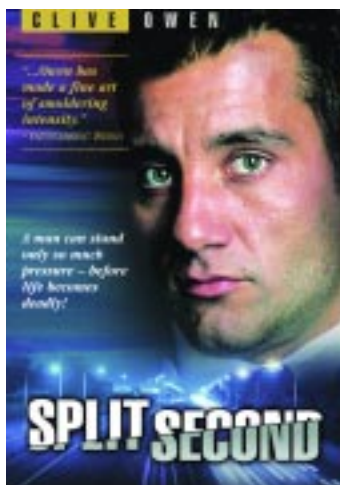


2006 ANNUAL REPORT

BFS ENTERTAINMENT & MULTIMEDIA LIMITED



COLLECTABLES
Direct Inc.

B.F.S.
FILM & TELEVISION
PRODUCTIONS INC.

oops a daisy
TELEVISION PRODUCTIONS INC.



Subsidiaries and Divisions of
BFS Entertainment & Multimedia Limited

- 2 Corporate Profile
- 2 Chairman's Report
- 2 Financial Highlights
- 3 Management's Discussion and Analysis
- 6 Management's Responsibility for Financial Statements
- 6 Auditors' Report
- 7 Consolidated Financial Statements
- 10 Notes to Consolidated Financial Statements
- 15 Shareholders Information

CORPORATE PROFILE

Established in the early eighties, BFS is a recognised independent manufacturer and distributor of home video. With facilities in Toronto, Ontario, the Company markets and distributes videos throughout North America, with approximately 75% of its business in the United States.

Under exclusive North American license agreements, the Company sells its products through various channels, including retailers, distributors, mail order houses as well as its own specialised mail order catalogue.

The Company's products can be classified into several categories including classic dramas, mysteries, comedy, sports and factual programmes. Titles are sold under the BFS Video and American Home Treasures video labels. Programmes are licensed from independent production companies as well as such companies as the BBC (British Broadcasting Corporation) and Granada.

The Company strategy is to continue to acquire new programming for North America and to expand its distribution and develop proprietary programming.

MESSAGE FROM THE CHAIRMAN

Fiscal 2005 continued to be a year of transition impacted by a continuing lower U.S. dollar, changing technology, management of costs and by a renewed focus on higher margin products.

Our continued focus and investment in our direct to consumer business has this year resulted in an 86% increase over the prior year and a 550% increase over the past two fiscal years.

The popularity and rapid acceptance of the DVD format by consumers continues unabated and our sales are now substantially in this format. We have further added to our allowance for the expected obsolescence of our investment in the remaining VHS formatted product and are now experiencing savings in maintaining lower inventory levels of DVD only formatted product.

Our production company continues to develop various projects and we look forward to our initial sales during the upcoming year.

On behalf of the Board of Directors, I wish to thank our shareholders, employees and suppliers for their continued support and look forward to a successful fiscal 2006.

Denis B.E. Donnelly,
Chairman, President and Chief Executive Officer

FINANCIAL HIGHLIGHTS

	May 6, 2006	May 7, 2005 <i>(Restated)</i>
Sales	\$ 9,975,179	\$ 8,578,269
Net earnings (loss)	344,875	(58,280)
Shareholders' equity	3,244,850	2,909,283
Capital asset additions	155,645	241,870
Total assets	4,183,641	3,949,919
Earnings (loss) per share	0.04	(0.01)

COMMON SHARE AND PRICE INFORMATION

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Average number of shares outstanding	7,898,333	7,898,333	7,874,987	7,828,833
Trading volume	8,500	84,200	240,500	455,200
Share price (high)	\$ 0.16	0.18	0.175	0.37
Share price (low)	\$ 0.125	0.135	0.13	0.14

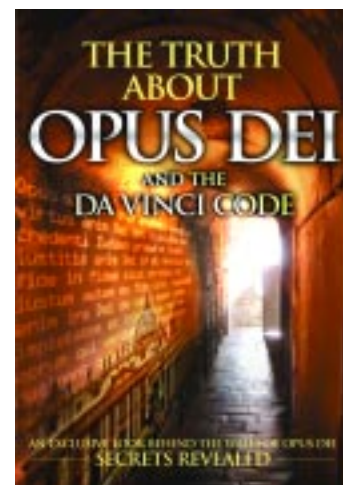
MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis of the financial results of BFS Entertainment & Multimedia ("BFS" or the "Company") for the fifty-two weeks ended May 6, 2006 should be read in conjunction with, and is qualified by, the consolidated financial statements and related notes for the fifty-two weeks ended May 6, 2006 ("the Financial Statements"), which have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All of the information presented herein is expressed in Canadian dollars.

This report contains forward-looking statements, including statements regarding the future success of our business strategies and future market opportunities. These statements are neither promises nor guarantees, but involve known and unknown risks and uncertainties that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activities, performance or achievements expressed in or implied by these forward looking statements. These risks include risks related to our sales growth, operating results, industry and products as well as other factors discussed below and elsewhere in this report. Readers should not place undue reliance on any such forward-looking statements, which speak only as of the date they were made. We disclaim any obligation to publicly update or revise such statements to reflect any change in our expectations or in events, conditions or circumstances on which any such statements may be based, or that may affect the likelihood that actual results will differ from those set forth in the forward looking statements.

Additional information relating to BFS is filed SEDAR at www.sedar.com.

This management's discussion and analysis is dated August 11, 2006.



OVERVIEW

BFS is a recognised independent manufacturer and distributor of home video. With facilities in Toronto, Ontario, the Company's main business is the marketing and distribution of home video throughout North America, with the predominant share of its business in the United States.

Under exclusive North American license agreements, the Company sells its products through various channels, including retailers, distributors, mail order houses as well as its own specialised mail order catalogue.

The Company's products can be classified into several categories including classic dramas, mysteries, comedy, sports and factual programmes. Titles are sold under the BFS Video and American Home Treasures video labels. Programmes are licensed from independent production companies as well as such companies as the BBC (British Broadcasting Corporation) and Granada.

The Company's strategies include:

- To achieve significant increases in sales and cash flows
- To continue to seek and acquire new programming content.
- To expand current distribution channels.
- To develop BFS proprietary programming.

RESULTS FROM OPERATIONS

As a result of an Ontario Securities Commission continuous disclosure review, the Company has restated its 2005 consolidated financial statements. See Note 3 in the Notes to Consolidated Financial Statements.

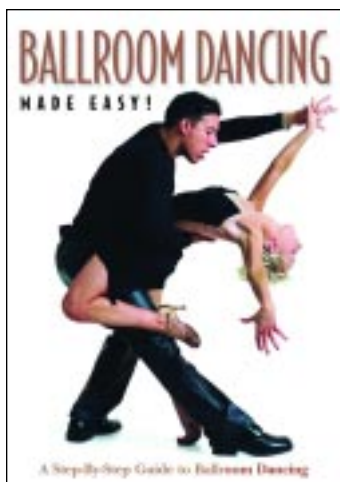
In accordance with Canadian general accepted accounting principles and following the guidance of EIC-141 issued on December 17, 2003, an allowance has been provided for the eventuality that customers may return a portion of their previous purchases for exchanges and therefore credited towards their future purchases. Prior to this, no allowances had been made for overstock exchanges.

The amortization for master tapes and development costs has been restated in 2005. The amortization method has been changed to a four year straight line (25% per year) from the previous method of a four year period with annual amortization of zero in the first year and 33 1/3% in the following three years.

Selected Annual Information of Operations Data	Fiscal Years Ending	
	May 6, 2006	May 7, 2005 (Restated)
Sales	\$ 9,975,179	\$ 8,578,269
Cost of goods sold	3,872,573	3,233,944
Gross profit	6,102,606	5,344,325
Gross profit %	61%	62%
Selling and administrative expenses	4,952,867	4,533,318
Foreign exchange loss	137,889	224,495
Interest expense	11,156	49,345
Amortization of capital assets and deferred development costs	479,289	592,912
Net earnings (loss)	344,875	(58,280)
Basic and diluted earnings (loss) per share	\$ 0.04	\$ (0.01)
Weighted average number of shares	7,875,436	7,941,208

Sales for the year were \$9,975,179 compared to \$8,578,269 in the prior year, an increase of 16%. Direct to consumer sales have increased by 38% from the previous year and corporate sales were comparatively unchanged from the prior year. Sales to the United States represented 75% of sales, compared to 76% in the prior year.

Gross profit for the year was \$6,102,606 (61% of sales) compared to \$5,344,325 (62% of sales) in the prior year.



Selling and administrative expenses for the year were \$4,952,867 (50% of sales) compared to \$4,533,318 (53% of sales) in the prior year.

The mail order subsidiary's selling and administrative expenses increased in the fiscal year by approximately \$620,000 over the previous year due to a continuing increase in investment and commitment to catalogue distributions, which resulted in a 38% increase in direct to consumer sales in the year when compared to last year. Catalogue printing and mailing costs increased by approximately \$430,000, direct to consumer shipping costs increased by approximately \$90,000, call centre costs, credit card discounts and other costs increased by approximately \$100,000 from the previous year.

Total salary expenses decreased by approximately \$319,000 and other expenses increased by approximately \$41,000 from the previous year. The allowance for the write down of investment in productions of \$78,000 was recorded in the current year due to post production costs incurred by that division as part of its start-up costs, which management believes may not be recoverable.

Amortization of capital assets and deferred development costs was \$479,289 compared to \$592,912 in the prior year.

Net earnings were \$344,875 or \$0.04 per share for the year, compared to a net loss of \$58,280 or \$0.01 per share in the prior year. The weighted average number of shares outstanding for this year was 7,875,436.

REVIEW OF FOURTH QUARTER ENDING MAY 6, 2006

	Sales	Net earnings (loss)	Basic & diluted earnings per share
2006			
First quarter	\$ 1,846,689	\$ 3,840	\$ 0.00
Second quarter	2,797,058	132,852	0.02
Third quarter	3,287,673	249,669	0.03
Fourth quarter	2,043,759	(41,486)	(0.01)
Full year	\$ 9,975,179	\$ 344,875	\$ 0.04
2005 (Restated)			
First quarter	\$ 1,719,470	\$ (62,944)	\$ (0.01)
Second quarter	2,543,674	82,030	0.01
Third quarter	2,108,163	60,841	0.01
Fourth quarter	2,206,962	(138,207)	(0.02)
Full year	\$ 8,578,269	\$ (58,280)	\$ (0.01)

Sales for the fourth quarter were \$2,043,759 compared to \$2,206,962 during the same quarter last year. Lower fourth quarter direct to consumer sales when compared to the prior year can be attributed to the different timing of catalogue distributions for each of the quarters. Higher gross margin percentage of 60% in the fourth quarter compared to 58% in the prior year resulted in only an approximately \$57,000 reduction in gross margin in the fourth quarter when compared to the prior year.

Total salary expense in the fourth quarter was approximately \$163,000 lower than in the prior year as a result of a staff reduction at the end of the fourth quarter of fiscal 2005. An allowance for the write down in investment of \$78,000 was recorded in the fourth quarter without a corresponding amount in the prior year. Amortization of capital assets and development costs were approximately \$33,000 lower in the fourth quarter when compared to the prior year due to lower master tape outlays.

Net loss was \$41,486 (\$0.01 per share) compared to \$138,207 (\$0.02 per share) for the same period last year.

FINANCIAL CONDITION AS AT MAY 6, 2006

Selected data on financial position	Fiscal Years Ending	
	May 6, 2006	May 7, 2005 (Restated)
Bank indebtedness	\$ -	\$ 118,633
Net working capital	2,240,014	1,684,316
Total assets	4,183,641	3,949,919
Total long-term liabilities	35,994	71,087
Total liabilities	938,791	1,040,636
Shareholders' equity	3,244,850	2,909,283

Total assets of the corporation this year amount to \$4,183,641 compared to \$3,949,919 in the prior year.

Accounts receivable decreased to \$640,212 from \$685,898 in the prior year resulting from a continuing increase in direct to consumer sales (a 38% increase from the prior year). Direct to consumer sales require payment prior to shipment and only in the form of credit card charge or cheque.

Inventory decreased to \$918,030 from the \$1,025,646 in the prior year as a result of lower inventory levels of DVD only formatted product.

Prepaid royalties for video products decreased to \$591,710 from \$851,774 in the prior year due to an increase in the allowance for prepaid royalty write down of \$171,000.

Investment in productions was \$194,448 this year compared to \$182,733 in the prior year. BFS has written down \$78,000 of additional post production costs incurred as part of the start-up costs for that division, which management believes may not be recovered. BFS has increased its commitment to develop its own content and has successfully co-produced several of its own programmes in the past several years. BFS is confident that this increase focus is a very necessary and positive step for the future of BFS.

Capital assets decreased to \$411,293 from \$598,282 in the prior year. Continuing capital expenditures for master tapes of \$122,383 were made this year compared to \$106,412 in the prior year. The corporation has increased its focus on the acquisition of titles that will generate greater sales with lower development costs and capital expenditures.

Deferred development costs of \$99,700 were incurred during the fiscal year compared to \$120,618 in the prior year and were related to the design and development of DVD products.

Total liabilities decreased to \$938,791 from \$1,040,636 in the prior year primarily from the reduction of bank indebtedness and long term debt of \$153,726.

Shareholders' equity increased to \$3,244,850 from \$2,909,283 in the prior year. The share capital as at May 6, 2006 was \$2,110,316 with 7,828,333 shares outstanding compared to \$2,119,624 with 7,898,333 shares outstanding in the prior year.

On September 19, 2005, the corporation received approval from the TSX Venture Exchange to purchase pursuant to a normal course issuer bid expiring on September 20, 2006, a maximum of 423,283 shares of the corporation for cancellation. Pursuant to the approval from the TSX Venture Exchange, the corporation has purchased 70,000 shares during the year as part of the normal course issuer bid for \$9,308 for cancellation.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Minimum annual payments due in fiscal years ending	Total	Payment due by period			
		Less than 1 year	1-3 years	4-5 years	After 5 years
Capital lease obligations	\$ 35,994	\$ 25,147	\$ 10,847	-	-
Operating leases	383,000	126,000	257,000	-	-
Total contractual obligations	418,994	151,147	267,847	-	-

Capital lease obligations are related primarily to computer, telephone and warehouse equipment. Operating lease commitments represent the future minimum lease payments under leases primarily for the Company premises. These obligations bear interest at rates varying between 9.0% and 11.3% per annum.

CAPITAL REQUIREMENTS, RESOURCES AND LIQUIDITY

At year-end, the Company had an operating line of credit of \$2,000,000 of which approximately \$Nil was outstanding. A registered general agreement providing a first charge over all accounts receivable, inventories and equipment, other than leased assets, has been provided as security for this operating line of credit.

We believe that our current cash will provide us with sufficient capital to meet our stated operating goals. We would expect that any significant new acquisitions would require additional funding.

BUSINESS RISKS AND UNCERTAINTIES

Our ability to generate sales and profit from our business is dependent on a number of risks. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties, including those we do not know about now or that we currently believe are immaterial, may also adversely affect our ability to generate sales and profit.

Foreign Currency

The Company's products are sold to Canadian customers in Canadian funds and to United States customers in United States funds. Increases in the value of the Canadian dollar relative to the United States dollar could adversely affect the Company's results of operations.

Dependency on Intellectual Property

The Company enters into exclusive distribution arrangements with producers and television companies to secure the distribution rights for the sale of home video products in North America. To secure these rights, the Company typically agrees to advance cash to the licensors for each title licensed. These cash advances are set up as a prepaid advance and are recovered by the Company from the proceeds on the sale of the product. The recovery of such advances and related mastering costs is dependent on the success of marketing and sale of each title by the Company. The success of the title is not determinable until the time that consumer acceptance can be measured after the title has been released.

Dependency on Key Personnel

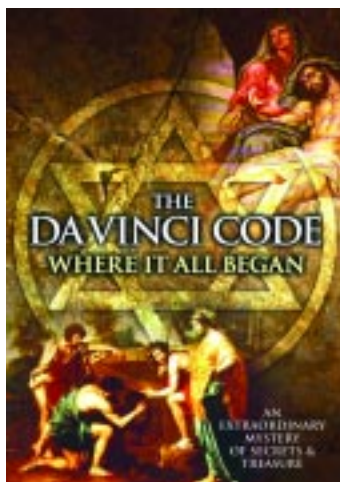
The success of BFS is dependent on members of its senior management team. The experience of this team will be a contributing factor to BFS' success and growth. The loss of one or more of the members of the management team might have a material adverse effect on the Company's operations and business prospects.

Risks Associated with Overstock Exchanges

Consistent with industry practice in certain circumstances, the Company allows customers to return product for credit which can only be applied against future purchases. The Company restricts the amount of the return to a percentage of an agreed upon time period of previous sales. There can be no assurance that such product returns will in the future exceed what has been previously experienced by the Company and as a result it may have a material adverse effect on future operating results. A recorded allowance for overstock exchanges based on the overstock exchanges made over the previous four quarters provides an estimate of future overstock exchanges.



MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS



The accompanying consolidated financial statements and all information contained in this annual report are the responsibility of management, who are satisfied with the integrity and objectivity of the information contained therein. The statements have been prepared in accordance with policies and procedures established by management and conform to Canadian generally accepted accounting principles, reflecting management's best estimates and judgements.

In management's opinion, these statements reflect fairly the financial position of the company, the results of its operations and the changes in cash flow. The company's procedures and related internal control systems are designed to provide reasonable assurance that the assets are safeguarded and reliable financial records are maintained.

Lipton, Wiseman, Altbaum & Partners LLP, Chartered Accountants, as the shareholders' auditors, have audited the consolidated financial statements and their report appears here. Their opinion is based on an examination conducted in accordance with Canadian generally accepted auditing standards which includes a review of the company's accounting policies and procedures and where appropriate, a limited review of the company's internal control systems. They obtain sufficient audit evidence to provide reasonable assurance that the consolidated financial statements are presented fairly, in all material respects, in accordance with Canadian generally accepted accounting principles.

The Audit Committee, which consists of non-executive directors, meets with management and the external auditors to review the company's consolidated financial statements before recommending the statements to the Board of Directors for approval.

Denis B.E. Donnelly
Chairman, President and Chief Executive Officer

John P. Grzybowski, MBA, CA
Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of BFS Entertainment & Multimedia Limited

We have audited the consolidated balance sheets of BFS Entertainment & Multimedia Limited as at May 6, 2006 and May 7, 2005 and the consolidated statements of operations, retained earnings and cash flows for the fifty-two weeks ended May 6, 2006 and the fifty-three weeks ended May 7, 2005. These consolidated financial statements are the responsibility of the corporation's management. 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 plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at May 6, 2006 and May 7, 2005 and the results of its operations and its cash flows for the fifty-two weeks ended May 6, 2006 and the fifty-three weeks ended May 7, 2005 in accordance with Canadian generally accepted accounting principles.

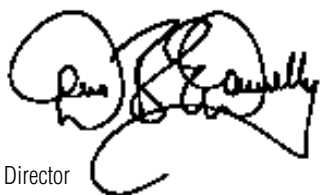
Chartered Accountants, Toronto, Ontario
June 9, 2006

CONSOLIDATED BALANCE SHEETS

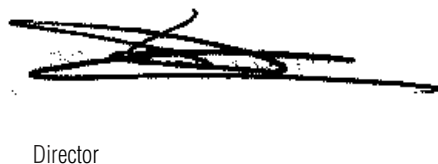
<i>as at</i>	May 6, 2006	May 7, 2005 <i>(Note 3)</i>
Assets		
Current:		
Cash and cash equivalents	\$ 868,941	\$ -
Accounts receivable	640,212	685,898
Inventories	918,030	1,025,646
Prepaid video royalties	591,710	851,774
Prepaid expenses and deposits	149,065	125,233
	3,167,958	2,688,551
Investment in productions	208,384	241,840
Future income taxes	194,448	182,733
Development costs (Note 4)	201,558	238,513
Capital assets (Note 5)	411,293	598,282
	\$ 4,183,641	\$ 3,949,919
Liabilities		
Current:		
Bank indebtedness (Note 6)	\$ -	\$ 118,633
Accounts payable and accrued liabilities	716,165	833,950
Income taxes payable	186,632	16,966
Capital lease obligations due within one year (Note 7)	25,147	34,686
	927,944	1,004,235
Capital lease obligations (Note 7)	10,847	36,401
	938,791	1,040,636
Shareholders' Equity		
Capital stock (Note 8)	2,110,316	2,119,624
Retained earnings	1,134,534	789,659
	3,244,850	2,909,283
	\$ 4,183,641	\$ 3,949,919

See accompanying notes to consolidated financial statements

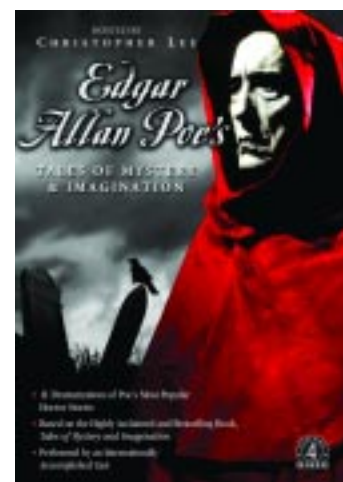
These consolidated financial statements are approved by and on behalf of the Board of Directors:



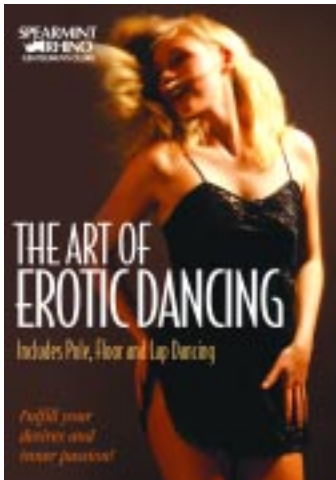
Director



Director



CONSOLIDATED STATEMENTS OF OPERATIONS



<i>For the period ended</i>	May 6, 2006	May 7, 2005
	<i>Fifty-two weeks</i>	<i>Fifty-three weeks</i>
		<i>(Note 3)</i>
Sales	\$ 9,975,179	\$ 8,578,269
Cost of goods sold	3,872,573	3,233,944
Gross profit	6,102,606	5,344,325
Expenses:		
Selling (Note 13)	2,359,091	2,038,201
Administrative	2,593,776	2,495,117
Foreign exchange loss	137,889	224,495
Interest expense (Note 7)	11,156	49,345
Amortization	479,289	592,912
	5,581,201	5,400,070
Earnings (loss) before income taxes	521,405	(55,745)
Income taxes (recovered): (Note 9)		
Current	188,244	15,987
Future taxes	(11,714)	(13,452)
	176,530	2,535
Net earnings (loss)	\$ 344,875	\$ (58,280)
Weighted average number of shares	7,875,436	7,941,208
Basic and diluted earnings (loss) per share (Note 8)	\$ 0.04	\$ (0.01)

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

<i>For the period ended</i>	May 6, 2006	May 7, 2005
	<i>Fifty-two weeks</i>	<i>Fifty-three weeks</i>
		<i>(Note 3)</i>
Retained earnings – beginning of period	\$ 789,659	\$ 847,939
Net earnings (loss)	344,875	(58,280)
Retained earnings – end of period	\$ 1,134,534	\$ 789,659

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOW

<i>For the period ended</i>	May 6, 2006	May 7, 2005
	<i>Fifty-two weeks</i>	<i>Fifty-three weeks</i>
		<i>(Note 3)</i>
Operating activities:		
Net earnings (loss)	\$ 344,875	\$ (58,280)
Items not affecting cash flows:		
Future income taxes recovered	(11,715)	(13,452)
Forgiveness of loan receivable	-	14,000
Amortization of capital assets	342,634	431,759
Amortization of development costs	136,655	161,153
Allowance for write-down of investment in productions (Note 13)	78,000	-
	890,449	535,180
Net changes in non-cash working capital balances (Note 10)	441,415	926,730
Cash flows provided by operating activities	1,331,864	1,461,910
Financing activities:		
Decrease in bank indebtedness	(118,633)	(964,950)
Proceeds from capital lease obligations	-	64,646
Repayment of capital lease obligations	(35,093)	(31,699)
Repayment of long-term debt	-	(62,500)
Purchase of common shares for cancellation	(9,308)	(11,423)
Cash flows used in financing activities	(163,034)	(1,005,926)
Investing activities:		
Additions to investment in productions	(44,544)	(93,496)
Additions to development costs	(99,700)	(120,618)
Additions to capital assets	(155,645)	(241,870)
Cash flows used in investing activities	(299,889)	(455,984)
Net change in cash position	868,941	-
Cash and cash equivalents – beginning of period	-	-
Cash and cash equivalents – end of period	868,941	-
Components of net cash and cash equivalents:		
Cash	368,841	-
Short-term investment	500,000	-
	\$ 868,941	\$ -

See accompanying notes to consolidated financial statements



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Fifty-Two Weeks Ended May 6, 2006 and the Fifty-Three Weeks Ended May 7, 2005

1 | NATURE OF BUSINESS

BFS Entertainment & Multimedia Limited (the "corporation") was incorporated under the laws of Ontario on February 4, 1980.

The corporation is a recognised independent manufacturer and distributor of home videos. The corporation markets and distributes a specialty line of home videos throughout North America. Under exclusive North America license agreements, the corporation sells its products through various channels, including retailers, distributors, mail order houses as well as its own specialised mail order catalogue.

2 | ACCOUNTING POLICIES

The significant accounting policies of the corporation and its subsidiaries conform with generally accepted accounting principles in Canada and are summarized below:

(a) Basis of consolidation:

The consolidated financial statements include the accounts of the corporation and its wholly-owned subsidiaries, BFS Entertainment Limited (U.S. corporation), Collectables Direct Inc., Collectables Direct Inc. (U.S. corporation), BFS Film & Television Productions Inc. and Oopsadaisy Television Productions Inc. All intercompany transactions and balances have been eliminated.

(b) Management estimates:

The preparation of these consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts are not expected to materially vary from these estimates.

(c) Cash and cash equivalents:

Cash and cash equivalents include cash on hand and balances with banks, net of bank overdrafts and highly liquid temporary money market instruments with original maturities of twelve months or less. Bank borrowings are considered to be financing activities.

(d) Accounts receivable:

Accounts receivable are carried at amounts due, net of a provision for amounts estimated to be uncollectable and net of an allowance of estimated returns for overstock exchanges.

(e) Inventories:

Inventories are valued at the lower of cost, determined on a first-in first-out basis and net realisable value, net of an allowance of estimated returns for overstock exchanges.

(f) Prepaid video royalties:

The corporation makes advance royalty payments to secure its video license agreements. These payments are treated as prepaid video royalties and are expensed as part of cost of goods sold when sales are made.

(g) Development costs:

Deferred development costs relating to the design and development of video products are amortized as follows: 4 years – straight-line.

(h) Investment in productions:

Investment in productions relating to the development of DVDs and films have been capitalized and will be amortized over their estimated useful life once the assets are put into commercial use.

(i) Capital assets:

Capital assets are stated at cost less accumulated amortization. Amortization is provided for over the useful life of the assets at the following rates and methods:

Office and warehouse equipment	20% – declining balance
Computer hardware	30% – declining balance
Computer software	2 years – straight-line
Leasehold improvements	Straight-line over the term of the lease plus the first renewal period (10 years)
Master tapes	4 years straight-line
Equipment under capital leases:	
Computer hardware and software	Straight-line over the term of the related leases
Telephone equipment	Straight-line over the term of the related leases
Forklift	Straight-line over the term of the related leases

(j) Revenue recognition:

The corporation earns its revenue from the sale and delivery of products to its customers. Revenue, net of an allowance of estimated returns for overstock exchanges, is recorded when the products are shipped to customers and collectability is reasonably assured.

(k) Future income taxes:

The corporation uses the liability method to record income taxes. Future income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that are expected to be in effect in the periods in which the future income tax assets or liabilities are expected to be settled or realised.

(l) Foreign currency translation:

The temporal method is used to translate the transactions and balances of the corporation that are denominated in foreign currencies. Under this method, monetary assets and liabilities and non-monetary items carried at market values, are translated at the year-end exchange rate; other non-monetary items are translated at their historical exchange rate. Revenue and expenses are translated at weighted average exchange rates, except for amortization, which is translated at the historical exchange rate applicable to the related assets. Exchange gains and losses are recognised currently in earnings.

(m) Stock option and bonus plan:

The corporation recognises the value of stock options earned during the year as a compensation expense. This accounting policy is applied prospectively to all stock option awards to employees and directors that call for settlement by issuance of equity instruments, granted on or after May 4, 2003. The fair value of stock options is determined using the Black-Scholes option pricing model. Once fair value is measured, the value is expensed over the period options vest and contributed surplus is increased by the corresponding amount.

(n) Earnings per share:

Earnings per share is calculated using the weighted average number of shares outstanding during the fiscal period amounting to 7,875,436 (2005 – 7,941,208). Diluted earnings per share is calculated using the treasury method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Fifty-Two Weeks Ended May 6, 2006 and the Fifty-Three Weeks Ended May 7, 2005

(continued)

3 | COMPARATIVE FIGURES

As a result of an Ontario Securities Commission continuous disclosure review, the Company reissued its 2005 consolidated financial statements on January 19, 2006, which were restated for the following adjustments:

(a) Revenue recognition for overstock exchanges and stock balancing by customers

In accordance with Canadian general accepted accounting principles and following the guidance of EIC-141 issued on December 17, 2003, an allowance has been provided for the eventuality that customers may return a portion of their previous purchases for exchanges and therefore credited towards their future purchases. Prior to this, no allowances had been made for stock exchanges and stock balancing. For the restated 2005 amounts, actual returns for overstock exchanges and stock balancing received were recorded as an allowance at the end of each fiscal year rather than the use of estimates as stated in Note 2 (j).

(b) Amortization

The amortization for master tapes and development costs have been restated for 2005. The amortization method has been changed to a four year straight-line (25% per year) from the previous method of a four year period with annual amortization of zero in the first year and 33 1/3% in the following three years.

(c) Summary of net adjustments to consolidated financial statements

The following table represents the net total change to the amounts previously reported arising from the restatement adjustments for 2005.

	2005	
Statement of Operations:		
Sales	\$	19,799
Cost of goods sold		7,524
Amortization – deferred development costs	\$	(11,835)
Amortization – capital assets		(78,735)
Income taxes – future		37,148
Net earnings	\$	65,697
Change in basic and diluted earnings per share	\$	0.01
Balance Sheet:		
Accounts receivable	\$	(83,048)
Inventories		31,558
Future income taxes recoverable		86,933
Deferred development costs		(70,988)
Capital costs		(118,202)
Retained earnings		(153,747)

The comparative figures presented in these consolidated financial statements reflect the reissued consolidated financial statements for the restatement as described above.

4 | DEVELOPMENT COSTS

(in dollars)	Cost	Accumulated Amortization	Net May 6, 2006	Net May 7, 2005 (Note 3)
Development costs	1,328,443	1,126,885	201,558	238,513

During the fiscal period, amortization on development costs amounted to \$136,655 (2005 - \$161,153).

5 | CAPITAL ASSETS

(in dollars)	Cost	Accumulated Amortization	Net May 6, 2006	Net May 7, 2005 (Note 3)
Office and warehouse equipment	310,857	253,950	56,907	69,564
Computer hardware and software	681,933	628,463	53,470	54,518
Leasehold improvements	92,762	58,845	33,917	45,222
Master tapes	2,443,464	2,209,168	234,296	360,181
	3,529,016	3,150,426	378,590	529,485
Assets under capital leases:				
Computer hardware and software	64,646	33,926	30,720	53,122
Telephone equipment	30,876	30,876	-	10,292
Forklift	10,200	8,217	1,983	5,383
	105,722	73,019	32,703	68,797
	3,634,738	3,223,445	411,293	598,282

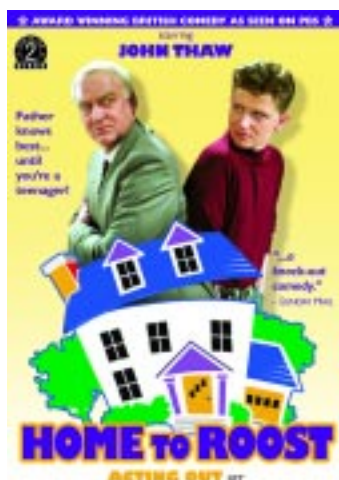
During the fiscal period, amortization on capital amounted to \$306,541 (2005 - \$397,197) and amortization on assets under capital leases amounted to \$36,093 (2005 - \$34,562).



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Fifty-Two Weeks Ended May 6, 2006 and the Fifty-Three Weeks Ended May 7, 2005

(continued)



6 | BANK INDEBTEDNESS

As at May 6, 2006, the corporation had an operating line of credit in the amount of \$2,000,000 of which \$Nil (May 7, 2005 - \$135,000) was outstanding at that date. The outstanding portion of the line of credit bears interest at the bank prime rate plus 0.5% per annum payable monthly. A general security agreement providing a first charge over all accounts receivable, inventories and equipment, other than leased assets, has been pledged as security for this operating line of credit.

7 | LEASE OBLIGATIONS

The following is a summary of the corporation's lease obligations due in future fiscal years:

	Capital Leases	Operating Leases
2007	\$ 27,467	\$ 126,000
2008	11,590	114,000
2009	-	114,000
2010	-	29,000
	39,057	
Less interest portion	3,063	
Present value of minimum lease payments	35,994	
Less amounts due within one year	25,147	
	\$ 10,847	\$ 383,000

The capital leases bear interest at rates varying between 9.0% and 11.3% per annum. During the year, the corporation paid interest totalling \$5,161 (2005 - \$4,788) on its capital lease obligations.

The corporation is required to pay all realty taxes and certain other occupancy costs for the building operating lease.

8 | CAPITAL STOCK

Authorized:

Unlimited Common shares

Issued:

	May 6, 2006	May 7, 2005
7,828,333 (2005 - 7,898,333) Common shares of par value of \$1 each	\$ 2,110,316	\$ 2,119,624

Common shares:

	Shares	Amount
Balance – beginning of period	7,898,833	\$ 2,119,624
Cancelled pursuant to normal course issuer bid	(70,000)	(9,308)
Balance – end of period	7,828,333	\$ 2,110,316

On September 19, 2005, the corporation received approval from the TSX Venture Exchange to purchase, pursuant to a normal course issuer bid expiring September 20, 2006, a maximum of 423,283 common shares of the corporation for cancellation. Pursuant to the approval from the TSX Venture Exchange, the corporation has purchased 70,000 common shares for cancellation as part of the normal course issuer bid for \$9,308 during the fifty-two weeks ended May 6, 2006.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Fifty-Two Weeks Ended May 6, 2006 and the Fifty-Three Weeks Ended May 7, 2005

(continued)

Stock option and bonus plan:

As of May 6, 2006, the corporation has a stock option plan for directors, officers and employees enabling them to purchase common shares of the corporation. A total of 1,175,000 common shares of the corporation have been reserved for options under this plan. As at May 6, 2006, there were 250,000 options outstanding expiring April 7, 2007 at exercise price \$0.70 per share. Each option entitles the holder to purchase one common share of the corporation.

The corporation has reserved 400,000 common shares under a stock bonus plan. These common shares will be issued from time to time as approved by the board of directors. As of May 6, 2006, 40,000 common shares have been issued under this plan.

The following table sets out the stock option plan as at May 6, 2006 and May 7, 2005 and changes during the periods then ended:

	May 6, 2006		May 7, 2005	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding – beginning of period	300,000	\$ 0.69	567,500	\$ 0.65
Expired or cancelled during the period	(50,000)	(0.65)	(267,500)	(0.60)
Outstanding – end of period	250,000	\$ 0.70	300,000	\$ 0.69
Options exercisable – end of period	250,000	\$ 0.70	300,000	\$ 0.69

The following table provides further details of the options outstanding as at May 6, 2006:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Options Outstanding	Weighted Average Remaining Contractual life (in years)	Exercise Price	Options Exercisable	Exercise Price
\$ 0.70	250,000	0.9	\$ 0.70	250,000	\$ 0.70

Stock-based compensation:

The corporation recognizes a compensation expense for grants of stock, stock options and other equity instruments to directors, officers and employees, based on the estimated fair value of the instruments at the grant date, or alternatively, the disclosure of pro-forma net earnings and earnings per share data, as if the stock-based compensation had been recognized in earnings.

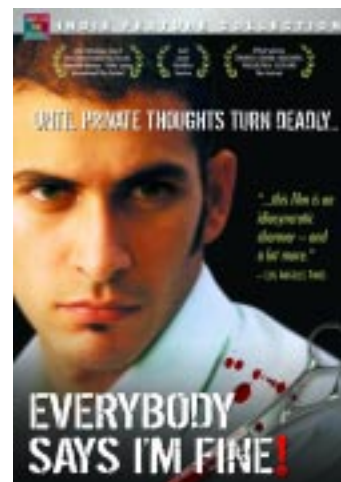
During the fifty-two weeks ended May 6, 2006, the corporation issued no stock options.

Earnings per share:

For the fifty-two weeks ended May 6, 2006, the exercise of outstanding stock options does not have a dilutive effect on earnings per share.

The following table sets out the computation of basic and diluted earnings per share:

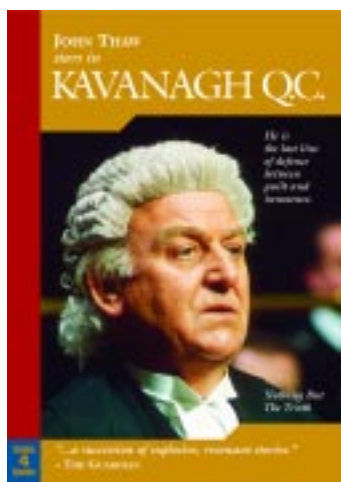
	May 6, 2006	May 7, 2005
		(Note 3)
Numerator:		
Net earnings (loss) available to common shareholders	\$ 344,875	\$ (58,280)
Denominator:		
Weighted average shares for basic earnings per share	7,875,436	7,941,208
Weighted average shares for diluted earnings per share	8,125,436	7,941,208
Basic and diluted earnings (loss) per share	\$ 0.04	\$ (0.01)



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Fifty-Two Weeks Ended May 6, 2006 and the Fifty-Three Weeks Ended May 7, 2005

(continued)



9 | INCOME TAXES:

The following table reconciles the statutory Federal and Provincial income tax rates to the effective income tax rate on the income before income taxes.

	May 6, 2006	May 7, 2005
		(Note 3)
Earnings (loss) before income taxes	\$ 521,405	\$ (55,745)
Combined basic Federal and Provincial income tax provision at statutory rates	188,331	(20,135)
Non-deductible items for income tax purposes	-	12,390
Timing differences between CCA and amortization	(11,714)	(13,452)
Other	(87)	23,732
Income taxes	\$ 176,530	\$ 2,535
Effective income tax rate expressed as a percentage	33.9	4.5

The corporation's future income tax asset is the result of differences in the net book value and undepreciated capital costs of the development costs and capital assets.

10 | NET CHANGES IN NON-CASH WORKING CAPITAL BALANCES:

	May 6, 2006	May 7, 2005
		(Note 3)
Decrease (increase) in accounts receivable	\$ 45,686	\$ 792,539
Decrease in inventories	107,616	336,132
Decrease in prepaid video royalties	260,064	16,798
Increase in prepaid expense and deposits	(23,832)	(55,464)
Decrease in accounts payable and accrued liabilities	(117,785)	(69,346)
Increase (decrease) in income taxes payable	169,666	(93,929)
	\$ 441,415	\$ 926,730

During the fiscal period, the corporation paid interest of approximately \$11,200 (2005 - \$49,300) and income taxes of approximately \$18,600 (2005 - \$108,100).

11 | SEGMENTED INFORMATION:

The corporation operates in the home entertainment industry in North America and sells primarily to customers in the United States. Sales to customers in the United States amounted to approximately \$7,501,000 (2005 - \$6,472,000) with the balance of sales to customers in Canada.

12 | FINANCIAL INSTRUMENTS:

Fair value:

The corporation's financial instruments include cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. The carrying value of these financial instruments approximates fair value due to their current nature.

The fair value of capital lease obligations has been estimated based on quoted market prices for same or similar instruments and in management's opinion, approximates carrying value.

Interest rate risk:

The corporation is exposed to interest rate risk on fluctuations in interest rates on its short-term investment and capital lease obligations. Due to its short-term nature, interest on the short-term investment is not expected to have a significant impact on cash flows. Since interest rates on the capital lease obligations are fixed, it is management's opinion that the interest rate exposure is not significant. The corporation has considered, but does not use derivative financial instruments to reduce its exposure to interest risk on its cash and cash equivalents.

Currency risk:

The corporation conducts a significant portion of its operations with corporations and/or customers in the United States. As a result, a significant amount of sales, expenses, accounts receivables, prepaid video royalties, bank indebtedness and accounts payable and accrued liabilities were incurred or are carried in United States dollars. The corporation occasionally uses forward contracts to reduce exposure to currency risk.

Credit risk:

Concentration of credit risk arises when a group of customers having a similar characteristic such that their ability to meet their obligations is expected to be affected similarly by changes in economic or other conditions. For the corporation, significant concentrations of credit risk are related to industries and geographic location. The corporation's accounts receivable are primarily due from United States based corporations in the entertainment industry.

13 | ALLOWANCE FOR WRITE DOWN OF INVESTMENT IN PRODUCTIONS:

Selling expense includes a \$78,000 allowance for a write down on the corporation's investment in productions. This write down is for post production costs incurred by that division as part of its start-up costs which management believes may not be recoverable.

SHAREHOLDERS INFORMATION

BOARD OF DIRECTORS

David E. Chapman, Partner
Bresver, Grossman, Scheininger & Chapman LLP

Denis B.E. Donnelly
Chairman of the Board
President and Chief Executive Officer
BFS Entertainment & Multimedia Limited

Warren Palitz ^{1,2}, Vice President
Greentree Brokerage Services, Inc.
Philadelphia, PA, USA

Mark C. Shoniker ^{1,2}, Director
BMO Bank of Montreal
Toronto, Ontario

C. Mark Zeilstra ^{1,2}, Company Director
Winnipeg, Manitoba

¹ | Member of the Audit Committee

² | Member of the Compensation Committee

OFFICERS

Denis B.E. Donnelly
President and Chief Executive Officer

John P. Grzybowski, MBA, CA
Chief Financial Officer

David E. Chapman
Secretary

AUDITORS

Lipton, Wiseman, Altbaum & Partners LLP
Toronto, Ontario

LEGAL COUNSEL

Bresver, Grossman, Scheininger & Chapman LLP
Toronto, Ontario
Stikeman Elliott LLP, Toronto, Ontario
Lawrence Graham, London, England

STOCK EXCHANGE LISTING

TSX Venture Exchange
Trading Symbol: BFS

TRANSFER AGENT

CIBC Mellon Trust Company
Toronto, Ontario

BANKERS

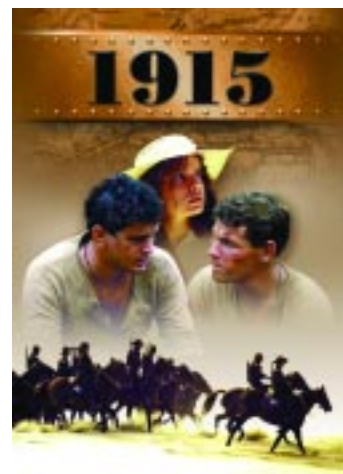
Royal Bank of Canada
Toronto, Ontario

CORPORATE HEADQUARTERS

360 Newkirk Road, Richmond Hill, Ontario,
Canada L4C 3G7
Tel (905) 884-2323 Fax (905) 884-8292
E-Mail: info@bfsent.com
Website: www.bfsent.com

ANNUAL MEETING

The Annual Meeting of the Company's Shareholders
will be held on
Tuesday, September 19, 2006 at 11:00 a.m.
in the Paris Room at Stikeman Elliott LLP
Commerce Court West, 53rd Floor, 199 Bay Street
Toronto, Ontario, Canada



All Images © American Home Treasures, BFS Video, BBC Worldwide,
Granada International, Discovery Channel, TLC, Minotaur International,
Canadian Broadcasting Corporation, Australian Broadcasting Corporation,
Shoreline Entertainment, Panorama Entertainment Corporation
Design & Production © 2006 BFS Entertainment & Multimedia Limited

BFS ENTERTAINMENT & MULTIMEDIA LIMITED
360 Newkirk Road, Richmond Hill, Ontario, Canada L4C 3G7
T 905.884.2323 F 905.884.8292 www.bfsent.com