and financing cycles and at times the license period gets delayed and commences at a later date than originally projected.

The Company's film and television revenues vary significantly from quarter to quarter driven by contracted deliveries with the primary broadcasters. Although with the Company's recent diversification of its revenue mix, particularly in the strengthening of the distribution revenue stream, some of the quarterly unevenness is improving slightly and becoming more predictable. Distribution revenues are contract and demand driven and can fluctuate significantly from year to year. The Company maintains appropriate cash balances and has access to financing facilities to manage fluctuating cash flows.

d) Currency risk

The Company's activities involve holding foreign currencies and incurring production costs and earning revenues denominated in foreign currencies. These activities result in exposure to fluctuations in foreign currency exchange rates. The Company periodically enters into foreign exchange purchases contracts to manage its foreign exchange risk on USD,GBP and Euro denominate contracts. At June 30, 2012, the Company revalued its financial instruments denominated in a foreign currency at the prevailing exchange rates. A 1% change in the USD, GBP or Euro exchange rate would have less than a $100 effect on net income and minimal affect on the balance sheet items.

e) Long-term investment

As at June 30, 2012, management is continuing to value its investment in Woozworld at $330 (2011 - $330). It continues to be a private company and, as such, a quoted market price in an active market is not available.

Management has estimated the fair value of the investment by comparing value to the pro-rata valuation from a recent equity raise made by Woozworld. The Company does not expect to dispose of this investment in the near term, and believes there is no impairment of the long-term investment as at June 30, 2012 and June 30, 2011.

(expressed in thousands of Canadian dollars, except for amounts per share)

21 Financial instruments (continued)

f) Contractual maturity analysis for financial liabilities

	Total $	Less than 1 year $	1 to 3 years $	4 to 5 years $	After 5 years $
Bank indebtedness	2,665	2,665	–	–	–
Long-term debt	1,947	239	478	478	752
Acquisition line	3,333	1,333	2,000	–	–
Capital lease obligations	513	376	137	–	–
	8,458	4,613	2,615	478	752

Payments noted above do not include interest.

g) Fair values

The carrying value of cash and short-term investments approximates the fair value.

The maximum exposure to credit risk for cash, short-term investments, deposits and trade and other receivables approximate the amount recorded on the consolidated balance sheets.

Management believes the carrying amounts reported on the financial statements for amounts receivable, accounts payable and accrued liabilities and current portion of long-term debt and obligations under capital leases all approximate their fair values due to their immediate or short-term maturities or variable interest rates. Interim production financing and bank indebtedness were renegotiated during the year ended June 30, 2012 to reflect current interest rates; therefore, management believes the carrying amounts also approximate their fair values.

The fair value of the non-current portion of long-term debt and obligations under capital leases is set out below and is estimated using discounted cash flow analyses based on discount rates that reflect current market conditions for instruments with similar terms and risks.

	2012		2011	
	Carrying value $	Fair value $	Carrying value $	Fair value $
Available-for-sale assets	3,653	3,653	6,390	6,390
Foreign currency forward contracts	(70)	(70)	(13)	(13)
Long-term debt and obligations under capital leases	3,845	3,516	2,893	2,456

Fair value estimates are made at a specific point in time on relevant market information. These are estimates and involve uncertainties and matters of significant judgment and cannot be determined with precision. Change in assumptions and estimates could significantly affect fair values.

(expressed in thousands of Canadian dollars, except for amounts per share)

21 Financial instruments (continued)

h) Fair value hierarchy

Financial instruments recorded at fair value on the balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The value hierarchy has the following levels:

Level 1 - valuation based on quoted prices observed in active markets for identical assets and liabilities.

Level 2 - valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable for that instrument, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - valuation techniques with significant unobservable market inputs.

A financial instrument is classified to the lowest of the hierarchy for which a significant input has been considered in measuring fair value.

The following table presents the financial instruments recorded at fair value in the consolidated balance sheets as at June 30, 2012, classified using the fair value hierarchy described above:

	Level 1 $	Level 2 $	Level 3 $
Cash	19,166	–	–
Short-term investments	3,323	–	–
Foreign currency contracts	(70)	–	–
Long-term investments	–	–	330

Foreign currency contracts

At June 30, 2012, the Company had notional principal of approximately $3,985 (2011 - $1,125) in contracts to sell United States dollars and notional principal of approximately £nil (2011 - £85) in contracts to purchase British pounds and notional principal of approximately £nil (2011 - £583) in contracts to sell Euros and purchase British pounds of approximately £nil (2011 - £505). The carrying value of these contracts is the fair value based on exchange rates at June 30, 2012. The contracts expire at various dates between September 2012 and November 2013.

(expressed in thousands of Canadian dollars, except for amounts per share)

22 Commitments and contingencies

Commitments

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

	$
Year ending June 30, 2013	1,479
2014	1,096
2015	538
2016	555
2017	571
beyond 2017	889

Contingencies

The Company is, from time to time, involved in various claims, legal proceedings and complaints arising in the normal course of business and as such, provisions have been recorded where appropriate. Management does not believe that the final determination of these claims will have a material adverse effect on the financial position or results of operations of the Company. The maximum exposure at June 30, 2012 and June 30, 2011, related to the above matters is estimated at $400.

23 Capital disclosures

The Company's objectives when managing capital are to provide an adequate return to shareholders, safeguard its assets, maintain a competitive cost structure and continue as a going concern in order to pursue the development, production, distribution and licensing of its film and television properties. To maximize ongoing development and growth effort, the Company did not pay out dividends during the years ended June 30, 2012 or June 30, 2011.

The Company's capital is summarized in the table below:

	June 30, 2012 $	June 30, 2011 $	July 1, 2010 $
Total bank indebtedness, long-term debt and obligations under capital leases	8,458	9,110	3,414
Less: Cash	(19,166)	(19,525)	(17,276)
Net debt	(10,708)	(10,415)	(13,862)
Total Shareholders' Equity	78,900	80,847	79,872
	68,192	70,432	66,010

To facilitate the management of its capital structure, the Company prepares annual expenditure operating budgets that are updated as necessary depending on various factors including industry conditions and operating cash flow. The annual and updated budgets are reviewed by the board of directors.

The Company has been in compliance with all debt covenants of the RBC Master Agreement.

(expressed in thousands of Canadian dollars, except for amounts per share)

24 Earnings per common share

a) Basic

Basic earnings per share is calculated by dividing the net income by the weighted average number of common shares in issue during the period.

	2012 $	2011 $
Net income	3,047	1,316
Weighted average number of common shares	57,836,261	61,621,639
Basic earnings per share	0.05	0.02

b) Diluted

Diluted earnings per common share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all potentially dilutive instruments which are convertible into common shares. The Company has two categories of potentially dilutive instruments which are convertible into common shares: stock options and warrants. For both the stock options and the warrants, a calculation is completed to determine the number of common shares that could have been acquired at fair value (determined as the average market price of the Company's outstanding common shares for the period), based on the monetary value of the subscription rights attached to the stock options and warrants. The number of shares calculated above is compared with the number of shares that would have been issued assuming exercises of the warrants and stock options.

For the year ended June 30, 2012, the weighted average number of potentially dilutive instruments, comprised of shares issuable in respect of warrants and stock options, was 324,084 (year ended June 30, 2011 - 322,324).

	2012 $	2011 $
Net income	3,047	1,316
Weighted average number of common shares	58,160,345	61,943,963
Diluted earnings per share	0.05	0.02

The Conditional Warrants have also been excluded from the calculation of the diluted earnings per share as at June 30, 2012 as the vesting conditions have not been met.

(expressed in thousands of Canadian dollars, except for amounts per share)

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

	2012 $	2011 $
Decrease in amounts receivable	12,978	5,692
Increase in prepaid expenses and deposits	(701)	(191)
Increase (decrease) in accounts payable and accrued liabilities	(1,340)	3,248
Increase in deferred revenue	1,147	5,493
	12,084	14,242
During the year, the Company paid and received the following:		
Interest paid	1,496	1,938
Interest received	461	424
Taxes paid	1,535	77

26 Revenues and segmented information

The Company operates production entities and offices throughout Canada and in Los Angeles, USA. In measuring performance, the Company does not distinguish or group its operations on a geographical or any other basis and, accordingly, has a single reportable segment for disclosure purposes and has the following sources of revenue:

	2012 $	2011 $
Production revenue	12,604	16,101
Distribution revenue	6,907	8,016
Producer and service fee revenue	31,282	15,479
Merchandising and licensing and other revenue	21,854	15,813
	72,647	55,409

Of the Company's $72,647 in revenues for the year ended June 30, 2012 (2011 - $55,409), $35,766 was attributable to the Company's entities based in Canada (2011 - $33,581) and $36,881 (2011 - $21,828) was attributable to the Company's entities based in the USA.

As at June 30, 2012, the following non-current assets were attributable to the Company's entities based in the USA: $1,464 of property, plant and equipment, $332 of intangible assets, and $712 of Goodwill (2011 - $2,167, $390, $675 and July 1, 2010 - $13, $nil, and $nil, respectively). All other non-current assets were attributable to the Company's entities based in Canada.

(expressed in thousands of Canadian dollars, except for amounts per share)

27 Accumulated other comprehensive income (loss)

The components of the Company's accumulated other comprehensive income (loss) are as follows:

	June 30, 2012 $	June 30, 2011 $	July 1, 2010 $
Opening balance	(457)	12	–
Unrealized gain on available for sale investment	87	7	12
Cumulative translation account	602	(476)	–
Total accumulated other comprehensive income (loss)	232	(457)	12

28 Subsequent events

On August 20, 2012, the Company entered into a definitive agreement to acquire the business of Cookie Jar. The transaction implies an enterprise value for Cookie Jar of $111,000 to be paid through a combination of approximately 36 million of the Company's shares, $5,000 cash and the assumption of $66,000 of debt.

On September 12, 2012, the Company reached an agreement with a syndicate of underwriters led by Canaccord Genuity Corp. ("the Underwriters") to purchase, on a bought deal basis, 11,820,000 subscription receipts of the Company at a price of $1.50 per subscription receipt for aggregate gross proceeds of $17,730 (the "Offering"). In addition, the Company has also granted to the Underwriters an over allotment exercisable at any time up to 30 days after closing of the Offering to acquire up to an additional 1,182,000 subscription receipts of the Company at a price of $1.50 per subscription receipt. The net proceeds from the offering will be used to repay certain indebtedness assumed on the Cookie Jar transaction and for general corporate and working capital purposes.

The Company has entered into a commitment agreement with RBC Capital Markets to provide a fully underwritten senior debt financing. The new financing package will consist of a $50,000 four-year term loan facility to be used to refinance the Company's and Cookie Jar's current indebtedness and a $20,000 revolving credit facility for working capital and general corporate purposes.