PEACE ARCH ENTERTAINMENT GROUP INC
Form 6-K
April 18, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C., 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15D-16

UNDER THE SECURITIES EXCHANGE ACT OF 1934

For the month of April, 2006

PEACE ARCH ENTERTAINMENT GROUP INC.
(Translation of Registrant s name into English)

407-124 Merton Street, Toronto, Ontario M4S 2Z2
(Address of principal executive office)

[Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20F or Form 40-F.

Form 20-F

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Form 40-F

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[Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to rule 12g3-2(b) under the

Securities Exchange Act of 1934.

Yes

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No

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(If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-_______________

EXHIBIT LIST

Confirmation of Mailing to Shareholders

Management's Discussion and Analysis, dated April 13, 2006

CEO Certification of Interim Filings, Form 52-109F2

CFO Certification of Interim Filings, Form 52-109F2

Quarterly Consolidated Financial Statements

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Peace Arch Entertainment Group Inc.
(Registrant)

Date April 10, 2006 By Mara Di Pasquale
(Signature)*
Mara Di Pasquale, Chief Financial Officer

*Print the name and title under the signature of the signing officer.

GENERAL INSTRUCTIONS

A.

Rule as to Use of Form 6-K,

This form shall be used by foreign private issuers which are required to furnish reports pursuant to Rule 13a-16 or 15d-16 under the Securities Exchange Act of 1934.

B.

Information and Document required to be Furnished,

Subject to General Instruction D herein, an issuer furnishing a report on this form shall furnish whatever information, not required to be furnished on Form 40-F or previously furnished, such issuer (I) makes or is required to make public pursuant to the law of the jurisdiction of its domicile or in which it is incorporated or organized, or (ii) files or is required to file with a stock exchange on which its securities are traded and which was ;made public by that exchange, or (iii) distributes or is required to distribute to its security holders.

The information required to be furnished pursuant to (I), (ii) or (iii) above is that which is material with respect to the issuer and its subsidiaries concerning: changes in business; changes in management or control; acquisitions or dispositions of assets; bankruptcy or receivership; changes in registrant s certifying accountants; the financial condition and results of operations; material legal proceedings; changes in securities or in the security for registered securities; defaults upon senior securities; material increases or decreases in the amount outstanding of securities or indebtedness; the results of the sub−mission of matters to a vote of security holders; transactions with directors, officers or principal security holders; the granting of options or payment of other compensation to directors or officers; and any other information which the registrant deems of material importance to security holders.

This report is required to be furnished promptly after the material contained in the report is made public as described above. The information and documents furnished in this report shall not be deemed to be filed for the purpose of Section 18 of the Act or otherwise subject to the liabilities of that section.

If a report furnished on this form incorporates by reference any information not previously filed with the Commission, such information must be attached as an exhibit and furnished with the form.

C.

Preparation and Filing of Report

This report shall consist of a cover page, the document or report furnished by the issuer, and a signature page. Eight com−plete copies of each report on this form shall be deposited with the Commission. At least one complete copy shall be filed with each United States stock exchange on which any security of the registrant is listed and registered under Section 12(b) of the Act. At least one of the copies deposited with the Commission and one filed with each such exchange shall be manu−ally signed. Unsigned copies shall be conformed.

D.

Translations of Papers and Documents into English

Reference is made to Rule 12b-12(d) [17 CFR 240.12b-12(d)]. Information required to be furnished pursuant to General Instruction B in the form of press releases and all communications or materials distributed directly to security holders of each class of securities to which any reporting obligation under Section 13(a) or 15(d) of the Act relates shall be in the English language. English versions or adequate summaries in the English language of such materials may be furnished in lieu of original English translations.

Notwithstanding General Instruction B, no other documents or reports, including prospectuses or offering circulars relating to entirely foreign offerings, need be furnished unless the issuer otherwise has prepared or caused to be prepared English translations, English versions or summaries in English thereof. If no such English translations, versions or summary have been prepared, it will be sufficient to provide a brief description in English of any such documents or reports. In no event are copies of original language documents or reports required to be furnished.

April 13, 2006

TO WHOM IT MAY CONCERN:

Dear Sir or Madam:

Re:

Quarterly Report, Peace Arch Entertainment Group Inc.

Results for Six months ended February 28, 2006

I hereby confirm that the unaudited Consolidated Financial Statements and the Management Discussion and Analysis for the results for six months ended February 28, 2006 were sent by first class mail to the registered shareholders and the shareholders of the supplemental mailing list of Peace Arch Entertainment Group Inc. on the above date.

I trust you will find the above in order.

Yours truly,

PEACE ARCH ENTERTAINMENT GROUP INC.

/s/ Nicole Spracklin

Nicole Spracklin

Legal Assistant

Peace Arch Entertainment Group Inc.

Toronto Office - 124 Merton Street, Suite 407, Toronto, ON M4S 2Z2 Tel: (416) 487-0377 Fax: (416) 487-6141

Vancouver Office - 1710 Columbia Street, 2nd Floor, Vancouver, BC V5Y 3C6 Tel: (604) 681-9308 Fax: (604) 688-3977

Los Angeles Office - 228 Main Street, Suite 14, Venice, CA 90291 Tel: (310) 450-1711 Fax: (310) 581-8040

London Sales Office - 5-11 Mortimer Street, 3rd Floor, London W1T 3JB UK Tel: +44 (0)20 7299 3727 Fax: +44 (0)20 7299 3728

Website: www.peacearch.com

MANAGEMENT'S DISCUSSION AND ANALYSIS

of Financial Condition and Results of Operations

Management's Discussion and Analysis of the financial position and results of operations is prepared as at April 13, 2006, and should be read in conjunction with the accompanying unaudited financial statements and the notes therein.

This discussion contains forward-looking statements. Forward-looking statements are subject by their nature to risks and uncertainties, and actual results, actions or events could differ materially from those set forth in this discussion. The forward-looking information contained herein is current only as at the date of this document. There should not be an expectation that such information will in all circumstances be updated, supplemented or revised whether as a result of new information, changing circumstances, future events or otherwise.

OVERVIEW

Peace Arch Entertainment Group Inc. is a vertically integrated media company that produces, acquires and distributes feature films and television programming for the domestic and international marketplace.

Our revenues arise primarily from the following business segments:

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Motion Pictures, which includes revenues earned from the licensing of distribution rights to in-house and third party feature films to sub distributors in various territories and media throughout the world.

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Television, which includes revenues derived from the licensing of motion pictures and television programming produced or acquired by the Company to broadcasters, cable and satellite television providers domestically and abroad.

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Home entertainment, which includes revenues derived from the distribution of filmed entertainment and related products to retailers and rental outlets in Canada.

The Company's operating expenses include;

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Amortization of investment in film and television programming.

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Distribution and marketing expenses attributable to the exploitation of programming rights.

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Selling, general and administrative expenses, which include expenses directly attributable to each business segment and other expenses which are not directly attributable.

The Company's operates through five locations, two in Toronto and one each in Vancouver, Los Angeles and London, England. The entities through which these businesses operate are as follows:

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Peace Arch Entertainment Group Inc., ("PAE"), corporate and head office, based in Toronto, which focuses on the management of Motion Picture production activities, providing production administrative and financial structuring services to producers, licensing television rights in the Canadian market and the administration and collection of Canadian and international film tax incentives.

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Peace Arch LA, Inc. ("PALA"), based in Los Angeles, focuses on the packaging, financing and production of feature films and the licensing of those films in the United States.

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Peace Arch Films Ltd. ("PAF"), based in London, focuses on the international distribution of feature films produced or financed by the Company as well as acquired third party productions.

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The Eyes Project Development Corp. ("TEPD"), based in Vancouver, develops and produces television series and documentary programming directed primarily to North American audiences that are reformatted to also serve the international marketplace. TEPD's television programs are currently distributed by a third party international (ex. North America) subdistributor.

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Peace Arch Television Ltd. ("PATV"), based in Toronto, is involved in television program distribution. PATV distributes the programs to which PAE currently controls and also secures rights from third-party suppliers and sells those rights to broadcasters, cable and satellite television companies domestically and abroad.

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kaBOOM! Entertainment Inc. ("kaBOOM") based in Toronto, is a distributor of DVDs and related home entertainment products.

Over the past year Peace Arch has shifted its emphasis from the production of feature film and television programming to the exploitation of that programming and third party projects through its internal sales operations. The Company licenses its proprietary and acquired programming to theatrical distributors, television broadcasters, cable companies, satellite services and home entertainment distributors. The Company believes that representing its own product assures meaningful control over the manner of presentation and provides invaluable input as to market perceptions at the packaging and development phase of programming.

At present, the Company is supporting the financing and packaging of an ongoing slate of feature films in the horror, thriller and action genres. It is currently in post-production on two theatrical films and is actively involved in the legal, administrative and executive work associated with a further two theatrical features, two cable films, four additional genre titles and a dramatic television series. For documentary and lifestyle productions many functions are performed using in-house resources.

While de-emphasizing traditional production activities in our business model, we plan to continue supervising the development, packaging and financing of many of our new projects. This strategy allows us to feed our distribution pipeline with a wider variety of new programming without assuming the burden of actively producing all of our film and television projects.

Vision and Mission

Strategically the Company continues to move towards being the licensor of rights in film and television programming. Ownership of distribution rights in film and television programming will provide a source of future cash flows from a library of unsold distribution rights in addition to the cashflows that are expected to be generated from production activities thereby providing a more stable source of cash than would be generated from relying exclusively on production activities. It is our intention to establish value to the Company by building up and exploiting a library of film and television distribution rights. An additional benefit to taking an ownership position in the distribution rights of programming is that the distribution rights are sold for a fixed period of time for a license fee. At the expiration of that time period the distribution rights become available to be resold in the territory for another limited period of time. This cycle will continue thereby providing a long-term source of cash flow.

The mission of Peace Arch Entertainment Group Inc. is to become a world leading independent distributor of English-language feature film and television programming. In support of this, the Company is focused on the following:

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Business model with integrated production, marketing and sales operations

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Global financing relationships

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Distribution relationships and plans to increase global footprint

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Brand identity

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Management team

RECENT DEVELOPMENTS

On March 30, 2006, Comerica agreed to convert its US$1,075,000 loan for 215,000 shares of the Company's common stock.

On January 23, 2006, the Company acquired 100% of the issued and outstanding shares of kaBOOM! Entertainment Inc., a home entertainment studio in Canada. Total consideration of $7,127,000 was provided in the form of 1,033,058 common shares of the Company valued at $500,000, 50,000 stock options of the Company valued at $17,000, cash consideration of $3,000,000, future cash consideration of $3,202,000 and direct costs of acquisition of $408,000. The purchase price includes a provision for payment of the maximum additional consideration of $1,000,000 contingent upon kaBOOM's results of operation for the year ended April 30, 2006. When the final determination of any contingent consideration due has been made, it will be recorded as an additional cost of acquisition.

On December 30, 2005, 1,435,897 Series II Preference Shares warrants were exercised at a subscription price of US$0.50 per share for total proceeds of US$717,948.

In a private placement on July 29, 2005 the Company issued 4,347,827 Units consisting of one Series

I Preference Share and one Series II Preference Share warrant for proceeds of $2,349,000 or US$0.46 per Unit. Each warrant, upon exercise, entitles the holder to acquire one Series II Preference Share at a price of US$ 0.50 at any time up to July 29, 2009. Each Series I and Series II Preference Share is convertible into one Common Share of the Company. Each outstanding Series I and II Preference Share pays a 10% cumulative dividend on a quarterly basis. At August 31, 2005 all the Series II Preference Share warrants remained outstanding.

On March 31, 2005, Fremantle agreed to convert its $8,793,000 note plus interest for 2,931,125 shares of the Company's common stock. As a result of Fremantle's conversion the Company has recognized a gain on settlement of the obligation to issue shares of $1,105,000 representing the difference between the carrying amount of the obligation and the price of the Company's stock on the date of settlement.

SELECTED QUARTERLY INFORMATION

	Three Months Ended February, 28 2006	Three Months Ended February, 28 2005

(in thousands except per share and deliveries information)		
Deliveries		
Feature Films	-	3
TV Episodes	13	23
Revenue	$ 3,661	$ 1,706
Loss for the period	741	499
Cash dividend on Preference Shares	76	-
Basic and diluted loss per share	$ 0.04	$ 0.03

The loss increased in the three months ended February 28, 2006 to $0.7 million compared to the loss of $0.5 million for the comparable period of the prior year.

For discussion on trends related to revenues in the above chart see section "Operating Results".

During fiscal 2005, the Company adopted AcG-15, Consolidation of Variable Interest Entities, as more fully described in note 2 of our consolidated financial statements. This change in accounting policy was applied on a retroactive basis effective December 1, 2004 without restatement of prior periods. This resulted in a cumulative increase of the Company's deficit in the amount of $53,000.

OPERATING RESULTS

Quarterly Comparison

For the three months ended February 28, 2006, the Company has reported a loss of $0.7 million or $0.04 diluted loss per share compared to a loss of $0.5 million for the comparable period in fiscal 2005 or $0.03 diluted loss per share.

Diluted loss per share is calculated on 21,905,000 weighted average shares outstanding at February 28, 2006 and 17,429,000 weighted average shares outstanding for the comparable period of the prior year.

Revenue. The Company reported revenue of $3.7 million for the three month period ended February 28, 2006 compared to $1.7 million for the comparable period in fiscal 2005 representing an increase of $2.0 million or 118%

increase compared to the same period of the prior year. The following table presents revenues earned for each of our business segments;

	Three Months Ended February 28,	
(in thousands of dollars)	**2006**	**2005**
Segmented Information		
Motion Picture	$ 429	$ 454
Television	703	1,252
Home Entertainment	2,529	-
Total	$ 3,661	$ 1,706

Motion Picture revenue for the period ended February 28, 2006 was $0.4 million compared to revenue of $0.5 million for the comparable period in the prior year. The motion picture segmental revenue is comparable to the same period of the prior year.

Television revenue for the period ended February 28, 2006 was $0.7 million representing a decrease of $0.6 million from $1.3 million for the comparable period of the prior year or a 46% decrease compared to the same period of the prior year. The decrease is mainly attributable to the recognition on 13 episodes of a television series during the quarter compared to revenue recognized on 26 episodes of two television series in the comparable period of the prior year.

Home entertainment revenue of $2.5 million for the quarter represents the revenue recognized from the new kaBOOM business from the date of acquisition. There was no home entertainment revenue in the comparable period of the prior year.

Gross Profit. Gross profit is comprised of revenue less amortization of film and television programming and other production costs. Gross profit for the three months ended February 28, 2006 was $1.3 million compared to $0.6 million for the same period in the prior year.

(in thousands of dollars except gross profit %)	**Three Months Ended February 28**	**Three Months Ended February 28**	**Change**

	2006	2005	
Revenue	$ 3,661	$ 1,706	$ 1,955
Amortization of investment in film and television programming and other production costs	2,354	1,097	1,257
Gross profit	$ 1,307	$ 609	$ 698
Gross profit percentage	35.7%	35.7%	

As a percentage of revenue, gross profit was 35.7% for the three months ended February 28, 2006 which was comparable to the gross profit of 35.7% for the comparable period of the prior year.

Amortization. Amortization for the three months ended February 28, 2006 was higher than the same comparable period. Amortization was $2.4 million for the three months ended February 28, 2006 compared to $1.1 million for the three months ended February 28, 2005. The increase in amortization is reflective of the increase in revenues for the three months compared to the same period in the prior year.

Selling, General and Administrative Expense. Selling, general and administrative expense increased by $0.8 million, or 85%, to $1.7 million for the three months ended February 28, 2006 from $0.9 million for the comparable period in the prior year. This increase was mainly due to additional costs associated with the new home entertainment business that have been incurred from the date of the kaBOOM acquisition compared to the three months ended February 28, 2005. During the three months ended February 28, 2006 there was no recovery of selling, general and administrative expenses as the time period over which the Company was entitled to recover such expenses associated with managing certain assets to realize cashflows to retire the Fremantle debt had ended in fiscal 2005. The following table presents the comparative net selling, general and administrative costs for the two comparable periods;

(in thousands of dollars)	Three Months Ended February 28 2006	Three Months Ended February 28 2005	Change
Selling, general and administrative expenses	$ 1,671	$ 933	$ 738
Recovery of selling, general and administration	-	30	30
Total	$ 1,671	$ 903	$ 768

Interest Income. Interest income was $0.2 million for the three months ended February 28, 2006, compared to $0.3 million for the same period of the prior year. Interest revenue represents interest earned on the Restricted Term Deposit. This interest revenue is offset by interest expense of the same amount recorded in respect of the Film

Financing Obligation.

Interest Expense. Interest expense was $0.7 million for the three months ended February 28, 2006, representing an increase of $0.3 million from $0.4 million for the same period of the prior year. The increase is due to interest on outstanding production loans for projects produced and delivered in prior years which is no longer capitalized to the cost of the productions. Interest expense also includes interest of $0.1 million on the deferred financing costs related to the kaBOOM acquisition. Interest expense includes interest incurred on the Film Financing Obligation. This interest expense was offset by interest revenue of the same amount recorded in respect of the Restricted Term Deposit.

Interest that is capitalized to the cost of film and television programs is charged to earnings in future periods as the related film and television programs are delivered and amortized. Interest component may vary each period depending on the dollar value of production during the period and the timing of production commencement and delivery during the period.

Other Amortization. For the three months ended February 28, 2006, other amortization consisting of amortization of property and equipment and amortization of intangible assets amounted to $70,000 compared to $23,000 for the comparable period of the prior year, representing a $47,000 increase. This increase is due to amortization of $45,000 during the quarter for intangible assets. In the comparable period of fiscal 2005, the Company did not have amortization related to intangible assets.

Year to Date Comparison

For the six months ended February 28, 2006, the Company has reported a loss of $1.4 million or $0.07 diluted loss per share compared to loss of $1.1 million for the comparable period in fiscal 2005 or $0.06 diluted loss per share.

Diluted loss per share is calculated on 21,540,000 weighted average shares outstanding at February 28, 2006 and 17,418,000 weighted average shares outstanding in the prior year.

Revenue. The Company reported revenue of $4.6 million for the six month period ended February 28, 2006 compared to $4.8 million for the comparable period in fiscal 2005 representing a decrease of $0.2 million or 4% decrease compared the same period of the prior year. The following table presents revenues earned in each of our business segments;

Six Months Ended February 28,

(in thousands of dollars)	2006	2005
Segmented Information		
Motion Picture	$ 1,239	$ 3,445
Television	802	1,359
Home Entertainment	2,529	-
Total	$ 4,570	$ 4,804

Motion Picture revenue for the period ended February 28, 2006 was $1.2 million representing a decrease of $2.2 million, or a 64% decrease compared to revenue of $3.4 million for the comparable period in fiscal 2005. The decrease in revenues primarily reflects the lower number of projects produced by Peace Arch and is associated with the Company's strategy to prioritize the packaging, financing, and distribution of projects. This strategy results in lower presale revenues at the time a project is completed and delivered. During the six months ended February 28, 2006, the Company did not take delivery of any motion pictures. The revenues for the six month period arose from sales of distribution rights on programs completed and delivered in prior years.

Television revenue for the period ended February 28, 2006 was $0.8 million representing a decrease of $0.6 million from $1.4 million for the same period of the prior year or a 41% decrease compared to the same period of the prior year. The decrease is mainly attributable to the recognition of 13 episodes of a television series during the six month period compared to revenue recognized on 26 episodes of two television series in the comparable period of the prior year.

Home entertainment revenue of $2.5 million for the quarter represents the revenue recognized from the new kaBOOM business from the date of acquisition. There was no home entertainment revenue in the comparable period of the prior year.

Gross Profit. Gross profit is comprised of revenue less amortization of film and television programming and other production costs. Gross profit for the six months ended February 28, 2006 was $1.4 million compared to $0.8 million for the comparable period in the prior year.

	Six Months Ended February 28	Six Months Ended February 28	
(in thousands of dollars except gross profit %)	**2006**	**2005**	**Change**

Revenue	$ 4,570	$ 4,804	$ (234)
Amortization of investment in film and television programming and other production costs	3,186	4,030	844
Gross profit	$ 1,384	$ 774	$ 610
Gross profit percentage	30.3%	16.1%	

As a percentage of revenue, gross profit was 30.3% for the six months ended February 28, 2006 compared to the gross profit of 16.1% for the comparable period of the prior year. The increase in gross profit is due to the product mix on sales in the six months of film and television rights with a greater proportion of product sales with a higher gross profit compared to the sales of product in the comparable period of the prior year.

Amortization. Amortization for the six months ended February 28, 2006 was lower than that of the comparable period for the prior year. Amortization was $3.2 million for the six months ended February 28, 2006 compared to $4.0 million for the six months ended February 28, 2005. The decrease in amortization is reflective of the sales of product during the period with a higher gross margin, or lower amortization attached, compared to the sales of product in the comparable period of the prior year.

Selling, General and Administrative Expense. Selling, general and administrative expense increased by $1.1 million, or 65.2%, to $2.7 million for the six months ended February 28, 2006 from $1.6 million for the comparable period in the prior year. This increase was mainly due to additional costs associated with the new home entertainment business that has been incurred from the date of the kaBOOM acquisition compared to the comparable period of the prior year. During the six months ended February 28, 2006 there was no recovery of selling, general and administrative expenses as the time period over which the Company was entitled to recover such expenses associated with managing certain assets to realize cashflows to retire the Fremantle debt had ended in fiscal 2005. The following table presents the comparative net selling, general and administrative costs for the last two comparable periods;

(in thousands of dollars)	**Six Months Ended February 28 2006**	**Six Months Ended February 28 2005**	**Change**
Selling, general and administrative expenses	$ 2,691	$ 1,772	$ 909
Recovery of selling, general and administration	-	149	149
Total	$ 2,691	$ 1,623	$ 1,058

Interest Income. Interest income was $0.5 million for the six months ended February 28, 2006, compared to $0.5 million for the comparable period of the prior year. Interest revenue represents interest earned on the Restricted Term

Deposit. This interest revenue is offset by interest expense of the same amount recorded in respect of the Film Financing Obligation.

Interest Expense. Interest expense was $1.1 million for the six months ended February 28, 2006, representing an increase of $0.4 million from $0.7 million for the comparable period of the prior year. The increase is due to interest on outstanding production loans from projects produced and delivered in prior years which is no longer capitalized to the cost of the productions. Interest expense also includes $0.1 million of interest on the deferred financing costs related to the kaBOOM acquisition. Interest expense includes interest incurred on the Film Financing Obligation. This interest expense was offset by interest revenue of the same amount recorded in respect of the Restricted Term Deposit.

Interest that is capitalized to the cost of film and television programs is charged to earnings in future periods as the related film and television programs are delivered and amortized. Interest component may vary each period depending on the dollar value of production during the period and the timing of production commencement and delivery during the period.

Other Amortization. For the six months ended February 28, 2006, other amortization consisting of amortization of property and equipment and amortization of intangible assets amounted to $90,000 compared to $27,000 for the comparable period of the prior year, representing a $63,000 increase. This increase is due primarily to amortization of $45,000 for intangible assets. In the comparable period of fiscal 2005, the Company did not have amortization related to intangible assets.

QUARTERLY CONSOLIDATED FINANCIAL DATA

(in thousands of dollars, except per share information)

(in thousands of Canadian dollars except per share amounts)

	Fiscal 2006		**Fiscal 2005**			**Fiscal 2004**		
	February 28, 2006	**November 30, 2005**	**August 31, 2005**	**May 31, 2005**	**February 28, 2005**	**November 30, 2004**	**August 31, 2004**	**May 31, 2004**
					(Restated)			

Revenues	$3,661	$909	$1,652	$4,291	$1,706	$3,098	$1,774	$6,584
Net earnings (loss)	(741)	(699)	(198)	2,729	(499)	(583)	(2,448)	495
Basic earnings (loss) per common share	$(0.04)	$(0.04)	$(0.01)	$0.14	$(0.03)	$(0.03)	$(0.14)	$0.03

During the year ended August 31, 2005, the Company identified a required revision to its second quarter February 28, 2005 financial statements related to its accounting treatment of a complex arrangement with Showtime for the project "Our Fathers." We have determined the arrangement was in the nature of a co-financing relationship where both parties contributed financially to the production. Under GAAP, the co-financier's contribution to the project is considered a reduction of the film's negative costs. Previously, the co-financier's contribution to the production was recognized as revenue by the Company from sale of rights. The cost of the Company's investment in its film assets is similarly reduced.

The adjustment to the February 2005 quarter is a reversal of $6.1 million in revenues and $5.7 million in amortization resulting in an increase of net loss of $0.4 million.

The preceding table reflects the revised results of operations for the quarter ended February 28, 2005.

The Company's revenues and net earnings are dependent on the timing of the completion of the production process. Delivery of motion picture business segment product occurs at any time during the year. There are no seasonal or cyclical factors involved with the delivery of motion pictures. Episodic television product is delivered to buyers as each episode is completed and may occur over two quarters.

Revenue recognized for the three months ended February 28, 2006 is primarily a result of distribution sales activity on film product delivered in prior years and sales generated from the new home entertainment business.

Quarterly net earnings (loss) have varied due to one time events that occurred during the third quarter of fiscal 2005 arising from the recognition of a one time $2.1 million gain on the settlement of obligations as described in note 11 of the August 31, 2005 consolidated financial statements.

In the fourth quarter of fiscal 2004 the net loss can be attributed, for the most part, to a valuation impairment charge on the Company's investment in film and television after review of its future revenue estimates that support the carrying value of the investment in film and television.

OUTSTANDING SHARES

On January 23, 2006, in connection with the acquisition of kaBOOM, the Company issued 1,764,118 common shares of the Company for proceeds of $0.8 million, net of issuance costs. The value of the common shares issued was $0.44 or $0.48, which was based on and determined by the average of the Company's common stock trading price for the 10 day period prior to the date of acquisition.

On December 30, 2005, 1,435,897 Series II Preference Share warrants were exercised at a subscription price of US$0.50 per share for total proceeds of US$ 717,948.

LIQUIDITY AND CAPITAL RESOURCES

As at February 28, 2006, the Company had available cash or cash equivalents of $0.7 million. The Company borrows funds from banks and other financial institutions to finance the costs of production which are generally incurred in advance of contracted receipts and revenues from these programs. The Company typically finances the capitalized costs of its proprietary film and television programming through presales from customers, borrowings from bank facilities for individual production financing, government tax incentives, contributions from co-producers and working capital deployed as interim financing to contracted receipts. In the past, the Company has also funded capital requirements through the issuance of shares, warrants and debt. The Company has a term loan and a letter of credit provided by a financial institution due on July 30, 2006. Upon mutual agreement between the Company and the lender, the financing may be extended for a period of six months. The Company is currently identifying various financing alternatives to enable the timely discharge of the Company's obligations. Management will work toward funding capital requirements through the issuance of shares, warrants and debt, but there is no assurance that the Company will be successful in its financing efforts or the extension granted.

Cash Flows from Operating Activities

During the six months ended February 28, 2006, $7.6 million was used by operating activities, compared to $3.6 million used by operating activities for the same period in fiscal 2005. In the six months ended February 28, 2006, the Company increased its investment in film and television by $9.3 million, net of amortization. This increase was offset by cash provided from a reduction of accounts receivables of $2.8 million.

During the comparable period in fiscal 2005, the Company utilized $3.6 million in operating activities. This was a result of the loss of $1.0 million for the six months, an increase of $1.5 million in film and television programming, net of amortization and a reduction in deferred revenue of $3.2 million. This utilization of operating cash was offset by cash provided from a reduction in accounts receivable of $2.3 million.

Cash Flows from Investing Activities

During the six months ended February 28, 2006, cash flow used in investing activities of $3.3 million is primarily due to the net cash required for the acquisition of kaBOOM of $3.2 million. For the comparable period of the prior year, cash used in investing activities of $24,000 was a result of the purchase of property and equipment.

Cash Flows from Financing Activities

In the six months ended February 28, 2006, cash contributed from financing activities was $10.2 million compared to cash provided from financing activities of $4.1 million in the comparable period in fiscal 2005. Cash provided from financing activities was due to the net addition of production loans for the period of $6.4 million, the issuance of $3.5 million in a term loan in connection with acquisition of kaBOOM, the issuance of $0.8 million in Series II Preferred Shares. For the comparable period of the prior year, cash contributed from financing activities amounted to $4.1 million, which was due to a net issuance of production loans. The addition to production loans is reflective of the increase in investment in film and television.

Production loan repayments are solely due from cash flows derived from each film and is independently secured by a charge over all the assets of the production subsidiary and the exploitation rights, tax credits and subsidies associated with each film. Management expects that a significant portion of the loans due at February 28, 2006 will be payable over the next year. The Company has total loan and credit facilities of $11.4 million which are due for annual renewal in the current fiscal year. The Company obtained extensions in the past since the timing of collection of receipts and revenue streams may extend beyond the original estimated date. Management seeks renewals and extensions of the individual production loan facilities and is confident that such an agreement will be achievable. However, there is no assurance the Company will be successful.

OFF BALANCE SHEET ARRANGEMENTS

During the year ended August 31, 2004, the Company provided a guarantee of the sales performance of its subsidiary Peace Arch Films Limited (PAF) of US$2.5 million to assist with a producer's financing for a production for which PAF has acquired worldwide distribution rights. PAF has also provided financing contributions towards the cost of the production. The sales performance obligation is due one year after the production's initial theatrical release. The obligation is recoverable by PAF from the proceeds of the production's sales or the receipt of government incentives due to the producer. In return for providing the additional guarantee, the Company will obtain an additional interest in the films from its co-producer. Should the Company default in the guarantee payment, the co-producer is entitled to receive the Company's shares in satisfaction of the obligation which would be issued at market price at that time less 10%.

At February 28, 2006, the Company had commitments of $4.7 million (August 31, 2005 - $3.1 million) with respect to the acquisition of film distribution rights to 6 films (August 31, 2005 - 3 films), which will be delivered to the Company during the year ended August 31, 2006. These payments are required to be made at the date of delivery of the respective films which is expected to be no later than August 31, 2006.

RELATED PARTY TRANSACTIONS

The Company has entered into the following related party transactions. These transactions are measured at the exchange amount, which is the actual amount of consideration given as established and agreed between the related parties.

a)

During the six months ended February 28, 2006, the Company paid $95,000 (2005 - $90,000) to a company controlled by a shareholder, director and officer of the Company for executive services rendered. These expenditures are reflected in the Company's selling, general and administrative expenses.

b)

During the six months ended February 28, 2006, the Company paid $nil (2005 - $32,000) to a shareholder, director and officer of the Company for legal services rendered. These expenditures are reflected in the Company's selling, general and administrative expenses.

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c)

As at February 28, 2006, the Company was owed $nil (2005 - $167,000) from a company controlled by a shareholder, director and officer of the Company. This amount is included in accounts and other receivables.

d)

As at February 28, 2006, included in accounts receivable was $nil (August 31, 2005 - $1,480,000 (US$1,200,000)) from a company owned by a member of senior management. This amount is a result of a sale of distribution rights to the related company prior to the individual becoming a member of senior management. The amount is secured by an irrevocable letter of credit.

e)

As at February 28, 2006, the Company was indebted to a shareholder, director, and officer of the Company in the amount of $50,000 (2005 - $nil). The amount is due on demand and is entitled to a 10% finance fee of the amount of the loan. This amount payable is included in production loans.

f)

As at February 28, 2006 the Company was indebted to the preferred shareholders in the amount of $108,000. This amount is the standby fee related to the letters of credit from the preferred shareholders, which is payable in cash or common shares at the option of the Company.

Other related party transactions and balances have been described elsewhere in these financial statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

During the quarter, the Company paid for goodwill in connection with the acquisition of kaBOOM.

The Company was required to make estimates in the determination of the fair valuation of kaBOOM's tangible and intangible assets and liabilities in accounting for the acquisition of kaBOOM.

Goodwill is reviewed for impairment at least annually. The Company makes estimates in the determination of any potential impairment of goodwill.

FINANCIAL INSTRUMENTS

As at February 28, 2006, the Company's financial instruments included cash and cash equivalents, restricted term deposits, accounts and other receivables, corporate loan, production loans, revenue guarantee obligation, business acquisition obligation and accounts payable and accrued liabilities. The carrying values of the restricted term deposits and the revenue guarantee obligations approximate fair value as the interest rates are reflective of current market rates as at February 28, 2006. The carrying value of the business acquisition obligation to issue shares reflects fair value as it is reported at the fair value of the shares at February 28, 2006. The carrying value of the remaining financial instruments approximated their fair value due to their ability for prompt liquidation or short term to maturity.

RISKS AND UNCERTAINTIES

There are risks and uncertainties that could impact the Company's revenues and earnings from operations.

BUSINESS RISKS

The business of producing and distributing film and television programming is highly competitive and involves a substantial degree of risk. The Company faces intense competition from other producers and distributors, many of whom are substantially larger and have greater financial resources. The Company competes with other companies for ideas and storylines created by third parties as well as for actors, directors and other personnel. The Company's future financial performance may be adversely affected if it is unable to compete successfully. Results of operations for any period depend on the number of film and television programs that are delivered. Consequently, results may vary from period to period and the results of any one period may not indicate results for future periods. Cash flows may also fluctuate and may not directly correspond with revenue recognition. Actual production costs may exceed budget, perhaps significantly, due to factors within or beyond the Company's control. These factors may delay completion of a production. If there are significant cost overruns the Company may have to seek additional financing to complete the production or will have the ability to call upon the bond in order to complete the film. The Company may be unable to recoup the additional costs which could have a material adverse impact on operating results and liquidity.

Revenues derived from the production and distribution of film and television programming depend primarily upon acceptance by the public which is difficult to predict. Some or all of the proprietary film and television programs may not be commercially successful, which could result in the Company's failure to recoup its investment or realize its anticipated profits.

The Company's business is substantially dependent on the services of a number of key personnel placed in several positions within the organization. The success of the Company depends to a certain degree upon the skill and efforts of its management and upon its ability to attract and retain qualified management personnel. The loss of their services could have an effect on the Company's business.

The Company's international distribution revenue is subject to risks associated with local economic conditions, currency fluctuations, changes in local regulatory requirements, compliance with a variety of foreign laws and regulations, cultural barriers and political stability. The Company's international distribution revenue may be adversely affected by these risks.

The Company is expecting that if its efforts are successful it will experience a period of growth that could place a strain on its resources. If the Company's management is unable to manage growth effectively, operations could be adversely affected.

To date, the Company has been involved primarily in the development, production and distribution of feature film and television programs. The Company may be required to raise additional financing, make capital expenditures and hire additional personnel in connection with these proposed activities. If the Company is unsuccessful in these new business endeavors, it may have a material adverse effect on its results.

Investments in film and television programming are amortized against revenues in the ratio that current revenues bear to management's estimate of ultimate revenues for each program. The Company typically amortizes a minimum of 80% of film costs over a three-year period. Management periodically reviews its estimates and adjusts the amortization of its production costs accordingly. In the event that management should determine that the capitalized costs for a program exceed its fair value, capitalized costs would be written down in the current period, resulting in a corresponding decrease in earnings.

GOVERNMENT INCENTIVES

The Company accesses Canadian and United States State government incentives in the form of tax credits and utilizes structures which permit foreign country tax-assisted participation in the financing of its projects. If such subsidies and tax assistance were to be eliminated the Company's production operations could be adversely affected in the future.

CURRENCY RISK

The Company receives a portion of its revenues from the United States and international sources in United States dollars. A portion of a film and television program's financing of production costs may be denominated in United States dollars while production costs are payable primarily in Canadian dollars. Accordingly, operating results can be affected by fluctuations in the United States dollar exchange rate as we do not hedge our foreign exchange exposure. In addition, costs may be payable in currencies other than Canadian and United States dollars. We monitor our currency exchange rate risks on an ongoing basis.

INTEREST RATE RISK

The Company is exposed to interest rate risk from production loans bearing interest rates that vary with fluctuations in interest rates.

OUTLOOK

The Company's primary objective is to expand operations in the development, production and distribution of proprietary programming, focusing on programming that will add long-term library value.

A key aspect of this objective is to formalize key international strategic relationships which can reliably support the financing and exploitation of products. The Company is also working to enhance its ability to support financing projects through exclusive support agreements with third party interim and equity financiers. Finally, the Company will seek to build working capital reserves to better prepare for timely and strategic acquisitions of product and to reduce costs of short term interim project financing activities.

ADDITIONAL INFORMATION

Additional information relating to the Company can be found on SEDAR at www.sedar.com

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of Peace Arch Entertainment Group Inc.'s securities, options to purchase securities and interests of insiders in material transaction, where applicable, is contained in the Information Circular.

Additional financial information is provided in the Company's consolidated financial statements for its 2005 fiscal year and the Six Months ended February 28, 2006.

The Company, upon request to the secretary of the Company at 407-124 Merton Street, Toronto, Ontario, M4S 2Z2, will provide to any person or company one copy of the Annual Information Form, together with one copy of the consolidated financial statements, Management Discussion and Analysis and of any interim financial statements, one copy of the information circular or any filing prepared instead of that information circular provided that the Company may require the payment of a reasonable charge if the request is made by a person or company who is not a security-holder of the Company.

Dated April 13, 2006.

Form 52-109F2 - Certification of Interim Filings

I Gary Howsam***, Peace Arch Entertainment Group Inc., Chief Executive Officer***, certify that:

1. I have reviewed the interim filings (as this term is defined in Multilateral Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*) of Peace Arch Entertainment Group Inc., (the issuer) for the interim period ending February 28, 2006;

2. Based on my knowledge, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings;

3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the interim filings;

4. The issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the issuer, and we have:

(a) designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the interim filings are being prepared; and

(b) designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP; and

Date: April 13, 2006

/s/ Gary Howsam

Gary Howsam

Chief Executive Officer

Form 52-109F2 - Certification of Interim Filings

I Mara Di Pasquale, ***Peace Arch Entertainment Group Inc., Chief Financial Officer***, certify that:

1. I have reviewed the interim filings (as this term is defined in Multilateral Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*) of Peace Arch Entertainment Group Inc., (the issuer) for the interim period ending February 28, 2006;

2. Based on my knowledge, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings;

3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the interim filings;

4. The issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the issuer, and we have:

(a) designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the interim filings are being prepared; and

(b) designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP; and