DHX MEDIA LTD.

Fiscal 2009

Annual Report

Management Discussion and Analysis
of Financial Condition and Results of Operations
For the Years Ended June 30, 2009 and June 30, 2008

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Annual Report
June 30, 2009

MANAGEMENT DISCUSSION AND ANALYSIS

*The following Management Discussion & Analysis ("**MD&A**") prepared as of September 28, 2009, should be read in conjunction with DHX Media Ltd.'s* (the "**Company**" or "**DHX**") *audited consolidated financial statements and accompanying notes for the years ended June 30, 2009 and 2008. The audited consolidated financial statements and accompanying notes for the years ended June 30, 2009 and 2008 have been prepared in accordance with Canadian generally accepted accounting principles.*

*The audited consolidated financial statements and accompanying notes for the year ended June 30, 2009 include only 345 days of activity from July 20, 2008, the date of acquisition for imX Communications Inc.("**imX Communications**" or "**imX**") and for the year ended June 30, 2008 include only 210 days of activity for Studio B Productions Inc. ("**Studio B**" or "**Studio B division**" (see–"Acquisition" section of this MD&A for further details on the imX and Studio B acquisitions).*

DHX is a public company incorporated under the Canadian Business Corporations Act and its shares were listed on the TSX and AIM Exchanges on May 19, 2006 (symbol DHX). Additional information relating to the Company can be found on its website at www.dhxmedia.com or on SEDAR at www.sedar.com. The Company will be delisting its shares from the AIM market of the London Stock Exchange effective October 1, 2009. The Company's shares will continue to trade on the Toronto Stock Exchange.

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles. Figures in this MD&A are shown as millions (for example, $100,000 is shown as $0.10 million) and are approximate and have been rounded to the nearest ten thousand.

This MD&A contains certain forward-looking statements, which reflect DHX management's ("**Management**") expectations regarding the Company's growth, results of operations, performance, and business prospects and opportunities.

Statements about the Company's future plans and intentions, results, levels of activity, performance, goals or achievements, or other future events constitute forward-looking statements. Wherever possible, words such as "may," "will," "should," "could," "expect," "plan," "intend," "anticipate," "believe," "estimate," "predict," or "potential" or the negative or other variations of these words, or other similar words or phrases, have been used to identify these forward-looking statements. These statements reflect Management's current beliefs and are based on information currently available to Management.

Forward-looking statements involve significant risk, uncertainties, and assumptions. Many factors could cause actual results, performance, or achievements to differ materially from the results discussed or implied in the forward-looking statements. These factors should be considered carefully and readers should not place undue reliance on the forward-looking statements. Although the forward-looking statements contained in this MD&A are based on what Management believes to be reasonable assumptions, the Company cannot assure readers that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this MD&A, and the Company assumes no obligation to update or revise them to reflect new events or circumstances. Many factors could cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements that may be expressed or implied by such forward-looking statements, including: general economic and market segment conditions, competitor activity, product capability and acceptance, international risk and currency exchange rates, and technology changes. A detailed assessment of the risks that could cause actual results to materially differ from current expectations is contained in the "Risk Assessment" section of this MD&A.

The foregoing is not an exhaustive list and other risks are detailed from time to time in other continuous disclosure filings of the Company. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, or expected.

Business of the Company

DHX is a leading independent supplier and distributor of television and film productions. The Company is the result of the combination of The Halifax Film Company Limited ("**Halifax Film**") and Decode Entertainment Inc. ("**Decode**") during Fiscal 2006 and on December 4, 2007, March 20, 2008, and July 20, 2008 DHX added another three companies, Studio B, Bulldog Interactive Fitness Inc. ("**Bulldog**"), and imX respectively (See "Acquisition" and "Acquisitions" sections of this MD&A). In December 2008, the Company decided to dispose of Bulldog (See "Discontinued Operations" section of this MD&A).

The Company produces, distributes, and exploits the rights for television and film programming. DHX's primary focus is on children's, youth, and family (collectively "**Children's and Family**") productions because of the international sales potential and longer-term and multiple revenue streams that this genre of programming provides. Children's and Family programming travels across cultures more easily than other genres and can therefore be sold into numerous markets, typically has a longer lifespan than other genres, and can be leveraged for merchandising and licensing revenues.

DHX's content library includes over 2,225 half-hours of programming and over 55 individual titles produced. The Company has 15 children's series currently in first window broadcast on multiple major cable and broadcast networks in North America and internationally, including, *The Mighty Jungle, Bo on the Go!, Franny's Feet ,Chop Socky Chooks ,Urban Vermin, Animal Mechanicals, Kid vs. Kat,* and *Martha Speaks*. The Company's prime-time production slate also includes notable achievements in the comedy genre, including the award-winning Canadian prime-time comedy series *This Hour Has 22 Minutes*, which is produced for the CBC and has concluded its 16th season. Management is pleased to announce that it has been picked up for a 17th season which will start again in the fall of 2009. The Company operates from its offices and production facilities in Halifax, Toronto, and Vancouver, producing content for distribution in domestic and international markets which is marketed via its Toronto based sales group.

Revenue Model

The Company historically earns revenues primarily from four categories: 1) production, 2) distribution of its proprietary productions, 3) producer and service fees, which include Canadian rights programs and production services for third parties and equity investments, and 4) other revenues which include rental of studios and office facilities, music and royalty revenue, and new media revenue. The Company is able to generate revenue from productions by licensing its initial broadcast rights and pre-licensing of territories for its programs. Production revenues include the initial broadcast license revenues and any pre-sales or distribution advances included in the initial financing of the production of a film and television program. Once a production is completed and delivered, the program is included in the Company's library of film and television programming. Further revenue from exploitation of the program is included in distribution revenue. The Company also generates revenue from production services for programs in which it retains Canadian rights and limited participation rights and, in certain instances, from third parties and equity investments. Certain of these service and corporate overhead fees are earned for producing productions whose copyright is owned by third parties.

Production Revenue

The Company derives production revenues from the grant of initial broadcast rights for the initial showing of commissioned productions and pre-licensing of territories. These fees are typically collected partially upon commissioning of a production, during production, and finally once a completed production is delivered for broadcast, and at some point in time after delivery as a holdback (See "Critical Accounting Policies and Estimates" section of this MD&A for details on revenue recognition).

Distribution Revenue

The Company is able to retain the ownership rights to its proprietary productions, which permits the Company to generate further revenues from the distribution of the Company's productions. In addition to generating revenues from the sale of initial broadcast rights, the Company is able to concurrently generate revenues from the sale of broadcast rights in other jurisdictions and on other platforms (such as DVD and video) for specified periods of time. Distribution revenue also includes theatrical and other revenues generated on its feature films.

Producer and Service Fee Revenue

Starting in 2009, this category includes revenue accounted for using the percentage of completion method for certain programs where the Company has Canadian and other limited participation rights and, in some cases, revenues for service and corporate overhead fees earned for producing productions whose copyright is owned by third parties.

Other Revenue

Other revenue includes rental of studios, equipment, and office facilities, music and royalty (including merchandising and licensing (**"M&L"**), and new media revenue.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The summary consolidated financial information set out below for the years ended June 30, 2009, 2008, and 2007 has been derived from the Company's audited consolidated financial statements and accompanying notes for each of the years ended June 30, 2009, 2008, and 2007, and can be found at www.sedar.com or DHX's website at www.dhxmedia.com. **Each reader should read the following information in conjunction with those statements and the related notes.**

	Year Ended June 30,		
	2009	2008	2007
	($000) (except per share data)	($000) (except per share data)	($000) (except per share data)
Consolidated Statements of Income and Comprehensive Income Data:[1]			
Revenues	**61,969**	52,379	25,971
Direct production costs and amortization of film and television produced	**39,168**	35,145	16,237
Gross margin	**22,801**	17,234	9,734
Selling, general, and administrative	**14,001**	12,045	7,341
Impairment in value of certain investment in film and television programs	**494**	2,782	-
Income before the following and discontinued operations	**7,145**	960	1,381
Income (loss) from strategic investments	**122**	(59)	1,737
Costs associated with abandoned transactions	**(1,360)**	(104)	(288)
Amortization, interest and other (expenses), net	**(2,689)**	(1,646)	(1,039)
Provision for income taxes	**1,375**	40	590
Net income (loss) and comprehensive income (loss) before discontinued operations	**1,843**	(889)	1,201
Discontinued operations, net of income tax	**(1,468)**	(141)	-
Net income (loss) and comprehensive income (loss)	**375**	(1,030)	1,201
Basic earnings (loss) before discontinued operations per common share	**0.04**	(0.02)	0.04
Diluted earnings (loss) before discontinued operations per common share	**0.04**	(0.02)	0.03
Basic earnings (loss) per common share	**0.01**	(0.03)	0.04
Diluted earnings (loss) per common share	**0.01**	(0.03)	0.03
Weighted average common shares outstanding			
Basic	**43,066**	39,039	32,699
Diluted	**43,096**	39,039	35,733
Consolidated Balance Sheet Data:			
Cash, restricted cash and short-term investments	**11,086**	9,570	5,779
Investment in film and television programs	**35,827**	49,981	47,025
Total assets	**148,803**	143,976	103,005
Total liabilites	**88,253**	85,783	61,544
Shareholders' equity	**60,550**	58,193	41,461

[1]The financial information for the year ended June 30, 2009 in the table includes a full year's results for Halifax Film, Decode, and Studio B, but only 345 days of activity for imX (see–"Acquisition" section of this MD&A for further details on the imX acquisition). The financial information for the year ended June 30, 2008 in the table includes a full year of activity of Halifax Film and Decode, 210 days of activity for Studio B, and no activity for imX. The year ended June 30, 2007 is prior to the acquisitions of Studio B and imX.

Year Ended June 30, 2009 (“Fiscal 2009” or “2009”) Compared to Year Ended June 30, 2008 (“Fiscal 2008” or “2008”)

Revenues

Revenues for Fiscal 2009 were $61.97 million, up from $52.38 million for Fiscal 2008, an increase of 18%. The increase was generally due to increases in the Company’s production and producer service fee revenue categories. Management was especially pleased with the growth given the general downturn in the overall economic climate over the past year.

Proprietary production revenues: Proprietary production revenues for Fiscal 2009 of $39.44 million were up 15% over the $34.41 million for Fiscal 2008. The increase included a 38% increase to $20.62 million (Fiscal 2008-$14.98 million) in proprietary production revenue for the Halifax Film division, a 21% decrease to $13.81 million for Fiscal 2009 (Fiscal 2008-$17.55 million) for the Decode division, and the inclusion of $5.01 million, a full Fiscal year of activity (Fiscal 2008-$1.88 million, for 210 days of activity), for the Studio B division.

In addition, for Fiscal 2009 the Company delivered 57 half-hours of productions where the Company has Canadian rights and some other minority participation rights, which are being accounted for using the percentage of completion method, and shown in producer and service fee revenues. The breakdown was as follows:

Title	Season	Fiscal 2009 Half-hours	Fiscal 2008 Half-hours
Decode:			
Waybuloo (Treehouse)	I	17.0	-
Studio B:			
Martha Speaks (TVO)	I	40.0	-
Total Deliveries		**57.0**	**-**

For Fiscal 2009 the Company recognized 226.5 half-hours - $39.44 million of proprietary film and television program production revenue, generally in line with Management’s expectations, versus 225.5 half-hours - $34.07 million for Fiscal 2008, where the programs have been delivered and the license periods have commenced for consolidated entities. For Fiscal 2009 the Company recognized nil half-hours versus $0.03 million - 8 half-hours for Fiscal 2008 of proprietary film and television program production revenue for non-consolidated entities.

The breakdown for deliveries and dollar value subtotals for divisions for consolidated and non-consolidated entities for Fiscal 2009 and Fiscal 2008 was as follows:

		Fiscal 2009		Fiscal 2008	
Title	**Season or Type**	**$ Million**	**Half-hours**	**$ Million**	**Half-hours**
Consolidated Entities					
Decode:					
Chop Socky Chooks	I		9.0		8.0
Clang Invasion	I		19.0		7.0
Delilah & Julius	II		-		26.0
The Latest Buzz	I		-		13.0
The Latest Buzz	II		26.0		-
Naturally Sadie (SRC)	III		-		N/A [1]
Planet Sketch	II		-		13.0
Poppets Town	I		6.0		-
Super Why (CBC)	I		N/A [1]		N/A [1]
Super Why (PBS)	I		24.0		36.0
Urban Vermin	I		-		15.0
Subtotals		$ 13.81	84.0	$ 17.55	118.0
Studio B:					
Class of the Titans	II		-		10.0
Being Ian	III		-		N/A [1]
Being Ian	IV		2.0		8.0
Kid vs. Kat	I		26.0		-
Ricky Sprocket - Showbiz Boy	I		-		8.0
Subtotals		5.01	28.0	1.88	26.0
Halifax Film:					
Animal Mechanicals	I		-		10.0
Animal Mechanicals	II		8.5		1.5
Bo on the Go!	I		-		6.0
Bo on the Go!	II		8.0		6.0
Bo on the Go!	III		10.0		-
The Guard	I		12.0		14.0
The Guard	II		18.0		-
The Making of Shake Hands with the Devil	Documentary		N/A [1]		1.0
The Mighty Jungle	I		-		3.0
The Mighty Jungle	II		-		13.0
The Mighty Jungle	III		10.0		-
Nathan Fielder's 2008 Election Special	Comedy Special		2.0		-
Shake Hands with the Devil	Feature Film		-		4.0
Show Us Your Shorts TV	Pilot		-		2.0
SOUL	I		12.0		-
That's So Weird	I		13.0		-
This Hour Has 22 Minutes	XV		-		21.0
This Hour Has 22 Minutes	XVI		21.0		-
Subtotals		20.62	114.5	14.64	81.5
Total Consolidated Entities		**39.44**	**226.5**	**34.07**	**225.5**
Non-consolidated Entities					
Accounted for Using the Equity Method					
Lunar Jim	II		-		8.0
Subtotals		-	-	0.34	8.0
Total All Entities		**$ 39.44**	**226.5**	**$ 34.41**	**233.5**

[1]*N/A – Not applicable as deliveries of half-hours have already been counted when title delivered in the first instance.*

The Company recorded nil for Fiscal 2009 as equity income for *Lunar Jim* Season II versus $0.04 million in Fiscal 2008.

In addition, by June 30, 2009 the Company delivered $3.50 million - 26 half-hours of *Latest Buzz* Season III and $0.24 million - 8 half-hours of *Super Why (CBC)* Season I, where the license periods had not yet commenced by June 30, 2009, and therefore the revenue recognition criteria had not been met to recognize in Fiscal 2009. The license periods are scheduled to commence in Fiscal 2010 and will be recognized in the corresponding quarter, when the license periods have commenced and all revenue recognition criteria have been met.

In summary, total proprietary deliveries in Fiscal 2009 were 260.5 half-hours made up of: 226.5 half-hours (proprietary television recognizable) and 34 half-hours (proprietary television not recognizable). Further, post production issues resulted in delays in delivering 10 half-hours of *Canadian Super Spellers* Season I and 2 half-hours of *Making of Soul* originally scheduled for delivery in 2009 (now scheduled for delivery in Q1 & Q2 2010).

Producer and service fee revenues: For Fiscal 2009 the Company earned $7.28 million for producer and service fee revenues, up substantially over $1.72 million for Fiscal 2008. The breakdown was: $3.22 million for *Waybuloo*, $0.42 million for *Martha Speaks* Season I, $0.98 million for *Martha Speaks* Season II, $0.24 million for *Side Show Christmas* Season I, $0.39 million for *Badly Drawn Roy* Season I, $0.38 million for *Peanuts* Season I, $0.13 million for *George of the Jungle* Season I, $0.51 million for *Pucca* Season II, and $1.01 million for *Trollope*, a feature length film. For Fiscal 2008 the breakdown was: $0.41 million for *George of the Jungle* Season I, $0.66 million for *Martha Speaks* Season I, $0.11 million for *Side Show Christmas* Season I, $0.15 million for *Peanuts* Season I, and $0.39 million for *Pucca* Season II. *Waybuloo* Season I and *Martha Speaks* Season I are productions where the Company has Canadian rights and minority percentages in other participation rights and are accounted for using the percentage of completion method.

Distribution revenues: For Fiscal 2009 distribution revenues were down by 14% to $12.36 million from $14.43 million for Fiscal 2008. For Fiscal 2009 the Company recognized revenue on several contracts throughout its existing library and delivered episodes of newer titles. Some of the more significant sales were on the following titles: *Chop Socky Chooks* Season I, *The Latest Buzz* Seasons I, II, and III, *Bo on the Go!* Seasons I and II, *The Mighty Jungle* Season II, *Animal Mechanicals* Seasons I and II, *Super Why* Season I, *Kid vs. Kat* Season I, and *Martha Speaks* Season I. Management was very pleased with the Q4 2009 and overall performance of its distribution activities for Fiscal 2009 given the economic climate over the past year and sees it as a testament to the quality of the proprietary programs the Company is delivering to its customers, particularly in the Company's core competency of Children's and Family programming.

Music and royalty revenues: For Fiscal 2009 music and royalty revenues increased 152% to $1.99 million (Fiscal 2008-$0.79 million). For Fiscal 2009 $0.74 million related to the recognition of the minimum guarantee from the Hasbro Franny's Feet M&L deal that has been put on indefinite hold. New media revenues decreased in Fiscal 2009 to $0.22 million (Fiscal 2008-$0.65 million).

Rental revenues: For Fiscal 2009 rental revenues were $0.68 million, up significantly from Fiscal 2008 of $0.38 million, as a result of continued rental of studio and office facilities to third parties of the Company's Halifax Film Children's Studio (formerly Electropolis), rental of currently unused office space in the Company's headquarters in Halifax, Nova Scotia, and beginning in Q3 2009, rental of office and equipment of the Company's Toronto, Ontario office to a service production.

Gross Margin

Gross margin for Fiscal 2009 was $22.80 million, an increase in absolute dollars of 32% compared to $17.23 million for Fiscal 2008. The overall margin, at 37% of revenue, was up over the 33% for Fiscal 2008.

For Fiscal 2009 the margins for each revenue category in absolute dollars and as a margin percentage are as follows: production revenue margin of $11.15 million or 28%, net producer and service fee revenue margin of $3.12 million or 43%, distribution revenue margin of $6.72 million or 54% ($5.98 million or 48% when $0.74 million for the amortization of acquired libraries is removed), music and royalty revenue margin of $1.06 million or 53%, new media revenue margin of $0.07 million or 32%, and rental revenue margin of $0.68 million or 100%. The production, producer service fee, and music and royalty revenue streams were all significant contributors to the absolute dollar margin increase for Fiscal 2009.

In particular, production, service, and distribution in terms of absolute dollars contributed $11.15 million, $3.12 million, and $6.72 million respectively or 92% of the total margin. Production margin at 28% was in line with Management's expectations. Producer and service fee margin at 43% was in line with Management's expectations. Distribution margin can fluctuate greatly from title-to-title and at 54% is at the very high end of the range of Management's expectations. Going forward Management would expect the range on distribution margin to be from 35-50%. Music and royalty margin at 53% was in line with Management's expectations and is generally already on a net basis as the Company's license arrangements call for the deducting of third party commissions and expenses prior to the receipt of the royalty stream to the Company. Therefore, Management would expect this revenue stream to have a low cost base going forward with margins in the 50-90% range.

Overall gross margin for Fiscal 2009 at 37% is at the high end of Management's expectations and we would expect that future years' gross margin will be within the 28-38% range.

Operating Expenses

Operating expenses for Fiscal 2009 were $15.66 million compared to $16.27 million for Fiscal 2008, a decrease of 4%. The decrease for Fiscal 2009 is mainly due to the fact that the impairment in value of certain investment in film and television programs was only $0.49 million versus $2.78 million in Fiscal 2008. In Fiscal 2009, SG&A increased 16% to $14.00 million from $12.05 million for Fiscal 2008. SG&A costs have generally increased as a result of the addition of Studio B and imX amounting to the approximate $2.00 million increase. For Fiscal 2009, included in Operating Expenses is $0.74 million for amortization of acquired library versus $1.12 million for Fiscal 2008 (see "Amortization" section in this MD&A for further details). Operating expenses for Fiscal 2009 as a percentage of revenues, at 25%, is improving compared to Fiscal 2008 at 31%.

Impairment in Value of Certain Investment in Film and Television Programs

During Q4 and for Fiscal 2009 the Company recorded an impairment in value of certain investment in film and television programs of $0.49 million ($2.78 million for Fiscal 2008).

Income (Loss) from Strategic Investments

For Fiscal 2009 income from strategic investment activities of $0.12 million (Fiscal 2008-$0.06 million loss) related to distributions of capital of $0.02 million, an unrealized gain from short-term investments held for trading of $0.04 million, and a realized capital gain of $0.06 million, versus $0.05 million for distributions of capital, offset by a realized capital loss of $0.07 million and a $0.04 million unrealized loss from short-term investments held for trading for Fiscal 2008. All investments were strategic in nature and were in the same or similar businesses as the business of the Company.

EBITDA

In Fiscal 2009 EBITDA was $9.80 million, a 61% increase as compared to $6.09 million for Fiscal 2008. For Fiscal 2009 this was due to the increase in gross margin dollars of $5.57 million, adding back an increase of non-cash stock-based compensation expense of $0.10 million, and offset by the increase in SG&A of $1.96 million, for a positive total dollar change of $3.71 million.

Amortization

Amortization includes amortization of acquired libraries, property, plant, and equipment ("**PP&E**"), and intangible assets. For Fiscal 2009 amortization was $3.06 million (Fiscal 2008-$2.89 million). The breakdown for amortization for Fiscal 2009 was $0.74 million, $1.05 million, and $1.27 million for amortization of acquired libraries, PP&E, and intangible assets respectively. For Fiscal 2009 the amortization of acquired libraries was $0.74 million (Fiscal 2008-$1.12 million) which relates to the library titles that have a 20 year amortization policy, have minimal ongoing cash costs associated with selling, and are viewed as long-term assets. For Fiscal 2009 amortization of PP&E was $1.05 million (Fiscal 2008-$0.72 million) due to increases to PP&E. For Fiscal 2009 amortization of intangible assets was $1.27 million (Fiscal 2008-$1.05 million) which relates to the intangible assets acquired as part of the acquisitions of Decode and Studio B.

Interest

Interest was a net interest expense for Fiscal 2009 of $0.34 million versus net interest expense of $0.29 million for Fiscal 2008. Interest expense consists of $0.17 million, nil, nil, and $0.20 million for interest expense on long-term debt, interest accreted from other liabilities, interest from a note payable, and interest and bank charges (Fiscal 2008-$0.30 million, $0.12 million, $0.02 million and $0.12 million respectively) and offset by interest income of $0.03 million (Fiscal 2008-$0.27 million).

Costs Associated with Abandoned Transactions, Equity Income, and Non-Controlling Interest

For Fiscal 2009 the Company recorded a charge for the costs associated with abandoned transactions of $1.36 million (Fiscal 2008-$0.10 million), approximately $1.20 million of which related to the cancellation of the Entertainment One transaction (see "Entertainment One Abandoned Transaction" section of this MD&A), an equity income of nil (Fiscal 2008-$0.04 million) for its investment in production companies, and an expense for non-controlling interest of $0.03 million (Fiscal 2008-income of $0.38 million).

Income Taxes

Income tax expense for Fiscal 2009 was $1.38 million (Fiscal 2008-$0.04 million) made up of $0.10 million expense (Fiscal 2008-$0.04 million) for large corporation taxes, $0.74 million expense (Fiscal 2008-$0.01 million recovery) for current income taxes, and future income tax expense of $0.54 million (Fiscal 2008-$0.01 million).

Net Income (Loss) and Comprehensive Income (Loss) Before Discontinued Operations

Net income and comprehensive income before discontinued operations for Fiscal 2009 increased 307% to $1.84 million (Fiscal 2008-$0.89 million loss).

Discontinued Operations

The Company recorded a loss on discontinued operations, net of income tax, of $1.47 million for Fiscal 2009 (Fiscal 2008-$0.14 million). In December 2008, the Company decided to dispose of its Bulldog subsidiary due to a slow down in franchisee opportunities resulting from the global economic slowdown. The Company decided the working capital required in getting to break even and profitability was significant and was sufficiently pushed forward due to the current economic climate. Given that the remainder of the Company's subsidiaries are generating positive cash flow, the Company felt it was prudent to not fund losses of Bulldog. The Company is exploring its options for a potential sale or wind up and will report on its final determination in the coming quarters.

Net Income (Loss) and Comprehensive Income (Loss)

Net income and comprehensive income for Fiscal 2009 was $0.38 million, compared to $1.03 million loss for Fiscal 2008, or an increase of $1.41 million in absolute dollars or 137%. For Fiscal 2009 the overall increase of $1.41 million was due to changes over Fiscal 2008 of the following amounts: a gross margin increase of $5.57 million and a $0.80 million decrease in operating expenses, net of income from strategic investments, offset by an increase of $1.34 million in provision for income taxes, an increase of $1.03 million in amortization, interest, and other expenses, an increase of $1.26 million in costs associated with abandoned transactions, and an increase of $1.33 million in the loss from discontinued operations.

SELECTED CONSOLIDATED QUARTERLY FINANCIAL INFORMATION

The following table sets out selected consolidated financial information for each of the last eight quarters with the last one being the most recent quarter ended June 30, 2009. In the opinion of Management, this information has been prepared on the same basis as the audited consolidated financial statements for the years ended June 30, 2009 and 2008 as filed on www.sedar.com or DHX's website at www.dhxmedia.com, and all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly the unaudited quarterly results when read in conjunction with the audited consolidated financial statements and the notes to those statements. The operating results for any quarter should not be relied upon as an indication of results for any future period.

	Fiscal 2009[4]				Fiscal 2008[4]			
(All numbers are in thousands except per share data)	**Q4[3] 30-Jun $**	**Q3 31-Mar $**	**Q2 31-Dec $**	**Q1 30-Sep $**	**Q4[3] 30-Jun $**	**Q3[2] 31-Mar $**	**Q2[2] 31-Dec $**	**Q1 30-Sep $**
Revenue	11,523	12,061	21,514	16,871	13,582	18,827	9,307	10,663
Gross Margin[1]	6,074	5,001	6,733	4,993	4,619	5,836	3,473	3,307
EBITDA and Adjusted EBITDA[1 & 3]	3,316	1,625	3,013	1,845	1,200	2,688	1,109	1,097
Net Income (Loss) and Comprehensive Income (Loss) before Discontinued Operations	157	461	615	610	(2,283)	883	137	374
Net Income (Loss) and Comprehensive Income (Loss)	(271)	444	(328)	530	(2,417)	876	137	374
Basic Earnings (Loss) Before Discontinued Operations Per Common Share	0.00	0.01	0.02	0.01	(0.05)	0.02	0.00	0.01
Diluted Earnings (Loss) Before Discontinued Operations Per Common Share	0.00	0.01	0.02	0.01	(0.05)	0.02	0.00	0.01
Basic Earnings (Loss) Per Common Share	0.00	0.01	(0.01)	0.01	(0.06)	0.02	0.00	0.01
Diluted Earnings (Loss) Per Common Share	0.00	0.01	(0.01)	0.01	(0.06)	0.02	0.00	0.01

[1]Certain of the comparative Non-GAAP Financial Measures ("**NGFM**") are adjusted for all necessary adjustments, consisting of normal recurring adjustments and any changes in the current definition of NGFM (see "Use of Non-GAAP Financial Measures" section of this MD&A for further details).

[2]Q3 2008 and Q2 2008 figures for revenues and direct service costs were adjusted by $1.56 million and $0.52 million respectively with no effect on Gross Margin, EBITDA, or Net Income as a result of non-material corrections of certain accounting treatment on final audit.

[3]The Adjusted EBITDA figure shown for Q4 2009 and Q4 2008 were adjusted $0.49 million and $2.78 million respectively for the impairment in value of certain investments in film and television programs as management believes this to be a more meaningful indicator of operating performance (see "Reconciliation of Historical Results to EBITDA and Adjusted EBITDA" of this MD&A).

[4] The financial information for Q4, Q3, and Q2 2009 includes full quarterly results for the Company's four divisions (Halifax Film, Decode, Studio B, and imX). Q1 2009 includes full quarterly results for three divisions (Halifax Film, Decode, and Studio B) and 72 days for imX. Q3 and Q4 2008 include full quarterly results for three divisions (Halifax Film, Decode, and Studio B) with no amounts for imX. Q2 2008 includes full quarterly results for Halifax Film, Decode, and only 28 days of activity for the Studio B division and no amounts for imX. Results for Q1 2008 pre-date the acquisitions of Studio B and imX.

Results for the three months ended June 30, 2009 ("Q4 2009") compared to the three months ended June 30, 2008 ("Q4 2008")

Revenues

Revenues for Q4 2009 were $11.53 million, down 15% from $13.58 million for Q4 2008. The decrease in Q4 2009 was generally due to lower deliveries of proprietary programs versus Q4 2008. Proprietary deliveries are seasonal and Q4 2008 was a more robust quarter for deliveries. Deliveries for Q4 2009 were generally in line with Management's expectations.

Proprietary production revenues: Proprietary production revenues for Q4 2009 of $2.39 million were down 60% compared to $6.0 million for Q4 2008. The overall decrease was made up of a 48% increase to $1.70 million (Q4 2008-$1.15 million) in proprietary production revenue for the Halifax Film division, an 86% decrease to $0.69 million for Q4 2009 (Q4 2008-$4.82 million) for the Decode division (generally due to fewer scheduled deliveries), and nil for the Studio B division (Q4 2008-$0.03 million).

In addition, for Q4 2009 the Company delivered 17 half-hours of productions where the Company has Canadian rights and other minority participation rights, which are being accounted for using the percentage of completion method, and shown in producer and service fee revenues. The breakdown was as follows:

Title	Season	Q4 2009 Half-hours	Q4 2008 Half-hours
Decode:			
Waybuloo (Treehouse)	I	17.0	-
Total Deliveries		**17.0**	**-**

For Q4 2009 the Company recognized 26.0 half-hours - $2.39 million of proprietary film and television program production revenue, a 32% decrease versus the 38.5 half-hours for Q4 2008, where the programs have been delivered and the license periods have commenced for consolidated entities.

The breakdown for deliveries and dollar value subtotals for divisions for consolidated and non-consolidated entities for Q4 2009 and Q4 2008 was as follows:

Title	Season or Type	Q4 2009 $ Million	Q4 2009 Half-hours	Q4 2008 $ Million	Q4 2008 Half-hours
Consolidated Entities					
Decode:					
Chop Socky Chooks	I		-		8.0
Clang Invasion	I		-		7.0
Delilah & Julius	II		-		N/A [1]
Poppets Town	I		1.0		-
Super Why (PBS)	I		N/A [1]		10.0
Super Why (CBC)	I		N/A [1]		-
Urban Vermin	I		-		-
Subtotals		$ 0.69	1.0	$ 4.82	25.0
Studio B:					
Kid vs. Kat	I		-		N/A [1]
Subtotals		-	-	0.03	-
Halifax Film:					
Animal Mechanicals	I		-		6.0
Animal Mechanicals	II		-		1.5
Bo on the Go!	II		-		6.0
Bo on the Go!	III		8.0		-
The Guard	I		N/A [1]		N/A [1]
The Guard	II		-		-
The Mighty Jungle	II		-		-
The Mighty Jungle	III		4.0		-
That's So Weird	I		13.0		-
This Hour Has 22 Minutes	XV		-		-
This Hour Has 22 Minutes	XVI		N/A [1]		-
Subtotals		1.70	25.0	1.11	13.5
Total Consolidated Entities		2.39	26.0	5.96	38.5
Non-consolidated Entities					
Accounted for Using the Equity Method					
Lunar Jim	II	-	-	0.04	N/A [1]
Total All Entities		**$ 2.39**	**26.0**	**$ 6.00**	**38.5**

[1] *N/A – Not applicable as deliveries of half-hours have already been counted when title delivered in the first instance.*

The Company recorded nil for Q4 2009 as equity income for *Lunar Jim* Season II versus $0.01 million in Q4 2008.

In summary, total deliveries in Q4 2009 were 43 half-hours made up of: 26 half-hours (proprietary television recognizable), nil half-hours (proprietary television not recognizable), and 17 half-hours for Waybuloo accounted for in producer and service fee

revenue. Further, post production issues resulted in a slight delay in delivering 10 half-hours of *Canadian Super Spellers* Season I and 2 half-hours of *Making of Soul* (now scheduled for delivery in Q1 & Q2 2010).

Producer and service fee revenues: For Q4 2009 the Company earned $2.64 million for producer and service fee revenues ($0.90 million for *Waybuloo*, $0.08 million for *Martha Speaks* Season I, $0.34 million for *Martha Speaks* Season II, $0.31 million for *Pucca* Season II, and $1.01 million for *Trollope,* a feature length film) whereas for Q4 2008 the Company recorded $0.70 million for producer and service fee revenues ($0.47 million for *Martha Speaks* Season I, $0.08 million for *Side Show Christmas* Season I, and $0.15 million for *Peanuts* Season I). *Waybuloo* Season I is a production where the Company has Canadian rights and minority percentages in other participation rights and is accounted for using the percentage of completion method.

Distribution revenues: For Q4 2009 distribution revenues were down 21% to $4.84 million from $6.12 million for Q4 2008, but in line with Management's expectations. For Q4 2009 the Company recognized revenue on several contracts throughout its existing library and delivered episodes of newer titles. Some of the more significant sales were on the following titles: *Chop Socky Chooks* Season I, *The Latest Buzz* Seasons I, II, and III, *Bo on the Go!* Seasons I and II, *The Mighty Jungle* Season I, *Animal Mechanicals* Seasons I and II, *Super Why* Season I, *Kid vs. Kat* Season I, and *Martha Speaks* Season I. Management was very pleased with the Q4 2009 and overall performance of its distribution activities given the downturn in the economy.

Music and royalty revenues: For Q4 2009 music and royalty revenues increased 306% to $1.34 million (Q4 2008-$0.33 million). For Q4 2009 $0.74 million related to the recognition of the minimum guarantee from the Hasbro Franny's Feet M&L deal that has been put on indefinite hold. New media revenues decreased in Q4 2009 to $0.15 million (Q4 2008-$0.28 million). These revenue streams have remained in line with Management's expectations.

Rental revenues: For Q4 2009 rental revenues were $0.17 million, up slightly from Q4 2008 of $0.15 million, as a result of continued rental of studio and office facilities to third parties of the Company's Halifax Film Children's Studio (formerly Electropolis), rental of currently unused office space in the Company's headquarters in Halifax, Nova Scotia, and beginning Q3 2009, rental of office and equipment of the Company's Toronto, Ontario office to a service production.

Gross Margin

Gross margin for Q4 2009 was $6.08 million, an increase in absolute dollars of 32% compared to $4.62 million for Q4 2008. The overall margin at 53% of revenue for Q4 2009 was above Management's expectations and was a result of unusually high music and royalty revenues for Q4 2009 and the reversal of quarterly accruals of $0.94 million of certain amortization expenses and production revenue additions picked up on year end audit. With these year end adjustments removed the adjusted gross margin would have been 45%.

For Q4 2009 the margins for each revenue category in absolute dollars and as a margin percentage are as follows: production revenue margin of $2.24 million or 94% ($1.30 million or 54% with $0.94 million in adjustments for audit reversals noted above), net producer and service fee revenue margin of $0.97 million or 37%, distribution revenue margin of $2.11 million or 44% ($1.65 million or 34% when $0.46 million for the amortization of acquired libraries is removed), music and royalty revenue margin of $0.52 million or 39%, new media revenue margin of $0.07 million or 47%, and rental revenue margin of $0.17 million or 100%. The production, distribution, producer service fee, and rental revenue streams were all significant contributors to the absolute dollar margin for Q4 2009.

In particular, production, service, and distribution in terms of absolute dollars contributed $2.24 million, $0.97 million, and $2.11 million respectively or 88% of the total margin. Adjusted production margin at 54% was at the very high end of Management's expectations based on product delivery mix. Producer and service fee margins can vary greatly from 25-55% and at 37% is in line with Management's expectations. Distribution margin can fluctuate greatly from title-to-title and at 44% is in the mid range for Management's expectations. Going forward Management would expect the range on distribution margin to be from 35-55%. Music and royalty margin at 39% was in line with Management's expectations.

Overall gross margin for Q4 2009 at 53% exceeded Management's expectations and we would expect future periods' gross margin to fall back in line with the 25-35% range.

Operating Expenses

Operating expenses for Q4 2009 were $4.48 million compared to $7.18 million for Q4 2008, a decrease of 38%. The decrease for Q4 2009 is mainly due to the fact that the impairment in value of certain investment in film and television programs was only $0.49 million versus $2.78 million in Q4 2008. SG&A costs have decreased to $3.19 million for Q4 2009 compared to $3.94 million for Q4 2008 mainly due to a $0.75 million reduction in bonuses for Fiscal 2009 versus Fiscal 2008. For Q4 2009, included in Operating Expenses is $0.46 million for amortization of acquired library versus $0.19 million for Q4 2008 (see "Amortization" section in this MD&A for further details).

Impairment in Value of Certain Investment in Film and Television Programs

Refer to "Impairment in Value of Certain Investment in Film and Television Programs" section of the MD&A found under the discussion for Fiscal 2009.

Income (Loss) from Strategic Investments

For Q4 2009 income from strategic investments activities of $0.14 million (Q4 2008-$0.04 million loss) related to distributions of capital of nil, an unrealized income from short-term investments held for trading of $0.17 million, and a realized capital loss of $0.03 million, versus $0.01 million for distributions of capital offset by $0.05 million related to an unrealized loss from short-term investments held for trading for Q4 2008. All investments were strategic in nature and were in the same or similar businesses as the business of the Company.

EBITDA

In Q4 2009 EBITDA was $3.32 million, a 177% increase as compared to $1.20 million for Q4 2008. For Q4 2009 this was due to the increase in gross margin dollars of $1.47 million, adding back a decrease in SG&A of $0.74 million, and offset by a decrease of non-cash stock-based compensation expense of $0.09 million, for a total dollar change of $2.12 million.

Amortization

Amortization includes amortization of acquired libraries, PP&E, and intangible assets. For Q4 2009 amortization was $1.18 million (Q4 2008-$0.77 million). The breakdown for amortization was $0.46 million, $0.42 million, and $0.30 million for amortization of acquired libraries, PP&E, and intangible assets respectively. For Q4 2009 the amortization of acquired libraries was $0.46 million (Q4 2008-$0.19 million) which relates to the library titles that have a 20 year amortization policy, have minimal ongoing cash costs associated with selling, and are viewed as long-term assets. For Q4 2009 amortization of PP&E was $0.42 million (Q4 2008-$0.22 million). For Q4 2009 amortization of intangible assets was $0.30 million (Q4 2008-$0.36 million) which relates to the intangible assets acquired as part of the acquisitions of Decode and Studio B.

Interest

Interest was a net interest expense for Q4 2009 of $0.05 million versus net interest expense of $0.14 million for Q4 2008. Interest expense consists of $0.03 million, nil, and $0.03 million for interest expense on long-term debt and interest and bank charges (Q4 2008-$0.07 million and $0.05 million) and offset by $0.01 million interest income (Q4 2008- add back $0.02 million for reclassification of interest income to production revenue).

Costs Associated with Abandoned Transactions, Equity Income, and Non-Controlling Interest

For Q4 2009 the Company recorded a charge for the costs associated with abandoned transactions of $0.22 million (Q4 2008-$0.10 million), (refer to "Costs Associated with Abandoned Transactions, Equity Income, and Non-controlling Interest" section of the MD&A found under the discussion for Fiscal 2009), an equity income of nil (Q4 2008-$0.01 million) for its investment in production companies, and an expense for non-controlling interest of nil (Q4 2008-income of $0.38 million).

Income Taxes

Income tax expense for Q4 2009 was $0.60 million (Q4 2008-$0.77 million income tax recovery) made up of $0.07 million expense (Q4 2008-$0.04 million recovery) for large corporation taxes, $0.74 million expense (Q4 2008-$0.52 million expense) for current income taxes, and future income tax recovery of $0.21 million (Q4 2008-$1.25 million recovery).

Net Income (Loss) and Comprehensive Income (Loss) Before Discontinued Operations

Net income and comprehensive income before discontinued operations for Q4 2009 increased 107% to $0.16 million (Q4 2008-$2.28 million loss).

Discontinued Operations

The Company recorded a loss on discontinued operations of $0.43 million for Q4 2009 ($0.21 million related to a valuation allowance booked against future income taxes) (Q4 2008-$0.13 million) (see "Discontinued Operations" section under "Year Ended June 30, 2009 ("Fiscal 2009" or "2009") Compared to Year Ended June 30, 2008 ("Fiscal 2008" or "2008")" section of this MD&A for further details).

Net Income (Loss) and Comprehensive Income (Loss)

Net loss and comprehensive loss for Q4 2009 was $0.14 million, compared to a loss of $2.42 million for Q4 2008, or an improvement of $2.16 million in absolute dollars or 89%. For Q4 2009 the overall decrease of $2.16 million was due to changes over Q4 2008 of the following amounts: a decrease in operating expenses, net of income from strategic investments of $2.88 and a gross margin increase of $1.47 million, offset by a $1.37 million increase in provision for income taxes and a $0.82 million

increase in net interest and other expenses, which includes amortization, costs associated with abandoned transactions, and loss for discontinued operations.

Results for the three months ended March 31, 2009 ("Q3 2009") compared to the three months ended March 31, 2008 ("Q3 2008")

Revenues

Revenues for Q3 2009 were $12.06 million, down from $18.83 million for Q3 2008, a decrease of 36%. The decrease in Q3 2009 was generally due to lower deliveries of proprietary programs versus Q3 2008. Proprietary deliveries are seasonal and Q3 2008 was an extremely robust quarter for deliveries.

Proprietary production revenues: Proprietary production revenues for Q3 2009 of $6.10 million were down 54% compared to $13.36 million for Q3 2008. The decrease included a 53% decrease to $3.66 million (Q3 2008-$7.80 million) in proprietary production revenue for the Halifax Film division (generally due to fewer scheduled deliveries and specifically no deliveries in Q3 2009 of *The Guard* versus $4.20 million-12 half-hours deliveries on Season I in Q3 2008), a 60% decrease to $1.71 million for Q3 2009 (Q3 2008-$4.31 million) for the Decode division (generally due to fewer scheduled deliveries), and a 42% decrease to $0.73 million, a full quarter of activity (Q3 2008-$1.25 million), for the Studio B division.

For Q3 2009 the Company recognized $6.10 million - 41.0 half-hours of proprietary film and television program production revenue, a 48% decrease over the 78.5 half-hours for Q3 2008, where the programs have been delivered and the license periods have commenced.

The breakdown for deliveries and dollar value subtotals for divisions for consolidated and non-consolidated entities for Q3 2009 and Q3 2008 was as follows:

		Q3 2009		Q3 2008	
Title	**Season or Type**	**$ Million**	**Half-hours**	**$ Million**	**Half-hours**
Consolidated Entities					
Decode:					
Clang Invasion	I		9.0		-
Delilah & Julius	II		-		5.0
Latest Buzz	I		-		13.0
Poppets Town	I		5.0		-
Super Why (PBS)	I		4.0		10.0
Super Why (CBC)	I		N/A [1]		N/A [1]
Urban Vermin	I		-		-
Subtotals		$ 1.71	18.0	$ 4.31	28.0
Studio B:					
Being Ian	IV		-		6.0
Class of the Titans	II		-		6.0
Kid vs. Kat	I		4.0		-
Ricky Sprocket - Showbiz Boy (Teletoon-French)	I		-		2.0
Subtotals		0.73	4.0	1.25	14.0
Halifax Film:					
Animal Mechanicals	I		-		4.0
Bo on the Go!	II		N/A [1]		-
Bo on the Go!	III		2.0		-
The Guard	I		N/A [1]		12.0
The Guard	II		N/A [1]		-
The Mighty Jungle	II		-		8.5
The Mighty Jungle	III		6.0		-
This Hour Has 22 Minutes	XV		-		12.0
This Hour Has 22 Minutes	XVI		11.0		-
Subtotals		3.66	19.0	7.80	36.5
Total Consolidated Entities		6.10	41.0	13.36	78.5
Non-consolidated Entities		-	-	-	-
Total All Entities		**$ 6.10**	**41.0**	**$ 13.36**	**78.5**

[1] *N/A – Not applicable as deliveries of half-hours have already been counted when title delivered in the first instance.*

In addition, in Q3 2009 the Company delivered in total an additional 18 half-hours made up of: $1.10 million - 8 half-hours of *Latest Buzz* Season III, $0.15 million - 5 half-hours of *Super Why (CBC)* Season I, and $0.04 million - 5 half-hours of *Poppets Town* Season I where the license periods had not yet commenced by March 31, 2009, and therefore the revenue recognition criteria had not been met to recognize in Q3 2009.

Producer and service fee revenues: For Q3 2009 the Company earned $1.33 million for producer and service fee revenues ($0.16 million for *Waybuloo*, $0.10 million for *Martha Speaks* Season I, $0.35 million for *Martha Speaks* Season II, $0.34 million for *Badly Drawn Roy*, $0.21 million for *Pucca* Season II, and $0.17 million for *George of the Jungle* Season I) whereas for Q3 2008 the Company recorded $0.72 million for producer and service fee revenues ($0.40 million for *George of the Jungle* Season I, $0.07 million for *Martha Speaks* Season I, $0.03 million for *Side Show Christmas* Season I, and $0.22 million for *Pucca* Season II).

Distribution revenues: For Q3 2009 distribution revenues were down modestly 11% to $3.96 million from $4.43 million for Q3 2008. For Q3 2009 the Company recognized revenue on several contracts throughout its existing library and delivered episodes of newer titles. Some of the more significant sales were on the following titles: *Chop Socky Chooks* Season I, *The Latest Buzz* Seasons I, II, and III, *Bo on the Go!* Seasons I and II, *The Mighty Jungle* Season I, *Animal Mechanicals* Seasons I and II, *Super Why* Season I, *Kid vs. Kat* Season I, and *Martha Speaks* Season I.

Music and royalty revenues: For Q3 2009 music and royalty revenues increased 30% to $0.26 million (Q3 2008-$0.20 million) while new media revenues decreased in Q3 2009 to $0.01 million (Q3 2008-$0.07 million).

Rental revenues: For Q3 2009 rental revenues were $0.40 million, up significantly from Q3 2008 of $0.05 million, as a result of continued rental of studio and office facilities to third parties of the Company's Halifax Film Children's Studio (formerly Electropolis) subsidiary, rental of currently unused office space in the Company's headquarters in Halifax, Nova Scotia, and new for Q3 2009, rental of office and equipment of the Company's Toronto, Ontario office to a service production.

Gross Margin

Gross margin for Q3 2009 was $5.00 million, a decrease in absolute dollars of 14% compared to $5.84 million for Q3 2008. The absolute gross margin dollars for Q3 2009 were lower than Q3 2008 generally due to the decrease in production revenue.

In particular, production, service, and distribution in terms of absolute dollars contributed $1.44 million, $0.34 million, and $2.61 million respectively or 88% of the total margin. Production margin at 24% was in line with Management's expectations. Producer and service fee margins can vary greatly from 25-55% and at 26% were at the low end of Management's expectations. Distribution margin can fluctuate greatly from title-to-title and at 66% far exceeds Management's expectations. Going forward Management would expect the range on distribution margin to be from 35-55%. Music and royalty margin at 81% was in line with Management's expectations.

Overall gross margin for Q3 2009 at 41% exceeded Management's expectations and we would expect that future periods' gross margin to fall back in line with the 25-35% range.

EBITDA

In Q3 2009 EBITDA was $1.63 million, a 39% decrease as compared to $2.69 million for Q3 2008. For Q3 2009 this was due to the decrease in gross margin dollars of $0.84 million, adding back a decrease in SG&A of $0.23 million and offset by an increase of non-cash stock-based compensation expense of $0.01 million, for a negative total dollar change of $1.06 million.

Net Income and Comprehensive Income Before Discontinued Operations

Net income and comprehensive income before discontinued operations for Q3 2009 decreased 48% to $0.46 million (Q3 2008-$0.89 million).

Discontinued Operations

The Company recorded a loss on discontinued operations of $0.02 million for Q3 2009 (Q3 2008-$0.01 million) (see "Discontinued Operations" section under "Year Ended June 30, 2009 ("Fiscal 2009" or "2009") Compared to Year Ended June 30, 2008 ("Fiscal 2008" or "2008")" section of this MD&A for further details).

Net Income and Comprehensive Income

Net income and comprehensive income for Q3 2009 was $0.44 million, compared to $0.88 million for Q3 2008, or a decrease of $0.44 million or 50%.

Results for the three months ended December 31, 2008 ("Q2 2009") compared to the three months ended December 31, 2007 ("Q2 2008")

Revenues

Revenues for Q2 2009 were $21.51 million, up from $9.31 million for Q2 2008, an increase of 131%. The increase was generally due to increases in the Company's production and producer service fee revenue categories.

Proprietary production revenues: Proprietary production revenues for Q2 2009 of $16.84 million were up 168% over the $6.28 million for Q2 2008. The increase included a 262% increase to $11.07 million ($6.19 million related to deliveries for *The Guard* Seasons I and II) (Q2 2008-$3.06 million) in proprietary production revenue for the Halifax Film division, a 44% increase to $3.78 million for Q2 2009 (Q2 2008-$2.62 million) for the Decode division, and the inclusion of $1.99 million, a full quarter of activity (Q2 2008-$0.60 million for 28 days of activity), for the Studio B division.

In addition, for Q2 2009 the Company delivered 15 half-hours of productions where the Company has Canadian rights and other minority participation rights, which are being accounted for using the percentage of completion method, and shown in producer and service fee revenues. The breakdown was as follows:

		Q2 2009	Q2 2008
Title	**Season**	**Half-hours**	**Half-hours**
Studio B:			
Martha Speaks (TVO)	I	15.0	-
Total Deliveries		**15.0**	**-**

For Q2 2009 the Company recognized $16.84 million - 80.0 half-hours of proprietary film and television program production revenue, a 44% increase over the 55.5 half-hours for Q2 2008, where the programs have been delivered and the license periods have commenced.

The breakdown for deliveries and dollar value subtotals for divisions for consolidated and non-consolidated entities for Q2 2009 and Q2 2008 was as follows:

		Q2 2009		Q2 2008	
Title	**Season or Type**	**$ Million**	**Half-hours**	**$ Million**	**Half-hours**
Consolidated Entities					
Decode:					
Chop Socky Chooks	I		1.0		-
Clang Invasion	I		7.0		-
Delilah & Julius	II		-		7.0
Super Why (PBS)	I		9.0		5.0
Super Why (CBC)	I		N/A [1]		N/A [1]
Urban Vermin	I		-		5.0
Subtotals		$ 3.78	17.0	$ 2.62	17.0
Studio B:					
Being Ian	IV		-		2.0
Class of the Titans	II		-		4.0
Kid vs. Kat	I		11.0		-
Ricky Sprocket - Showbiz Boy (Teletoon-French)	I		-		6.0
Subtotals		1.99	11.0	0.60	12.0
Halifax Film:					
Animal Mechanicals	II		8.0		-
Bo on the Go!	II		1.0		-
The Guard	I		2.0		2.0
The Guard	II		18.0		-
The Making of Shake Hands with the Devil	Documentary		N/A [1]		-
The Mighty Jungle	I		-		3.0
The Mighty Jungle	II		-		4.5
Nathan Fielder's 2008 Election Special	Comedy Special		2.0		-
SOUL	I		12.0		-
This Hour Has 22 Minutes	XV		-		9.0
This Hour Has 22 Minutes	XVI		9.0		-
Subtotals		11.07	52.0	2.98	18.5
Total Consolidated Entities		16.84	80.0	6.20	47.5
Non-consolidated Entities					
Accounted for Using the Equity Method					
Lunar Jim	II	-	-	0.08	8.0
Total All Entities		**$ 16.84**	**80.0**	**$ 6.28**	**55.5**

[1] *N/A – Not applicable as deliveries of half-hours have already been counted when title delivered in the first instance.*

The Company recorded nil for Q2 2009 as equity income for *Lunar Jim* Season II versus $0.01 million in Q2 2008.

In addition, in Q2 2009 the Company delivered $2.00 million - 15 half-hours of *Latest Buzz* Season III where the license period had not yet commenced by December 31, 2008, and therefore the revenue recognition criteria have not been met to recognize in Q2 2009.

Producer and service fee revenues: For Q2 2009 the Company earned $2.29 million for producer and service fee revenues ($1.83 million for *Waybuloo*, $0.06 million for *Martha Speaks* Season I, $0.25 million for *Martha Speaks* Season II, $0.03 million for *Side Show Christmas* Season I, $0.05 million for *Badly Drawn Roy*, and $0.08 million for *Peanuts* Season I, and a small reversal of revenue of $0.01 million for *George of the Jungle* Season I) whereas for Q2 2008 the Company recorded $0.30 million for producer and service fee revenues ($0.01 million for *George of the Jungle* Season I, $0.12 million for *Martha Speaks* Season I, and $0.17 million for *Pucca* Season II). *Martha Speaks* Season I is a production where the Company has Canadian rights and minority percentages in other participation rights and is accounted for using the percentage of completion method.

Distribution revenues: For Q2 2009 distribution revenues were down 15% to $2.10 million from $2.47 million for Q2 2008. For Q2 2009 the Company recognized revenue on several contracts throughout its existing library and delivered episodes of newer titles.

Music and royalty revenues: For Q2 2009 music and royalty revenues increased 111% to $0.19 million (Q2 2008-$0.09 million) while new media revenues decreased in Q2 2009 to $0.03 million (Q2 2008-$0.11 million).

Rental revenues: For Q2 2009 rental revenues were $0.06 million (Q2 2008-$0.06 million) from the rental of studio and office facilities to third parties as a result of the Company's Halifax Film Children's Studio (formerly Electropolis) subsidiary and from rental of currently unused office space in the Company's headquarters in Halifax, Nova Scotia.

Gross Margin

Gross margin for Q2 2009 was $6.74 million an increase in absolute dollars of 94% compared to $3.47 million for Q2 2008. The overall margin at 31% of revenue was down compared to 37% of revenue for Q2 2008 as the Company has delivered a mix of production and producer service revenues with slightly lower margins as compared to Q2 2008. Overall gross margin for Q2 2009 at 31% is in line with Management's expectations.

EBITDA

In Q2 2009 EBITDA was $3.01 million, a 171% increase as compared to $1.11 million for Q2 2008.

Net Income and Comprehensive Income Before Discontinued Operations

Net income and comprehensive income before discontinued operations for Q2 2009 was $0.61 million (Q2 2008-$0.14 million).

Discontinued Operations

The Company recorded a loss on discontinued operations of $0.94 million for Q2 2009 (Q2 2008-nil) (see "Discontinued Operations" section under "Year Ended June 30, 2009 ("Fiscal 2009" or "2009") Compared to Year Ended June 30, 2008 ("Fiscal 2008" or "2008")" section of this MD&A for further details).

Net Income (Loss) and Comprehensive Income (Loss)

Net income (loss) and comprehensive income (loss) for Q2 2009 was a loss of $0.33 million, compared to an income of $0.14 million for Q2 2008, or a decrease of $0.47 million in absolute dollars or 336%.

Results for the three months ended September 30, 2008 ("Q1 2009") compared to the three months ended September 30, 2007 ("Q1 2008")

Revenues

Revenues for Q1 2009 were $16.87 million, up from $10.66 million for Q1 2008, an increase of 58%. The increase was generally due to increases in the Company's production, distribution, and producer service fee revenue categories.

Proprietary production revenues: Proprietary production revenues for Q1 2009 of $14.11 million were up 65% over the $8.56 million for Q1 2008. The increase included a 41% increase to $4.19 million (Q1 2008-$2.98 million) in proprietary production revenue for the Halifax Film division, a 32% increase to $7.63 million for Q1 2009 (Q1 2008-$5.80 million) for the Decode division, and the inclusion of $2.29 million (Q1 2008-nil), a full quarter of activity, for the Studio B division.

In addition, for Q1 2009 the Company delivered 25 half-hours of productions where the Company has Canadian rights and other minority participation rights, which are being accounted for using the percentage of completion method, and shown in producer and service fee revenues. The breakdown was as follows:

Title	Season	Q1 2009 Half-hours	Q1 2008 Half-hours
Studio B:			
Martha Speaks (TVO)	I	25.0	-
Total Deliveries		**25.0**	**-**

For Q1 2009 the Company recognized $14.11 million - 79.5 half-hours of proprietary film and television program production revenue, a 30% increase over the 61 half-hours for Q1 2008, where the programs have been delivered and the license periods have commenced.

The breakdown for deliveries and dollar value subtotals for divisions for consolidated and non-consolidated entities for Q1 2009 and Q1 2008 was as follows:

Title	Season or Type	Q1 2009 $ Million	Q1 2009 Half-hours	Q1 2008 $ Million	Q1 2008 Half-hours
Consolidated Entities					
Decode:					
Chop Socky Chooks	I		8.0		-
Clang Invasion	I		3.0		-
Delilah & Julius	II		-		14.0
The Latest Buzz	II		26.0		-
Naturally Sadie	III		-		N/A [1]
Planet Sketch	II		-		13.0
Super Why (PBS)	I		11.0		11.0
Urban Vermin	I		-		10.0
Subtotals		$ 7.63	48.0	$ 5.80	48.0
Studio B:					
Being Ian	V		2.0		-
Kid vs. Kat	I		11.0		-
Subtotals		2.29	13.0	-	-
Halifax Film:					
Animal Mechanicals	II		0.5		-
Bo on the Go!	I		-		6.0
Bo on the Go!	II		7.0		-
The Guard	I		10.0		-
The Making of Shake Hands with the Devil	Documentary		-		1.0
Shake Hands with the Devil	Feature Film		-		4.0
Show Us Your Shorts TV	Pilot		-		2.0
This Hour Has 22 Minutes	XVI		1.0		-
Subtotals		4.19	18.5	2.76	13.0
Total Consolidated Entities		14.11	79.5	8.56	61.0
Non-consolidated Entities					
Accounted for Using the Equity Method					
Lunar Jim	II	-	-	0.22	N/A [1]
Total All Entities		**$ 14.11**	**79.5**	**$ 8.78**	**61.0**

[1] *N/A – Not applicable as deliveries of half-hours have already been counted when title delivered in the first instance.*

The Company recorded nil for Q1 2009 as equity income for *Lunar Jim* Season II versus $0.02 million in Q1 2008.

In addition, in Q1 2009 the Company delivered $0.40 million - 3 half-hours of *Latest Buzz* Season III where the license period had not yet commenced by September 30, 2008, and therefore the revenue recognition criteria have not been met to recognize in Q1 2009.

Producer and service fee revenues: For Q1 2009 the Company earned $1.02 million for producer and service fee revenues ($0.33 million for *Waybuloo*, $0.18 million for *Martha Speaks* Season I, $0.04 million for *Martha Speaks* Season II, $0.21 million for *Side Show Christmas* Season I, $0.30 million for *Peanuts* Season I, and small reversals of revenue of $0.03 million for *George of the Jungle* Season I and $0.01 million for *Pucca* Season II) whereas for Q1 2008 the Company did not record any producer and service fee revenues. *Martha Speaks* Season I is a production where the Company has Canadian rights and minority percentages in other participation rights and is accounted for using the percentage of completion method.

Distribution revenues: For Q1 2009 distribution revenues were up 4% to $1.46 million from $1.41 million for Q1 2008. For Q1 2009 the Company recognized revenue on several contracts throughout its existing library and delivered episodes of newer titles.

Music and royalty revenues: For Q1 2009 music and royalty revenues increased 25% to $0.20 million (Q1 2008-$0.16 million) while new media revenues decreased in Q1 2009 to $0.03 million (Q1 2008-$0.19 million).

Rental revenues: For Q1 2009 rental revenues were $0.05 million (Q1 2008-$0.12 million) from the rental of studio and office facilities to third parties as a result of the Company's Halifax Film Children's Studio (formerly Electropolis) subsidiary and from rental of currently unused office space in the Company's headquarters in Halifax, Nova Scotia.

Gross Margin

Gross margin for Q1 2009 was $4.99 million, an increase in absolute dollars of 51% compared to $3.31 million for Q1 2008. The overall margin at 30% of revenue was a slight decline in percentage compared to 31% of revenue for Q1 2008 as the Company has delivered a mix of production and production service revenues with slightly lower margins as compared to Q1 2008.

EBITDA

In Q1 2009 EBITDA was $1.85 million, a 68% increase as compared to $1.10 million for Q1 2008.

Net Income and Comprehensive Income Before Discontinued Operations

Net income and comprehensive income before discontinued operations for Q1 2009 was $0.61 million (Q1 2008-$0.37 million).

Discontinued Operations

The Company recorded a loss on discontinued operations of $0.08 million for Q1 2009 (Q1 2008-nil) (see "Discontinued Operations" section under "Year Ended June 30, 2009 ("Fiscal 2009" or "2009") Compared to Year Ended June 30, 2008 ("Fiscal 2008" or "2008")" section of this MD&A for further details).

Net Income and Comprehensive Income

Net income and comprehensive income for Q1 2009 was $0.53 million, compared to $0.37 million for Q1 2008, or an increase of $0.16 million or 43%.

Liquidity and Capital Resources

	June 30, 2009 $	June 30, 2008 $
	(Amounts in Thousands, Except Balance Sheet Ratios)	
Key Balance Sheet Amounts and Ratios:		
Cash, restricted cash [(1)] and short-term investment……………….	**11,086**	9,570
Long-term assets ……………………………………………..……	**44,851**	47,634
Working capital………………………………………………..……	**20,496**	16,319
Long-term liabilities………………………………………………	**4,797**	5,760
Working capital ratio [(2)]……………………………………………	**1.25**	1.21
Cash Inflows (Outflows) by Activity:		
Operating activities………………………………………………	**786**	(5,297)
Investing activities………………………………………………	**(3,793)**	(9,028)
Financing activities………………………………………………	**4,987**	19,717
Net cash inflows………………………………………………..	**1,980**	5,392
Adjusted Operating Activities[3]	**7,089**	(1,685)

(1) Restricted cash is the balance of cash on hand in Media Fund (Atlantic) Ltd. The use of this cash is restricted to specified uses related to the production and development of film and television programs.
(2) Working capital ratio is current assets divided by current liabilities.
(3) See “Use of Non-GAAP Financial Measures” section of this MD&A for a definition of Adjusted Operating Activities.

Changes in Cash

Cash at June 30, 2009 was $10.81 million compared to $8.83 million as of June 30, 2008. For Fiscal 2009 the cash balance increased $1.98 million when comparing the cash balance to Fiscal 2008.

For Fiscal 2009 cash flows generated from operating activities were $0.79 million. Cash flows from operating activities resulted from net income of $0.38 million and adding back non-cash items of amortization of film and television programs, acquired library, PP&E, intangible assets, impairment in value of certain investments in film and television programs, stock-based compensation, interest on promissory notes, non-controlling interest, and future income tax expense of $37.43 million, $0.74 million, $1.05 million, $1.27 million, $0.49 million, $1.00 million, $0.01 million, $0.03 million, and $0.53 million respectively. Cash flows were reduced by credits not involving cash of $0.05 million gain on disposal of short-term investments and $0.04 million unrealized gain on short-term investments. Cash used was $24.33 million for investments in film and television programs and $18.93 million for net change in non-cash working capital balances related to operations. Cash flows were increased by adding back the non-cash discontinued operations charge of $1.47 million, offset by uses of cash in discontinued operations of $0.26 million.

For Fiscal 2009 cash flows generated from financing activities were $4.99 million. Cash flows from financing activities resulted primarily from cash generated from new borrowings from interim financing of $6.30 million, proceeds from long-term debt of $0.40 million, and proceeds from bank indebtedness of $0.08 million. This was offset by a use of cash of $0.08 million for common shares repurchased and cancelled, $1.36 million from repayment of long-term debt, $0.29 million from repayment of other liabilities, and discontinued operations of $0.06 million.

For Fiscal 2009 cash flows from investing activities were a use of cash of $3.79 million. Cash flows used in investing activities were $1.32 million for PP&E acquisitions, $1.38 million for business acquisitions, $1.24 million net cash advances to investees, and $0.26 million for acquisitions of short-term investments. Cash flows generated in investing activities were proceeds from disposal of short-term investments of $0.38 million and a decrease of $0.03 in long-term investments.

Working Capital

Working capital (“**Working Capital**”) represents the Company’s current assets less current liabilities. Working Capital increased by $4.18 million as at June 30, 2009 over June 30, 2008. The working capital ratio remained strong at 1.25 for June 30, 2009.

Management was pleased with cash flow generated from Operating Activities, especially Adjusted Operating Activities of $7.09 million for Fiscal 2009 (Year Ended June 30, 2008-a use of $1.69 million), shown in Liquidity and Capital Resources Chart in this MD&A and defined in "Use of Non-GAAP Financial Measures" section of this MD&A. Along with EBITDA, Adjusted Operating Activities is one of the meaningful calculations for Management in assessing operational performance.

Based on the Company's current revenue expectations for Fiscal 2010 and 2011, which are based on contracted and expected production and distribution revenue, the Company believes cash generated from operations and existing resources will be sufficient to satisfy Working Capital needs for at least the next twelve months. Management believes the current Working Capital surplus totalling $20.50 million is sufficient to execute its current business plan.

Royal Bank Revolving Operating and Production Credit Facility

The Company has a revolving operating credit facility (the "**RBC Revolving Operating Credit Facility**") with the Royal Bank of Canada ("**Royal Bank**"), with a maximum amount of $3.51 million, bearing interest at Royal Bank Prime + 1.25% and is for general working capital purposes. The availability of the RBC Revolving Operating Credit Facility is subject to the Company maintaining interest and consolidated indebtedness coverage ratios and certain other covenants. Management is pleased to report the RBC Revolving Operating Credit Facility has been extended to March 31, 2010.

The Company also has a revolving production credit facility ("**The RBC Revolving Production Credit Facility**") with the Royal Bank with a maximum authorized amount of $63.23 million. The RBC Revolving Production Credit Facility is the aggregate of interim production financing of individual programs financed through the Royal Bank which are subject to individual approved tranches (collectively the "**RBC Individual Approved Tranches**"). The RBC Revolving Production Credit Facility matures at various dates twenty-four months following the first drawdown of funds in respect of each RBC Individual Approved Tranche. The maturity dates for the RBC Individual Approved Tranches vary, but the outside maturity date is March 2011.

The Company's objectives when managing capital are to provide an adequate return to shareholders, safeguard its assets, maintain a competitive cost structure and continue as a going concern. To maximize ongoing development and growth effort, the Company did not pay out dividends during the year ended June 30, 2009. The Company is not anticipating paying out dividends during the year ended June 30, 2010.

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

The Company monitors capital using a number of financial ratios, specifically for the RBC Revolving Operating and Revolving Production Credit Facilities, including but not limited to:

- The Revolving Coverage Ratio, defined as consolidated EBITDA to interest expense (defined as interest on long-term debt); and
- The Net Worth Ratio, defined as funded debt to consolidated net worth.

The following table illustrates the financial ratios calculated on a rolling twelve-month basis:

	Measure targets	**2009**	**2008**
Coverage Ratio	> 4.0x	27.0x	10.6x
Net Worth Ratio	< 3.0x	1.1x	1.3x

The Company has been in compliance with these ratios since the inception of the RBC Revolving Operating and Revolving Production Credit Facilities.

Contractual Obligations

As of June 30, 2009

Payments Due by Period (All amounts are in thousands)	**Total**	**Fiscal 2010**	**Fiscal 2011-2012**	**Fiscal 2013-2014**	**After Fiscal 2015**
	$	**$**	**$**	**$**	**$**
Bank indebtedness [(1)]	2,750	2,750	-	-	-
Acquisition of library license rights [(2)]	675	675	-	-	-
Capital lease for equipment [(3)]	1,136	396	568	172	-
Long-term debt payments (principal and interest) [(4)]	3,408	366	696	648	1,698
Operating leases [(5)]	6,411	1,018	1,824	1,015	2,554
Total Contractual Obligations	14,380	5,205	3,088	1,835	4,252

(1) RBC Revolving Operating Credit Facility with a maximum amount of $3,510 bearing interest at bank prime plus 1.25%. See note 12 to the audited consolidated financial statements for the year ended June 30, 2009 for details.
(2) Pursuant to an agreement whereby the Company acquired the distribution rights ("**Distribution Rights**") to 520 half-hours of television programming. The amount remaining as of June 30, 2009 was $0.68 million.
(3) Pursuant to capital leases for video editing, leaseholds, and other office equipment, the obligations bear interest at 4.00%, 6.38%, 5.23%, 6.9%, and 8.4% and mature from June 2010 to February 2013.
(4) See note 14 to the audited consolidated financial statements for the year ended June 30, 2009 for details.
(5) Pursuant to operating leases.

Outlook

The Company's June 30, 2009 balance sheet remains strong and Management believes the Company is in a solid financial position. Management is focusing on its core strategy of developing, producing, and distributing the best possible quality Children's and Family programs with goals of increasing cash flows from operations and profitability. An upside to this focus is that Management believes it increases the potential of getting a "hit" show which would have the affect of further increasing revenue and transforming the Company. We continue to use our strengths, selectively, in service production and proprietary production in comedy, drama, and other genres to take advantage of present opportunities and to create further value for shareholders.

For Fiscal 2009, the Company generally achieved its Fiscal 2009 target of 250 half-hours delivering 260.5 half-hours of television, of which 226.5 half-hours ($39.34 million) were for recognizable proprietary production revenue. The global recession and the continuing credit crunch has resulted in a slowdown in advertising dollars for some of our broadcast customers and therefore slightly lower visibility. This may translate into a slowdown of production revenue for Fiscal 2010 as broadcasters are not committing to new shows as quickly as they have in the recent past. Management expects there will be a lag in some of its production slate and distribution revenues from Fiscal 2010 to Fiscal 2011. A potential sign of the distribution revenue lag due to the economy is that foreign distribution revenues were down for Fiscal 2009 versus Fiscal 2008.

For Fiscal 2010, given the general economic climate, the Company has lowered its target output to a range of 200-250 half-hours. As of this MD&A, the Company has contracts for deliveries amounting to approximately 60-70% of this target. For Fiscal 2009 the Company's average production revenue value (once the license period has commenced) per half-hour of television programs was at the high end of its $0.12-0.18 million range. For 2010, due to the downward pressure on license fees, Management expects the average license fee per half-hour to be at the lower end of the historical range. However, we are continuing to execute on deliveries of proprietary programs commissioned prior to and during the economic slowdown. Children's programming is off prime time and therefore not as reliant on advertising dollars, and the fact that most of our customer base has a Governmental regulatory mandate to deliver a minimum requirement of children's programming, it is possible (and Management continues to be optimistic) that children's programming will not be as hard hit as prime time programming.

As has been seen historically, distribution revenues are uneven and a lack of visibility makes it more difficult to predict distribution revenue for 2010. Management remains optimistic and continues to focus on existing and new markets and is looking forward to the fall 2009 and spring 2010 MIP TV markets. To be prudent, however, Management is projecting a target for distribution revenues for Fiscal 2010 to be generally flat versus 2009 and in the range of $10-14 million.

A key area for potential growth in this economic downturn is a proliferation of proprietary coproduction and service production opportunities, which are abundant but have fewer rights attached. Management is targeting these areas to fill some of the potential gaps in home grown proprietary programming. The main reason for the increase in opportunities is producers around the world are having difficulty getting the final piece (last 20-50%) of the financing of their productions from their home territories and see coproduction as the way to achieve this. DHX, having a strong distribution presence in the international market place and being well positioned in Canada, is in a prime position to capture some of this business. For Fiscal 2010, Management is targeting these two streams as an opportunity for growth and, combined with existing expected producer service fee revenues, is projecting a target of $10-15 million for these streams. The margins as seen historically can fluctuate greatly from project to project and Management is expecting margins in the range of 15-35%.

For 2010, the Company anticipates the slowdown in the economy to continue to affect revenue growth opportunities in the category of royalty revenues. This is especially pronounced in M&L as there has been a slow down in all its M&L relationships. Since the Company has not historically had significant sales in M&L we are not expecting this to have a significant affect on our Fiscal 2010 results. M&L still represents upside for the Company, however as a result of the current climate, this has potentially been pushed further into the future.

For 2010 other new media and rental revenue are expected to be generally in line with 2009 levels. For 2010 gross margin is expected to be in the 28-38% range. Management is expecting to be able to take advantage of some integration opportunities and is targeting SG&A reductions of 5-10% for 2010 versus 2009. Amortization of PP&E and intangibles for 2010 is expected to be in line with 2009. For 2010, interest income (expense), income from strategic investments, and non-controlling interest are expected to be in line with 2009 levels.

Seasonality

Results of operations for any period are dependent on the number and timing of film and television programs delivered, which cannot be predicted with certainty. Consequently, the Company's results from operations may fluctuate materially from period-to-period and the results of any one period are not necessarily indicative of results for future periods. Cash flows may also fluctuate and are not necessarily closely correlated with revenue recognition. During the initial broadcast of the rights the Company is somewhat reliant on the broadcaster's budget and financing cycles and at times the license period gets delayed and commences at a later date than originally projected.

The Company's film and television revenues vary significantly from quarter to quarter driven by contracted deliveries with the primary broadcasters. Although with the Company's recent diversification of its revenue mix, particularly in the strengthening of the distribution revenue stream, some of the quarterly unevenness is improving slightly and becoming more predictable. Distribution revenues are contract and demand driven and can fluctuate significantly from period-to-period.

Acquisition

On July 20, 2008 ("the imX Effective Date"), the Company acquired all the outstanding shares in imX Communications Inc. ("**imX**"), and its library of 20 feature films and 26 half-hours of television drama, documentary and animation entertainment for the consideration as follows: Cash consideration and transaction costs of $0.90 million, ($0.86 million and $0.04 million respectively) on the Effective Date and 118,216 shares of the Company valued at $0.18 million.

Entertainment One Abandoned Transaction

On December 11, 2008, the Company announced that it was advised by Entertainment One Ltd. ("**Entertainment One**") of its inability to proceed with the proposed reverse takeover transaction (the "**Proposed Transaction**") contemplated by the Arrangement Agreement dated September 29, 2008 between DHX Media and Entertainment One. DHX Media issued a press release on September 29, 2008 announcing that it had entered into the Arrangement Agreement, which outlined the terms of a proposed reverse-takeover of DHX Media by Entertainment One.

The outside date for completion of the Proposed Transaction was January 31, 2009, pursuant to the Arrangement Agreement. However, Entertainment One advised DHX Media that the Entertainment One senior lenders have confirmed that they would not consent to the Proposed Transaction if it provided DHX shareholders with the option to elect to receive cash as partial consideration for their common shares of DHX, as contemplated by the Arrangement Agreement. The consent of Entertainment One's senior lenders was a condition of closing of the Proposed Transaction pursuant to the terms of the Arrangement Agreement.

Critical Accounting Policies and Estimates

The preparation of the financial statements in conformity with Canadian GAAP 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 dates of the financial statements and the reported amounts of revenue and expenses during the reporting period. Management of the Company regularly reviews its estimates and assumptions based on historical experience and various other assumptions that it

believes would result in reasonable estimates given the circumstances. Actual results could differ from those estimates under different assumptions. The following is a discussion of accounting policies that require significant Management judgments and estimates. For a discussion of all of the Company's accounting policies, including the items outlined below, refer to note 1 of the audited consolidated financial statements for the years ended June 30, 2009 and 2008 on www.sedar.com or DHX's website at www.dhxmedia.com.

Revenue Recognition

Production and Distribution Revenue

The Company recognizes revenues from the licensing of film and television programs when: a) the Company has persuasive evidence of a contractual arrangement; b) the production has been completed; c) the contractual delivery arrangements have been satisfied; d) the licensing period has commenced; e) the fee is fixed or determinable; and f) collectibility of proceeds is reasonably assured.

Cash payments received or advances currently due pursuant to a broadcast license or distribution arrangement are recorded as deferred revenue until all of the foregoing conditions of revenue recognition have been met.

Producer and Service Fee Revenue

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

Variable Interest Entities

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

Investment in Film and Television Programs

Investment in film and television programs represents the unamortized costs of film and television programs which have been produced by the Company or for which the Company has acquired distribution rights. Investment in film and television programs also includes acquired film and television libraries. Costs of acquiring and producing film and television programs are capitalized, net of federal and provincial program contributions earned, and amortized using the individual film forecast method, whereby capitalized costs are amortized and ultimate participation costs are accrued in the proportion that current revenue bears to Management's estimate of ultimate revenue expected to be recognized from the exploitation, exhibition, or licensing of the film or television program. For film and television programs produced by the Company, capitalized costs include all direct production and financing costs incurred during production that are expected to benefit future periods. Financing costs are capitalized to the costs of a film or television program until the film or television program is complete. Capitalized production costs do not include administrative and general expenses, the cost of overall deals, or charges for losses on properties sold or abandoned. For episodic television series, until estimates of secondary market revenue can be established, capitalized costs for each episode produced are limited to the amount of revenue contracted for each episode. Costs in excess of this limitation are expensed as incurred on an episode-by-episode basis. Production financing provided by third parties that acquire substantive equity participation is recorded as a reduction of the cost of the production. Film and television programs in progress represent the accumulated costs of productions, which have not been completed by the Company. For films other than episodic television series and acquired libraries, ultimate revenue includes estimates over a period not to exceed ten years following the date of initial release. For episodic television series, ultimate revenue includes estimates of revenue over a period not to exceed ten years from the date of delivery of the first episode or, if still in production, five years from the date of delivery of the most recent episode, if later. For acquired film and television libraries previously released, ultimate revenue includes estimates of revenue over a period not to exceed twenty years from the date of acquisition.

Revenue estimates are prepared on a title-by-title basis and are reviewed periodically based on current market conditions. For film, revenue estimates include net theatrical receipts, sale of videocassettes and DVDs, licensing of television broadcast rights and licensing of other ancillary film rights to third parties. For television programs, revenue estimates include licensed rights to broadcast television programs in development and rights to renew licenses for episodic television programs in subsequent seasons. Ultimate revenue includes estimates of secondary market revenue for produced episodes only when the Company can

demonstrate through its experience or industry norms that the number of episodes already produced, plus those for which a firm commitment exists and the Company expects to deliver, can be licensed successfully in the secondary market.

Estimates of future revenue involve measurement uncertainty and it is therefore possible that reductions in the carrying value of investment in film and television programs may be required as a consequence of changes in Management's future revenue estimates.

The valuation of investment in film and television programs is reviewed on a title-by-title basis when an event or change in circumstances indicates that the fair value of a film or television program is less than its unamortized cost. The fair value of the film or television program is determined using Management's estimates of future revenues and costs under a discounted cash flow approach. A write-down is recorded equivalent to the amount by which the unamortized costs exceed the estimated fair value of the film or television program.

Stock-based Compensation

The Company follows the Canadian Institute of Chartered Accountants Handbook Section 3870 ("**CICA 3870**"), "Stock-based Compensation and Other Stock-based Payments". Under the amended standards of this Section, the fair value of all stock options granted to employees and consultants are recorded in operations or production costs, as applicable over their vesting periods.

The fair value of options is determined using the Black Scholes option pricing model that takes into account, as of the grant date, the exercise price, the expected life of the option, the current price of the underlying stock and its expected volatility, expected dividends on the stock, and the risk-free interest rate over the expected life of the option. The resulting fair value of the options is expensed on a straight-line basis over their vesting periods. Cash consideration received from employees when options are exercised and the value of options accumulated in contributed surplus is credited to share capital. Stock-based Compensation also includes awards of common shares to certain employees of the Company related to the achievement of certain financial benchmarks.

Investment in Production Companies

The valuation of equity accounted investments is regularly reviewed by Management to ensure that any decline in market value that is considered other than temporary has been reflected in the related carrying value of the investment. In making that assessment, several factors are considered, including the amount by which the market value exceeds carrying value and investees' expected future cash flows and earnings. The Company recorded no amounts in the equity income line on the statement of income (loss) and comprehensive income (loss) for Fiscal 2009 and Q4 2009 (Fiscal 2008-$0.04 million and Q4 2008-nil).

In the normal course of business, the Company enters into production arrangements with third party production, distribution companies and broadcasters related to the production of television series or feature films. The wholly-owned production companies in which these production activities are undertaken, are VIEs as they do not have sufficient equity at risk to finance their activities. The Company has variable interests in certain entities but in certain companies, it is not exposed to the majority of the expected losses and, therefore, does not consolidate these companies. The Company accounts for these entities using the equity method (note 8 to the audited consolidated financial statements for the year ended June 30, 2009).

Goodwill

The Company implements the recommendations of the Canadian Institute of Chartered Accounts (''CICA'') Handbook Section 3062, "Goodwill and Other Intangible Assets". Based on this standard, goodwill of the Company is tested for impairment annually on June 30, or more frequently if impairment indicators arise, to determine if an impairment loss should be recognized. Impairment indicators include the existence of significant restructuring plans, the existence of significant adverse changes in the business climate, and the existence of significant write downs of assets. During the year ended June 30, 2009, the Company recorded no amounts for impairment of goodwill (year ended June 30, 2008-nil) (See note 11 to the audited financial statements for the year ended June 30, 2009 for more details).

Provisions

Balance sheet provisions for amounts receivable and legal issues all require estimates and assumptions by Management that could be significant.

In certain instances, the provision for amounts receivable is based on specifically identified accounts where Management believes that collection is doubtful. These accounts are identified based on customer knowledge and past experience. In other instances, the provision for amounts receivable is based on an allowance for Federal and Provincial government tax credits receivable and is based on historic collection, excluding accounts that have been specifically provided for. Historically, Management's estimate of the required provision has been adequate. Provisions for legal issues are based on Management's best estimate of the probable outcome and resolution of legal matters.

The Company has also booked provisions against investment in film and television programs. These provisions include specific balances where Management believes the likelihood of ultimate revenues is remote and general allowances. Historically, Management's estimate of the required provision has been adequate (see "Impairment of Certain Investments in Film and Television Programs" section of this MD&A).

Future Tax Assets and Liability

Management's assessment of the Company's ability to realize future income tax assets is performed on a legal entity basis and is based on existing tax laws and estimates of future taxable income. Where, in the opinion of Management, the value of future income tax assets exceeds the estimate of amounts expected to be realized, a valuation allowance is recorded to reduce the future income tax asset. If the Company's assessment changes in the future, the valuation allowance will increase or decrease accordingly, resulting in corresponding decreases or increases in income, respectively, in that period. The valuation allowance is in no way indicative of the availability of income tax losses or other timing differences to offset future profits earned. Rather, the valuation allowance reduces the future income tax asset to Management's estimate of the future tax asset that will be realized as a reduction of cash income taxes paid in the future.

The above estimates are revised accordingly as new or different circumstances arise. While Management believes the balance sheet provisions are adequate, using different assumptions or estimates could have a significant impact on the Company's results of operations, prospects, or financial condition.

Accounting Policy Changes

Financial Instruments and Capital Disclosures

Financial Instruments

On July 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook section 3862, "Financial Instruments - Disclosures", section 3863, "Financial Instruments - Presentation", and section 1535, "Capital Disclosures"

Section 3862 "Financial Instruments - Disclosures" and *Section 3863 "Financial Instruments – Presentation"* have replaced *Section 3861 "Financial Instruments – Presentation and Disclosure"* revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. Recommended disclosure from these sections has been included in Note 19 of the audited consolidated financial statements for the years ended June 30, 2009 and 2008.

Capital Disclosures

Section 1535 "Capital Disclosures", establishes disclosure requirements about an entity's capital and how it is managed. The purpose is to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital, including compliance with externally imposed capital requirements. Recommended disclosures from this section of the handbook have been included in note 21of the audited consolidated financial statements for the years ended June 30, 2009 and 2008.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

On January 20, 2009, the Emerging Issues Committee ("EIC") of the Accounting Standards Board issued EIC Abstract 173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities* which establishes guidance requiring an entity to consider its own credit and the credit risk of the counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC 173 should be applied retroactively, without restatement of prior periods. The adoption of this interpretation did not have a significant impact on the Company's financial statements.

Future Accounting Standard Changes

In January 2006, the Canadian Accounting Standards Board, ("AcSB") announced its decision to replace Canadian GAAP with IFRS. On February 13, 2008, the AcSB confirmed January 1, 2011 as the mandatory changeover date to IFRS for all Canadian publicly accountable enterprises. This means that the Company will be required to prepare IFRS financial statements for the interim periods and fiscal year ends beginning 2011.

The CICA issued the following new accounting standards: Section 3064, "*Goodwill and Intangible Assets"*, Section 1582, "*Business Combinations"*, Section 1601, "*Consolidated Financial Statements"*, and Section 1602, "*Non-controlling Interests"*. Section 3064 is effective for years beginning on or after October 1, 2008 and the Company will adopt it on July 1, 2009. Sections 1582, 1601, and 1602 are effective for fiscal years beginning on or after January 1, 2011 and, accordingly, the Company is anticipating adopting them on July 1, 2011, but as early adoption is permitted, the Company is considering its options.

Goodwill and Intangible Assets

Section 3064 will replace Section 3062, "*Goodwill and Other Intangible Assets*" and Section 3450, "*Research and Development Costs*". The section establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are aligned with International Accounting Standard ("IAS") 38, "*Intangible Assets*".

Business Combinations

Section 1582 will replace "*Business Combinations*" and improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. This section outlines a variety of changes, including but not limited to the following: an expanded definition of a business, a requirement to measure all business combinations and non-controlling interest at fair value and a requirement to recognize future income tax assets and liabilities and acquisition and related costs as expenses of the period.

Consolidated Financial Statements and Non-Controlling Interests

Sections 1601 and 1602 will replace Section 1600, "*Consolidated Financial Statements*". Section 1601 establishes standards for the preparation of consolidated financial statements and specifically addresses consolidation accounting following a business combination that involves the purchase of an equity interest in one company by another. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

The Company is in the process of evaluating the impact of disclosure and presentation of these new standards.

Financial Instruments and Risk Management

The Company's financial instruments consist of cash, restricted cash, short-term investments, bank indebtedness, interim production financing, accounts payable and accrued liabilities, long-term debt and obligations under capital leases, other liabilities, long-term investment, and amounts receivable. The Company, through its financial assets and liabilities, has exposure to the following risks from its use of financial instruments: credit risk, interest rate risk, liquidity risk, and currency risk. Management monitors risk levels and reviews risk management activities as they determine to be necessary.

Credit Risk

Amounts receivable from the Canadian federal government and other government agencies in connection with production financing represents 67% of total amounts receivable at June 30, 2009 (2008 - 66%). Certain of these amounts are subject to audit by the government agencies. Management believes that these amounts are fully collectible. Management believes that it is normal course for the industry for some amounts receivable to take considerable time to collect; for instance it is normal course for federal and provincial tax credits receivable to take up to 24 months to proceed through audit and collection. The Company adjusts amounts receivable from Canadian federal government and other government agencies. Including federal and provincial tax credits receivables in connection with production financing, quarterly for any known differences arising from internal or external audit of these amounts. An allowance against federal and provincial tax credits receivable has been recorded based on the Company's history of collection of these amounts

The balance of trade amounts receivable are primarily with Canadian broadcasters and large international distribution companies. The Company has recorded an allowance for doubtful accounts of 1% against the gross amounts of trade receivables, and management believes hat the net amount of trade receivables is fully collectible.

Interest Rate Risk

The Company is exposed to interest rate risk arising from fluctuations in interest rates as its interim production financing and certain long-term debt bear interest at floating rates. A 1% fluctuation would have an approximate $0.20-$0.30 million affect on net income.

Liquidity Risk

The Company manages liquidity by forecasting and monitoring operating cash flows and through the use of capital leases and revolving credit facilities (see notes 12, 13 and 14 of the consolidated financial statements for June 30, 2009 for further details). As at June 30, 2009, the Company had cash on hand of $10.81 million (2008 - $8.83 million).

Currency Risk

The Company's activities which expose it to currency risk involve the holding of foreign currencies as well as incurring production costs and earning revenues that are denominated in foreign currencies. A 1% change in the USD or Euro exchange rate would have an impact of less than $0.10 million on net income.

Risk Assessment

The following are the specific and general risks that could affect the Company that each reader should carefully consider. Additional risks and uncertainties not presently known to the Company or that the Company does not currently anticipate will be material, may impair the Company's business operations and its operating results and as a result could materially impact its business, results of operations, prospects, and financial condition.

Risks Related to the Nature of the Entertainment Industry

The entertainment industry involves a substantial degree of risk. Acceptance of entertainment programming represents a response not only to the production's artistic components, but also the quality and acceptance of other competing programs released into the marketplace at or near the same time, the availability of alternative forms of entertainment and leisure time activities, general economic conditions, public tastes generally and other intangible factors, all of which could change rapidly or without notice and cannot be predicted with certainty. There is a risk that some or all of the Company's programming will not be purchased or accepted by the public generally, resulting in a portion of costs not being recouped or anticipated profits not being realized. There can be no assurance that revenue from existing or future programming will replace loss of revenue associated with the cancellation or unsuccessful commercialization of any particular production.

Risks Related to Television and Film Industries

Because the performance of television and film programs in ancillary markets, such as home video and pay and free television, is often directly related to reviews from critics and/or television ratings, poor reviews from critics or television ratings may negatively affect future revenue. The Company's results of operations will depend, in part, on the experience and judgment of its Management to select and develop new investment and production opportunities. The Company cannot make assurances that the Company's films and television programs will obtain favourable reviews or ratings, that its films will perform well in ancillary markets or that broadcasters will license the rights to broadcast any of the Company's film and television programs in development or renew licenses to broadcast film and television programs in the Company's library. The failure to achieve any of the foregoing could have a material adverse effect on the Company's business, results of operations or financial condition.

Licensed distributors' decisions regarding the timing of release and promotional support of the Company's films, television programs and related products are important in determining the success of these films, programs, and related products. The Company does not control the timing and manner in which our licensed distributors distribute our films, television programs, or related products. Any decision by those distributors not to distribute or promote one of the Company's films, television programs, or related products or to promote competitors' films, programs, or related products to a greater extent than they promote the Company's could have a material adverse effect on the Company's business, results of operations, or financial condition.

Risks Related to Doing Business Internationally

The Company distributes films and television productions outside Canada through third party licensees and derives revenues from these sources. As a result, the Company's business is subject to certain risks inherent in international business, many of which are beyond its control. These risks include: changes in local regulatory requirements, including restrictions on content; changes in the laws and policies affecting trade, investment and taxes (including laws and policies relating to the repatriation of funds and to withholding taxes); differing degrees of protection for intellectual property; instability of foreign economies and governments; cultural barriers; wars and acts of terrorism; and the spread of swine flu or other widespread health hazard.

Loss of Canadian Status

The Company could lose its ability to exploit Canadian government tax credits and incentives described above if it ceases to be "Canadian" as defined under the *Investment Canada Act*. In particular, the Company would not qualify as a Canadian if Canadian nationals cease to beneficially own shares of the Company having more than 50% of the combined voting power of its outstanding shares. In Canada and under international treaties, under applicable regulations, a program will qualify as a Canadian-content production if, among other things: (i) it is produced by Canadians with the involvement of Canadians in principal functions; and (ii) a substantial portion of the budget is spent on Canadian elements. As well, substantially all of the Company's programs are contractually required by broadcasters to be certified as "Canadian". In the event a production does not qualify for certification as Canadian, the Company would be in default under any government incentive and broadcast licenses for that production. In the event of such default, the broadcaster could refuse acceptance of the Company's productions.

Competition

Substantially all of the Company's revenues are derived from the production and distribution of television and film programs. The business of producing and distributing television and film programs is highly competitive. The Company faces intense competition with other producers and distributors, many of whom are substantially larger and have greater financial, technical, and marketing resources than the Company. The Company competes with other television and film production companies for ideas and storylines created by third parties as well as for actors, directors, and other personnel required for a production. The Company may not be successful in any of these efforts which may adversely affect business, results of operations, or financial condition.

The Company intends to increase its penetration of the prime-time television network market. The Company competes for time slots with a variety of companies which produce televised programming. The number of network prime-time slots remains limited (a "slot" being a broadcast time period for a program), even though the total number of outlets for television programming has increased over the last decade. Competition created by the emergence of new broadcasters has generally caused the market shares of the major networks to decrease. Even so, the license fees paid by the major networks remain the most lucrative. As a result, there continues to be intense competition for the time slots offered by those networks. There can be no assurance that the Company will be able to increase its penetration of the prime-time network market or obtain favourable stats, the failure to do so may have a negative impact on the Company's business.

Limited Ability to Exploit Filmed and Television Content Library

The Company depends on a limited number of titles for the majority of the revenues generated by its film and television content library. In addition, many of the titles in its library are not presently distributed and generate substantially no revenue. If the Company cannot acquire new products and rights to popular titles through production, distribution agreements, acquisitions, mergers, joint ventures, or other strategic alliances, it could have a material adverse effect on its business, results of operations or financial condition.

Protecting and Defending Against Intellectual Property Claims

The Company's ability to compete depends, in part, upon successful protection of its intellectual property. Furthermore, the Company's revenues are dependent on the unrestricted ownership of its rights to television and film productions. Any successful claims to the ownership of these intangible assets could hinder the Company's ability to exploit these rights. The Company does not have the financial resources to protect its rights to the same extent as its competitors. The Company attempts to protect proprietary and intellectual property rights to its productions through available copyright and trademark laws in a number of jurisdictions and licensing and distribution arrangements with reputable international companies in specific territories and media for limited durations. Despite these precautions, existing copyright and trademark laws afford only limited practical protection in certain countries in which the Company may distribute its products and in other jurisdictions no assurance can be given that challenges will not be made to the Company's copyright and trade-marks. In addition, technological advances and conversion of motion pictures into digital format have made it easier to create, transmit, and share unauthorized copies of motion pictures, DVDs, and television shows. Users may be able to download and distribute unauthorized or "pirated" copies of copyrighted material over the Internet. As long as pirated content is available to download digitally, some consumers may choose to digitally download material illegally. As a result, it may be possible for unauthorized third parties to copy and distribute the Company's productions or certain portions or applications of its intended productions, which could have a material adverse effect on its business, results of operations, or financial condition.

Litigation may also be necessary in the future to enforce the Company's intellectual property rights, to protect its trade secrets, or to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement or invalidity. Any such litigation could result in substantial costs and the diversion of resources and could have a material adverse effect on the Company's business, results of operations, or financial condition. The Company cannot provide assurances that infringement or invalidity claims will not materially adversely affect its business, results of operations, or financial condition. Regardless of the validity or the success of the assertion of these claims, the Company could incur significant costs and diversion of resources in enforcing its intellectual property rights or in defending against such claims, which could have a material adverse effect on the Company's business, results of operations, or financial condition.

Fluctuating Results of Operations

Results of operations for any period are significantly dependent on the number and timing of television programs and films delivered or made available to various media. Consequently, the Company's results of operations may fluctuate materially from period-to-period and the results of any one period are not necessarily indicative of results for future periods. Cash flows may also fluctuate and are not necessarily closely correlated with revenue recognition. Although traditions are changing, due in part to increased competition from new channels, industry practice is that broadcasters make most of their annual programming commitments between February and June in order that new programs can be ready for telecast at the start of the broadcast season

in September, or as mid-season replacements in January. Because of this annual production cycle, the Company's revenues are not earned on an even basis throughout the year. Results from operations fluctuate materially from quarter to quarter and the results for any one quarter are not necessarily indicative of results for future quarters.

Raising Additional Capital

The Company is likely to require capital in the future, as to meet additional working capital requirements or capital expenditures or to take advantage of investment or acquisition opportunities. Accordingly, it may need to raise additional capital in the future. The Company's ability to obtain additional financing will be subject to a number of factors including market conditions and its operating performance. These factors may make the timing, amount, terms and conditions of additional financing unattractive or unavailable for the Company. If the Company raises additional funds by issuing equity securities, the relative equity ownership of its existing investors could be diluted or new investors could obtain terms more favourable than previous investors. If the Company raises additional funds through debt financing it could incur significant borrowing costs. If the Company is unable to raise additional funds when needed, or on terms acceptable to the Company, its ability to operate and grow its business could be impeded.

Concentration Risk

Revenue may originate from disproportionately few productions and broadcasters. The value of the Common Shares may be substantially adversely affected should the Company lose the revenue generated by any such production or broadcaster.

Reliance on Key Personnel

The Company is substantially dependent upon the services of certain key personnel, particularly Michael Donovan, Charles Bishop, and Steven DeNure. The loss of the services of any one or more of such individuals could have a material adverse effect on the business, results of operations or financial condition of the Company. The Company maintains key man life insurance in respect of each of Michael Donovan and Charles Bishop pursuant to which the Company will receive $8.0 million and $3.5 million respectively, upon the death of the relevant individual. Each of Mr. Donovan and Mr. Bishop, and Mr. DeNure is under contract to the Company until 2011, 2011, and 2012 respectively.

Market Share Price Fluctuation

The market price of the Company's Common Shares may be subject to significant fluctuation in response to numerous factors, including variations in its annual or quarterly financial results or those of its competitors, changes by financial research analysts in their recommendations or estimates of the Company's earnings, conditions in the economy in general or in the broadcasting, film or television sectors in particular, unfavourable publicity or changes in applicable laws and regulations, exercise of the Company's outstanding options and/or warrants, or other factors. Moreover, from time to time, the stock markets on which the Company's Common Shares will be listed may experience significant price and volume volatility that may affect the market price of the Company's Common Shares for reasons unrelated to its economic performance. No prediction can be made as to the effect, if any, that future sales of Common Shares or the availability of Common Shares for future sale (including Common Shares issuable upon the exercise of stock options) will have on the market price of the Common Shares prevailing from time to time. Sales of substantial numbers of Common Shares, or the perception that such sales could occur, could adversely affect the prevailing price of the Company's Common Shares.

Risks Associated with Acquisitions and Joint Ventures

The Company has made or entered into, and will continue to pursue, various acquisitions, business combinations, and joint ventures intended to complement or expand its business. Any indebtedness incurred or assumed in any such transaction may or may not increase the Company's leverage relative to its earnings before interest, provisions for income taxes, amortization, minority interests, gain on dilution of investment in subsidiary and discounted operation, or EBITDA, or relative to its equity capitalization, and any equity issued may or may not be at prices dilutive to its then existing shareholders. The Company may encounter difficulties in integrating acquired assets with its operations. Furthermore, the Company may not realize the benefits it anticipated when it entered into these transactions. In addition, the negotiation of potential acquisitions, business combinations or joint ventures as well as the integration of an acquired business could require the Company to incur significant costs and cause diversion of Management's time and resources. Future acquisitions could also result in impairment of goodwill and other intangibles, development write-offs and other acquisition-related expenses.

The Company continues to pursue opportunities to expand its distribution capacity, production capacity, and product libraries. There can be no assurance that appropriate acquisitions or expansion opportunities will be identified or available; that the Company will have or be able to obtain sufficient financing or acceptable terms to fund any such acquisition or expansion; that any such acquisition or expansion will be consummated, or, if consummated, the timing thereof; or that any such acquisition or expansion can be successfully integrated into or with the Company's existing operations and business strategy and ultimately prove beneficial to the Company.

Potential for Budget Overruns and Other Production Risks

A production's costs may exceed its budget. Unforeseen events such as labour disputes, death or disability of a star performer, changes related to technology, special effects or other aspects of production, shortage of necessary equipment, damage to film negatives, master tapes and recordings, or adverse weather conditions, or other unforeseen events may cause cost overruns and delay or frustrate completion of a production. Although the Company has historically completed its productions within budget, there can be no assurance that it will continue to do so. The Company currently maintains insurance policies and when necessary, completion bonds, covering certain of these risks. There can be no assurance that any overrun resulting from any occurrence will be adequately covered or that such insurance and completion bonds will continue to be available or, if available, on terms acceptable to the Company. The Company has never made a material claim on its insurance or called on a completion bond. In the event of budget overruns, the Company may have to seek additional financing from outside sources in order to complete production of a television program. No assurance can be given as to the availability of such financing or, if available, on terms acceptable to the Company. In addition, in the event of substantial budget overruns, there can be no assurance that such costs will be recouped, which could have a significant impact on the Company's results of operations or financial condition.

Management Estimates in Revenues and Earnings

The Company makes numerous estimates as to its revenues and matching production and direct distribution expenses on a project–by-project basis. As a result of this accounting policy, earnings can widely fluctuate if Management has not accurately forecast the revenue potential of a production.

Stoppage of Incentive Programs

There can be no assurance that the local cultural incentive programs which the Company may access in Canada and internationally from time to time, including those sponsored by various European, Australian, and Canadian governmental agencies, will not be reduced, amended, or eliminated. Any change in the policies of those countries in connection with their incentive programs may have an adverse impact on the Company's business, results of operations, or financial condition.

Financial Risks Resulting from the Company's Capital Requirements

The production, acquisition and distribution of films and television programs require a significant amount of capital. The Company cannot provide assurance that it will be able to continue to successfully implement financing arrangements or that it will not be subject to substantial financial risks relating to the production, acquisition, completion, and release of future films and television programs. If the Company increases (through internal growth or acquisition) its production slate or its production budgets, it may be required to increase overhead, make larger up-front payments to talent, and consequently bear greater financial risks. The occurrence of any of the foregoing could have a material adverse effect on the Company's business, results of operations, or financial condition.

Government Incentive Program

In addition to license fees from domestic and foreign broadcasters and financial contributions from co-producers, the Company finances a significant portion of its production budgets from federal and provincial governmental agencies and incentive programs, including the Canadian Television and Cable Production Fund, the provincial film equity investment programs, federal tax credits, and provincial tax credits. The tax credits are considered part of the Company's equity in any production for which they are used as financing. There can be no assurance that individual incentive programs available to the Company will not be reduced, amended, or eliminated or that the Company or any production will qualify for them, any of which may have an adverse effect on the Company's business, results of operations, or financial condition.

Changes in Regulatory Environment

At the present time, the film industry is subject to a regulatory environment. The Company's operations may be affected in varying degrees by future changes in the regulatory environment. Any change in the regulatory environment could have a material adverse affect on the Company's revenues and earnings.

Litigation

Governmental, legal, or arbitration proceedings may be brought or threatened against the Company in the future. Regardless of their merit, any such claims could be time consuming and expensive to evaluate and defend, divert Management's attention and focus away from the business, and subject the Company to potentially significant liabilities.

Technological Change

Technological change may have a materially adverse effect on the Company's business, results of operations, and financial condition. The emergence of new production or CGI technologies or a new digital television broadcasting standard may diminish the value of the Company's existing equipment and programs. Although the Company is committed to production technologies

such as CGI and digital post-production, there can be no assurance that it will be able to incorporate other new production and post-production technologies which may become de facto industry standards. In particular, the advent of new broadcast standards, which may result in television programming being presented with greater resolution and on a wider screen than is currently the case, may diminish the evergreen value of the Company's programming library because such productions may not be able to take full advantage of such features. There can be no assurance that the Company will be successful in adapting to these changes on a timely basis.

Labour Relations

Many individuals associated with the Company's projects are members of guilds or unions which bargain collectively with producers on an industry-wide basis from time to time. While the Company has positive relationships with the guilds and unions in the industry, a strike or other form of labour protest affecting those guilds or unions could, to some extent, disrupt production schedules which could result in delays and additional expenses.

Exchange Rates

The returns to the Company from foreign exploitations of its properties are customarily paid in US currency and, as such, may be affected by fluctuations in the exchange rate of the US dollar. Currency exchange rates are determined by market factors beyond the control of the Company and may vary substantially during the course of a production period. In addition, the ability of the Company to repatriate to Canadian funds arising in connection with foreign exploitation of its properties may also be adversely affected by currency and exchange control regulations imposed by the country in which the production is exploited. At present, the Company is not aware of any existing currency or exchange control regulations in any country in which the Company currently contemplates exploiting its properties which would have an adverse effect on the Company's ability to repatriate such funds. Where appropriate, the Company will hedge its foreign exchange risk through the use of derivatives.

Any of these factors could have a material adverse effect on the Company's business, results of operations or financial condition.

Disclosure Controls and Procedures

The Company's Chief Executive Officer (**"CEO"**) and Chief Financial Officer (**"CFO"**) are responsible for establishing and maintaining the entity's disclosure controls and procedures to provide reasonable assurance that all relevant information is gathered and reported to them on a timely basis so that appropriate decisions can be made regarding public disclosures.

The CEO and CFO, after evaluating the effectiveness of the Company's disclosure controls and procedures have concluded that, as at June 30, 2009, the entity's disclosure controls and procedures were effective. It should be noted that while the entity's CEO and CFO believed that the disclosure controls and procedures can provide a reasonable level of assurance, and that they are effective, they do not expect that the disclosure controls and procedures can prevent all errors and fraud. A control system, no matter how well designed or operated can provide only reasonable, not absolute assurance that the objectives of the control systems are met.

Internal Control over Financial Reporting ("ICFR")

The Company's CEO and CFO are responsible for designing ICFR or causing these controls to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance to Canadian GAAP.

Due to its inherent limitations, ICFR may not prevent or detect material misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, under the supervision of the CEO and CFO conducted an evaluation of control design on ICFR as at June 30, 2009. Based on this evaluation, Management has concluded that the Company's ICFR were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries required to be disclosed in the Company's reports filed or submitted under the National Instrument 52-109 would have been known to them.

The Company's Board of Directors has implemented a Code of Business Conduct and Ethics and it has been distributed to all directors, officers and employees of the Company.

Changes in ICFR

There were no changes in the Company's ICFR that occurred during the year ended June 30, 2009 that to Management's knowledge have materially affected or are reasonably likely to materially affect the entity's ICFR. However, during the year ended June 30, 2009 the Company acquired imX and decided to dispose of Bulldog. At this time there is nothing to indicate the

entity's ICFR have been materially affected, or are reasonably likely to be materially affected as a result of this acquisition or disposal. Management is in the process of evaluating any possible changes in ICFR and will report any material information concerning any changes in ICFR as soon as practical.

Use of Non-GAAP Financial Measures

In addition to the results reported in accordance with Canadian generally accepted accounting principles, determined with reference to the Handbook of the CICA ("**GAAP**"), the Company uses various non-GAAP financial measures, which are not recognized under Canadian GAAP, as supplemental indicators of our operating performance and financial position. These non-GAAP financial measures are provided to enhance the user's understanding of our historical and current financial performance and our prospects for the future. Management believes that these measures provide useful information in that they exclude amounts that are not indicative of our core operating results and ongoing operations and provide a more consistent basis for comparison between periods. The following discussion explains the Company's use of EBITDA, Gross Margin, and Adjusted Operating Activities as measures of performance.

"**EBITDA**" and "**Adjusted EBITDA**" means earnings (loss) before interest, taxes, depreciation, amortization, stock-based compensation expense, and for Q4 2008 onward, impairment of certain investments in film and television programs ("Adjusted EBITDA"). Amortization includes amortization of PP&E, acquired libraries, and intangible assets. EBITDA and Adjusted EBITDA represents net income (loss) of the Company before amortization of PP&E, acquired libraries, and intangible assets, interest expense, interest income, non-controlling interest, equity income, development expenses, and stock-based compensation expense. EBITDA and Adjusted EBITDA are not earnings measures recognized by GAAP and do not have a standardized meaning prescribed by GAAP. Therefore, EBITDA and Adjusted EBITDA may not be comparable to similar measures presented by other issuers. Management believes EBITDA and Adjusted EBITDA to be meaningful indicators of our performance that provides useful information to investors regarding our financial condition and results of operation.

"**Gross Margin**" means revenue less direct production costs and amortization of film and television programs. Gross Margin is not an earnings measure recognized by GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, Gross Margin may not be comparable to similar measures presented by other issuers.

"**Adjusted Operating Activities**" is a non-GAAP financial measure of cash inflows and outflows from operating activities adjusted for increases and decreases in interim production financing as, in Management's opinion, these are also an integral part of determining cash flows from operations. Adjusted Operating Activities is one of the key cash flow measurement tools used by Management in assessing cash flow performance.

A reconciliation of historical results to EBITDA and Adjusted EBITDA is presented on the next page.

Reconciliation of Historical Results to EBITDA and Adjusted EBITDA

EBITDA and Adjusted EBITDA are not recognized earnings measures under GAAP and do not have standardized meanings prescribed by GAAP. Therefore EBITDA and Adjusted EBITDA may not be comparable to similar measures presented by other companies or issuers. Investors are cautioned that EBITDA and Adjusted EBITDA should not be construed as alternatives to net income or loss determined in accordance with GAAP as an indicator of the Company's performance or to cash flows from operating, investing, and financing activities as a measure of liquidity and cash flows. The following table reconciles income (loss) before income taxes and discontinued operations, EBITDA and Adjusted EBITDA, and Gross Margin, based on the audited financial statements of the Company for the years ended June 30, 2009 and 2008 and historical unaudited financial statements of the Company for the three months ended June 30, 2009 and 2008, March 31, 2009 and 2008, December 31, 2008 and 2007, and September 30, 2008 and 2007, included elsewhere in this MD&A. For further description see "Use of Non-GAAP Financial Measures" elsewhere in this MD&A. *The financial information for Q4, Q3, and Q2 2009 includes full quarterly results for four divisions (Halifax Film, Decode, Studio B, and imX), Q1 2009 includes full quarterly results for three divisions (Halifax Film, Decode, and Studio B) but only 72 days for imX. Q4 and Q3 2008 include full quarterly results for three divisions (Halifax Film, Decode, and Studio B) with no amounts for imX. Q2 2008 includes full quarterly results for Halifax Film, Decode, and only 28 days of activity for the Studio B division and no amounts for imX. Results for Q1 2008 pre-dates the acquisitions of Studio B and imX.*

The operating results for any quarter should not be relied upon as an indication of results for any future period.

	Year Ended June 30/09 ($000)	Q4-09 ($000)	Q3-09 ($000)	Q2-09 ($000)	Q1-09 ($000)
Income before income taxes and discontinued operations for the period	**3,218**	**752**	651	860	955
Interest expense	**363**	**57**	91	106	109
Interest (income) expense and loss (income) from strategic investments[2]	**(148)**	**(153)**	9	80	(84)
Costs associated with abandoned transactions and non-controlling interest expense (income)	**1,389**	**215**	16	1,151	7
Equity income	**-**	**-**	-	-	-
Amortization	**3,059**	**1,183**	643	573	660
Impairment in value of certain investment in film and television programs[3]	**494**	**494**	-	-	-
Development expenses	**425**	**333**	45	39	8
Stock-based compensation expense	**999**	**435**	170	204	190
EBITDA and Adjusted EBITDA[1 & 3]	**9,799**	**3,316**	**1,625**	**3,013**	**1,845**
Selling, general and administrative, net of stock-based compensation expense	**13,002**	**2,758**	3,376	3,719	3,149
Gross Margin[1]	**22,801**	**6,074**	**5,001**	**6,732**	**4,994**

	Year Ended June 30/08 ($000)	Q4-08 ($000)	Q3-08 ($000)	Q2-08 ($000)	Q1-08 ($000)
Income (loss) before income taxes and discontinued operations for the period	**(848)**	**(3,057)**	1,403	207	599
Interest expense	**556**	**117**	143	124	172
Interest (income) expense and loss (income) from strategic investments[2]	**(204)**	**65**	(109)	(43)	(117)
Costs associated with abandoned transactions and non-controlling interest expense (income)	**(271)**	**(274)**	-	(2)	5
Equity income	**(44)**	**(13)**	-	(8)	(23)
Amortization	**2,891**	**775**	1,093	675	348
Impairment in value of certain investment in film and television programs[3]	**2,782**	**2,782**	-	-	-
Development expenses	**328**	**293**	-	35	-
Stock-based compensation expense	**904**	**512**	158	121	113
EBITDA and Adjusted EBITDA[1 & 3]	**6,094**	**1,200**	**2,688**	**1,109**	**1,097**
Selling, general and administrative, net of stock-based compensation expense	**11,140**	**3,419**	3,148	2,364	2,210
Gross Margin[1]	**17,234**	**4,619**	**5,836**	**3,473**	**3,307**

[1] Certain of the comparative Non-GAAP Financial Measures ("**NGFM**") are adjusted for all necessary adjustments, consisting of normal recurring adjustments and any changes in the current definition of NGFM (see "Use of Non-GAAP Financial Measures" section of this MD&A for further details).

[2] Effective Q4 2009 and onward, the Company has combined income from strategic short-term investments with unrealized loss on short-term investments and interest (income) expense. The Company has adjusted accordingly for all prior quarters reported.

[3] Adjusted EBITDA for Q4 2009 and Q4 2008 have been adjusted for $0.49 million and $2.78 million respectively for impairment in value of certain investments in film and television programs recorded as a result of the year end net realizable value testing for investment in film and television as management believes this to be a more meaningful indicator of operating performance.

DHX MEDIA LTD.

Fiscal 2009

Supplemental Information
For the year ended June 30, 2009

1. Summary of securities issued and options and warrants granted during the year ended June 30, 2009

a. Summary of securities issued

	Number of Common Shares	Value $
Balance at June 30, 2008	**42,715,785**	**55,487,244**
Shares issued to Steven DeNure, Director and Officer	87,921	120,000
Shares issued to Neil Court, Active Director and Former Officer	87,921	120,000
Shares issued to Elizabeth Stevenson	43,960	60,000
Shares issued for the purchase of imX Communications Inc. as follows:		
A former shareholder of imX Communications Inc.	67,552	100,000
J. William Ritchie, Director	50,664	75,000
Shares issued to two former shareholders of Studio B for the Studio B earnout:		
Chris Bartleman	750,000	439,456
Blair Peters	750,000	439,456
Shares repurchased and cancelled as part of the Company's normal course issue bid	(111,092)	(83,888)
Balance at June 30, 2009	**44,442,711**	**56,757,268**

b. Summary of options and warrants

Options	**Number of Options**	**Weighted-average exercise price**
Balance at June 30, 2008	**2,436,547**	**$2.02**
Granted to an Employee	75,000	$0.93
Granted to Steven DeNure, Director and Officer	360,000	$0.58
Granted to Dana Landry, CFO	150,000	$0.78
Granted to Mark Gosine, Officer	65,000	$0.78
Granted to Charles Bishop, Director and Officer	360,000	$0.78
Granted to Donald Wright, Director	100,000	$0.78
Granted to Sir Graham Day, Director	100,000	$0.78
Granted to Joe Medjuck, Director	100,000	$0.78
Granted to J. William Ritchie, Director	100,000	$0.78
Granted to Employees	500,000	$0.78
Options cancelled	(580,000)	$2.11
Balance at June 30, 2009	**3,766,547**	**$1.36**

Put Options	**Number of Put Options**	**Weighted-average exercise price**
Balance at June 30, 2008 and 2009	**425,420** [1]	**Nil**

[1] Each convert on a one-to-one basis to common shares of the Company (see note 16 of the consolidated financial statements for further details).

Warrants	Number of Warrants	Weighted-average exercise price
Balance at June 30, 2008	**5,661,163**	**$2.06**
Broker warrants expired	(738,413)	$1.80
Balance at June 30, 2009	**4,922,750**	**$2.10**

c. Summary of securities as at the end of the reporting period

i. Authorized share capital

Unlimited common shares without nominal or par value;
100,000,000 preferred variable voting shares, redeemable at the option of the Company at any time at a millionth of a cent per share, no entitlement to dividends, voting.

ii. Shares outstanding and recorded value

44,442,711 common shares at a recorded value of $56,757,268;
100,000,000 preferred variable voting shares at a recorded value of $100.

iii. Description of options and warrants

See note 16 of the audited consolidated financial statements for the year ended June 30, 2009.

2. Directors and officers as at June 30, 2009

Directors	
Sir Graham Day (1) (2)	Lead Director of DHX, Chair of Governance Committee
Michael Donovan (1)	Chairman, Board of Directors
J. William Ritchie (2)	Director, Chair of Compensation Committee
Donald Wright (2)	Director, Chair of Audit Committee
Joe Medjuck (2)	Director
Charles Bishop (1)	Director
Steven DeNure	Director
Neil Court	Director

Officers	
Michael Donovan	CEO
Dana Landry	CFO
Steven DeNure	President and COO (3)
Charles Bishop	President of Production and Development (3)
Mark Gosine	VP Legal Affairs, Secretary and General Counsel (3)

(1) Member of the Production Financing Committee.
(2) Member of the Audit Committee, Compensation Committee, and the Nominating and Governance Committee.
(3) As of May 13, 2009.