DHX MEDIA LTD.

Q1 2010

Management Discussion and Analysis
of Financial Condition and Results of Operations
For the Three Months Ended September 30, 2009 and September 30, 2008
(Unaudited)

DHX MEDIA LTD.

Q1 2010
September 30, 2009

MANAGEMENT DISCUSSION AND ANALYSIS

*The following Management Discussion & Analysis ("**MD&A**") prepared as of November 12, 2009, should be read in conjunction with DHX Media Ltd.'s* (the "**Company**" or "**DHX**") *unaudited interim consolidated financial statements and accompanying notes for the three months ended September 30, 2009 and 2008, as well as the Company's annual MD&A and audited consolidated financial statements for the years ended June 30, 2009, and 2008. The unaudited interim consolidated financial statements and accompanying notes for the three months ended September 30, 2009 and 2008 have been prepared in accordance with Canadian generally accepted accounting principles.*

The Company's auditors, Pricewaterhouse Coopers LLP, have not reviewed the unaudited interim consolidated financial statements and accompanying notes for the three months ended September 30, 2009 and 2008.

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 delisted its shares from the AIM market of the London Stock Exchange effective October 1, 2009. The Company's shares 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. An 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. For a more detailed assessment of the risks that could cause actual results to materially differ from current expectations see the "Risk Assessment" section of the annual MD&A for the years ended June 30, 2009 and 2008 posted on SEDAR at www.sedar.com.

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 Productions ("**Studio B**"), Bulldog Interactive Fitness Inc. ("**Bulldog**"), and imX Communications Inc. ("**imX**") respectively (See "Acquisition" and "Acquisitions" sections of this MD&A and the annual MD&A for the years ended June 30, 2009 and 2008 posted on SEDAR at www.sedar.com). In December 2008, the Company decided to dispose of Bulldog.

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 2,275 half-hours of programming and over 58 individual titles produced. The Company has 17 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 currently in its 17th season. 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 and limited rights proprietary 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 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 three months ended September 30, 2009 and 2008 has been derived from the Company's unaudited interim consolidated financial statements and accompanying notes for the three months ended September 30, 2009 and 2008, and from the audited consolidated financial statements for the years ended June 30, 2009 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.**

	Three Months Ended September 30, 2009	**Three Months Ended September 30, 2008**
	($000) (except per share data)	**($000) (except per share data)**
Consolidated Statements of Income and Comprehensive Income Data:[1]		
Revenues	**12,948**	16,871
Direct production costs and amortization of film and television produced	**8,287**	11,878
Gross margin	**4,661**	4,993
Selling, general, and administrative	**3,452**	3,338
Impairment in value of certain investment in film and television programs	**159**	-
Income before the following and discontinued operations	**738**	1,506
Income (loss) from strategic investments	**(53)**	72
Amortization, interest and other (expenses), net	**(584)**	(623)
Provision for income taxes	**92**	345
Net income and comprehensive income before discontinued operations	**9**	610
Discontinued operations, net of income tax	**-**	(80)
Net income and comprehensive income	**9**	530
Basic earnings before discontinued operations per common share	**0.00**	0.01
Diluted earnings before discontinued operations per common share	**0.00**	0.01
Basic earnings per common share	**0.00**	0.01
Diluted earnings per common share	**0.00**	0.01
Weighted average common shares outstanding		
Basic	**44,335**	42,783
Diluted	**44,513**	42,783

	As at September 30, 2009 ($000)	As at June 30, 2009 ($000)
Consolidated Balance Sheet Data:		
Cash, restricted cash and short-term investments	**11,500**	11,086
Investment in film and television programs	**31,058**	35,827
Total assets	**138,548**	148,803
Total liabilites	**77,800**	88,253
Shareholders' equity	**60,748**	60,550

[1] The financial information for the three months ended September 30, 2009 in the table includes full quarterly results for Halifax Film, Decode, Studio B and imX (see–"Acquisition" section of the annual MD&A for the year ended June 30, 2009 and 2008 posted on SEDAR at www.sedar.com for further details on the imX acquisition). The financial information for the three months ended September 30, 2008 in the table includes full quarterly results for Halifax Film, Decode, and Studio B, but only 72 days of activity for imX.

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 September 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 2010[1]	**Fiscal 2009[1]**				**Fiscal 2008[1]**		
	Q1	**Q4[3]**	**Q3**	**Q2**	**Q1**	**Q4[3]**	**Q3[4]**	**Q2[4]**
(All numbers are in thousands except per share data)	**30-Sep**	**30-Jun**	**31-Mar**	**31-Dec**	**30-Sep**	**30-Jun**	**31-Mar**	**31-Dec**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Revenue	12,948	11,523	12,061	21,514	16,871	13,582	18,827	9,307
Gross Margin[2]	4,661	6,075	5,001	6,733	4,993	4,619	5,836	3,473
EBITDA and Adjusted EBITDA[2 & 3]	1,510	3,316	1,625	3,013	1,845	1,200	2,688	1,109
Net Income (Loss) and Comprehensive Income (Loss) before Discontinued Operations	9	157	461	615	610	(2,283)	883	137
Net Income (Loss) and Comprehensive Income (Loss)	9	(271)	444	(328)	530	(2,417)	876	137
Basic Earnings (Loss) Before Discontinued Operations Per Common Share	0.00	0.00	0.01	0.02	0.01	(0.05)	0.02	0.00
Diluted Earnings (Loss) Before Discontinued Operations Per Common Share	0.00	0.00	0.01	0.02	0.01	(0.05)	0.02	0.00
Basic Earnings (Loss) Per Common Share	0.00	0.00	0.01	(0.01)	0.01	(0.06)	0.02	0.00
Diluted Earnings (Loss) Per Common Share	0.00	0.00	0.01	(0.01)	0.01	(0.06)	0.02	0.00

[1] The financial information for Q1 2010 and 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.

[2] 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).

[3] The Adjusted EBITDA figure shown for Q1 2010, Q4 2009 and Q4 2008 were adjusted for $0.16 million, $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] 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 2008 audit.

Results for the three months ended September 30, 2009 (“Q1 2010”) compared to the three months ended September 30, 2008 (“Q1 2009”)

Revenues

Revenues for Q1 2010 were $12.95 million, down 23% from $16.87 million for Q1 2009. The decrease in Q1 2010 was generally due to lower deliveries of proprietary programs versus Q1 2009. Proprietary deliveries are seasonal and Q1 2009 was a more robust quarter for deliveries than compared to Q1 2010. The continuing global recession and credit crunch has resulted in a slowdown in advertising dollars for some of our broadcast customers and therefore lower visibility. This has translated into a slowdown of production revenue for Q1 2010 versus Q1 2009 as broadcasters have not been committing to new shows as quickly as they had been for Fiscal 2009.

Proprietary production revenues: Proprietary production revenues for Q1 2010 of $5.59 million were down 60% compared to $14.11 million for Q1 2009. The overall decrease was made up of a 53% decrease to $1.97 million (Q1 2009-$4.19 million) in proprietary production revenue for the Halifax Film division, a 53% decrease to $3.62 million for Q1 2010 (Q1 2009-$7.63 million) for the Decode division, and nil for the Studio B division (Q1 2009-$2.29 million). Q1 2010 had fewer scheduled deliveries as compared to Q1 2009. Deliveries for Q1 2010 were in line with Management’s expectations. The largest reason for the decrease in Q1 2010 is no deliveries for *The Guard* versus $3.31 million in Q1 2009 for *The Guard* Season I.

For Q1 2010 the Company recognized 59.0 half-hours - $5.59 million of proprietary film and television program production revenue, a 26% decrease versus the 79.5 half-hours for Q1 2009, 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 entities for Q1 2010 and Q1 2009 was as follows:

		Q1 2010		**Q1 2009**	
Title	**Season or Type**	**$ Million**	**Half-hours**	**$ Million**	**Half-hours**
Consolidated Entities					
Decode:					
Chop Socky Chooks	I		-		8.0
Clang Invasion	I		-		3.0
Dirt Girl World	I		6.0		-
Franny's Feet	III		9.0		-
The Latest Buzz	II		-		26.0
The Latest Buzz	III		13.0		-
Poppets Town	I		13.0		-
Super Why (CBC)	I		N/A [1]		-
Super Why (PBS)	I		-		11.0
Subtotals		$ 3.62	41.0	$ 7.63	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!	II		-		7.0
Bo on the Go!	III		5.0		-
Canada's Super Speller	I		10.0		-
Searching for Soul: Making of Keystone Choir	Documentary		2.0		-
The Guard	I		N/A [1]		10.0
This Hour Has 22 Minutes	XVI		-		1.0
This Hour Has 22 Minutes	XVII		1.0		-
Subtotals		1.97	18.0	4.19	18.5
Total Consolidated Entities		**$ 5.59**	**59.0**	**$ 14.11**	**79.5**

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

In addition, for Q1 2010 the Company delivered 40 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. This represents a 60% increase over 25 half-hours for Q1 2009. The breakdown was as follows:

		Q1 2010	Q1 2009
Title	**Season**	**Half-hours**	**Half-hours**
Decode:			
Waybuloo (Treehouse)	I	20.0	-
Studio B:			
Martha Speaks (TVO)	I		25.0
Martha Speaks (TVO)	II	20.0	-
Total Deliveries		**40.0**	**25.0**

In summary, total proprietary deliveries in **Q1 2010** were **99 half-hours**, only down 8% as compared to **107.5 half-hours** for **Q1 2009**, made up of: 59 half-hours - proprietary television recognizable (Q1 2009 – 79.5 half hours), nil half-hours - proprietary television not recognizable (Q1 2009 – 3 half-hours for *Latest Buzz* Season III), and 40 half-hours for *Waybuloo* Season I and *Martha Speaks* Season II (Q1 2009 – 25 half-hours for *Martha Speaks* Season I) - Canadian and limited rights proprietary television accounted for in producer and service fee revenue.

Producer and service fee revenues (including Canadian and limited rights proprietary television): For Q1 2010 the Company earned $2.87 million for producer and service fee revenues (including Canadian and limited rights proprietary television), an increase of 181% over Q1 2009. The breakdown for Q1 2010 was as follows: $0.80 million for *Waybuloo* Season I, $0.42 million for *Martha Speaks* Season II, $0.13 million for *Badly Drawn Roy* Season I, $0.01 million for *Tilly and Her Friends* Season I, $0.06 million for *Kung Fu Magoo* Season I, $0.02 million for *My Little Pony* Season I, $0.03 million for *The Math Show* Pilot, and $1.41 million for *Trollope,* a feature length film, offset by a miscellaneous reduction of $0.01 million for *Martha Speaks* Season I. For Q1 2009 the breakdown for the $1.02 million was: $0.33 million for *Waybuloo* Season I, $0.18 million for *Martha Speaks* Season I, $0.21 million for *Side Show Christmas* Season I, $0.04 million for *Martha Speaks* Season II, and $0.30 million for *Peanuts* Season I, offset by miscellaneous reductions of $0.03 million for *George of the Jungle* Season I and $0.01 million for *Pucca* Season II). *Waybuloo* Season I and *Martha Speaks* Seasons I & II 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 Q1 2010 distribution revenues were up 157% to $3.75 million from $1.46 million for Q1 2009, slightly above Management's expectations. For Q1 2010 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: *The Latest Buzz* Seasons I, II, and III, *Animal Mechanicals* Seasons I and II, *Franny's Feet* Seasons I, II, and III, *Super Why* Season I, *Kid vs. Kat* Season I, *Poppets Town* Season I, and *Martha Speaks* Season I. Management was very pleased with the Q1 2010 distribution revenues given the downturn in the economy.

Music and royalty revenues: For Q1 2010 music and royalty revenues increased 5% to $0.21 million (Q1 2009-$0.20 million). New media revenues increased in Q1 2010 to $0.35 million (Q1 2009-$0.03 million). New media revenues have increased as the Company has under taken new activities to support several of its proprietary series and for Q1 2010, specifically *That's So Weird,* and are in line with Management's expectations.

Rental revenues: For Q1 2010 rental revenues were $0.18 million, up from Q1 2009 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, rental of currently unused office space in the Company's headquarters in Halifax, Nova Scotia, and rental of office and equipment of the Company's Toronto, Ontario office.

Gross Margin

Gross margin for Q1 2010 was $4.66 million, a decrease in absolute dollars of 7% compared to $4.99 million for Q1 2009. The overall margin at 36% of revenue for Q1 2010 was at the high end of Management's expectations.

For Q1 2010 the margins for each revenue category in absolute dollars and as a margin percentage are as follows: production revenue margin of $1.55 million or 28%, net producer and service fee revenue (including Canadian and limited rights proprietary television) margin of $0.95 million or 33%, distribution revenue margin of $1.62 million or 43% ($1.33 million or 35% when $0.29 million for the amortization of acquired libraries is removed), music and royalty revenue margin of $0.16 million or 76%, new media revenue margin of $0.20 million or 57%, and rental revenue margin of $0.18 million or 100%. The production, distribution, producer service fee, and rental revenue streams were all significant contributors to the absolute dollar margin for Q1 2010.

In particular, production, producer and service fee revenue, and distribution in terms of absolute dollars contributed $1.55 million, $0.95 million, and $1.62 million respectively or 88% of the total margin. Production margin at 28% was in line with Management's expectations based on product delivery mix. Producer and service fee margins can vary greatly from 25-55% and at 33% is in line with Management's expectations. Distribution margin can fluctuate greatly from title-to-title and at 43% 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 76% was in line with Management's expectations.

Overall gross margin for Q1 2010 at 36% was in line with Management's expectations.

Operating Expenses

Operating expenses for Q1 2010 were $3.92 million compared to $3.49 million for Q1 2009, an increase of 12%. The increase for Q1 2010 was due to net increases over Q1 2009 in the following categories: $0.15 million increase in amortization of acquired library due to product mix, a $0.16 million increase in impairment in value of certain investment in film, and a $0.11 million increase in non-cash stock based compensation expense. SG&A costs excluding stock based compensation were flat at $3.15 million. Management continues to target SG&A reductions of 5% for the remainder of 2010.

Impairment in Value of Certain Investment in Film and Television Programs

During Q1 2010 the Company recorded an impairment in value of certain investments in film and television programs of $0.16 million (nil for Q1 2009).

Income (Loss) from Strategic Investments

For Q1 2010 loss from strategic investments activities of $0.05 million (Q1 2009-$0.07 million income) related to distributions of capital of nil, an unrealized loss from short-term investments held for trading of $0.07 million, offset by a realized capital gain of $0.08 million, versus $0.01 million for distributions of capital, $0.04 million related to an unrealized gain from short-term investments held for trading, and $0.02 million for a realized capital gain for Q1 2009. All investments were strategic in nature and were in the same or similar businesses as the business of the Company.

EBITDA

In Q1 2010 EBITDA was $1.51 million, an 18% decrease as compared to $1.85 million for Q1 2009. For Q1 2010 this was generally due to the decrease in gross margin dollars of $0.33 million.

Amortization

Amortization includes amortization of acquired libraries, PP&E, and intangible assets. For Q1 2010 amortization was $0.78 million (Q1 2009-$0.66 million). The breakdown for amortization was $0.29 million, $0.22 million, and $0.27 million for amortization of acquired libraries, PP&E, and intangible assets respectively. For Q1 2010 the amortization of acquired libraries was $0.29 million (Q1 2009-$0.14 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 Q1 2010 amortization of PP&E was $0.22 million (Q1 2009-$0.19 million). For Q1 2010 amortization of intangible assets was $0.27 million (Q1 2009-$0.33 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 Q1 2010 of $0.07 million versus net interest expense of $0.10 million for Q1 2009. Interest expense consists of $0.04 million for interest expense on long-term debt and $0.04 million for interest and bank charges (Q1 2009-$0.07 million and $0.04 million, respectively) and offset by $0.01 million interest income (Q1 2009-$0.01 million).

Non-Controlling Interest

For Q1 2010 the Company recorded an expense for non-controlling interest of $0.02 million (Q1 2009-expense of $0.01 million).

Income Taxes

Income tax expense for Q1 2010 was $0.09 million (Q1 2009-$0.34 million) made up of $0.01 million expense (Q1 2009-$0.01 million) for large corporation taxes, $0.01 million expense (Q1 2009-nil) for current income taxes, and future income tax expense of $0.07 million (Q1 2009-$0.33 million).

Net Income and Comprehensive Income Before Discontinued Operations

Net income and comprehensive income before discontinued operations for Q1 2010 was $0.01 million (Q1 2009-$0.61 million income).

Discontinued Operations

The Company recorded no amounts on discontinued operations for Q1 2010 (Q1 2009-$0.08 million).

Net Income and Comprehensive Income

Net income and comprehensive income for Q1 2010 was $0.01 million, compared to $0.53 million for Q1 2009, or a decrease of $0.52 million in absolute dollars or 98%. For Q1 2010 the overall decrease of $0.52 million was due to changes over Q1 2009 of the following amounts: an increase in operating expenses, net of income from strategic investments of $0.55 and a gross margin decrease of $0.33 million, offset by a $0.25 million decrease in provision for income taxes and a $0.11 million decrease in net interest and other expenses, which includes amortization, impairment in value of certain investment in film and television, and loss for discontinued operations.

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 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).

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:

		Q4 2009		Q4 2008	
Title	**Season or Type**	**$ Million**	**Half-hours**	**$ Million**	**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 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:

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

In summary, total proprietary 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* Season I - Canadian and limited rights proprietary television accounted for in producer and service fee revenue.

Producer and service fee revenues (including Canadian and limited rights proprietary television): For Q4 2009 the Company earned $2.64 million for producer and service fee revenues (including Canadian and limited rights proprietary television) ($0.90 million for *Waybuloo* Season I, $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 (including Canadian and limited rights proprietary television).

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.

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).

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, rental of currently unused office space in the Company's headquarters in Halifax, Nova Scotia, and rental of office and equipment of the Company's Toronto, Ontario office.

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%.

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 (including Canadian and limited rights proprietary television) 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. 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.

Impairment in Value of Certain Investment in Film and Television Programs

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

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.

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).

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 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 (including Canadian and limited rights proprietary television): For Q3 2009 the Company earned $1.33 million for producer and service fee revenues (including Canadian and limited rights proprietary television) ($0.16 million for *Waybuloo* Season I, $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 (including Canadian and limited rights proprietary television).

Distribution revenues: For Q3 2009 distribution revenues were down modestly 11% to $3.96 million from $4.43 million for Q3 2008.

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.

EBITDA

In Q3 2009 EBITDA was $1.63 million, a 39% decrease as compared to $2.69 million for Q3 2008.

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).

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.

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.

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**	-

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 (including Canadian and limited rights proprietary television): For Q2 2009 the Company earned $2.29 million for producer and service fee revenues (including Canadian and limited rights proprietary television) ($1.83

million for *Waybuloo* Season I, $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 (including Canadian and limited rights proprietary television).

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 (including Canadian and limited rights proprietary television) 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).

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%.

Liquidity and Capital Resources

	September 30, 2009 $	June 30, 2009 $
	(Amounts in Thousands, Except Balance Sheet Ratios)	
Key Balance Sheet Amounts and Ratios:		
Cash, restricted cash [1] and short-term investment	**11,500**	11,086
Long-term assets	**44,033**	44,851
Working capital	**21,473**	20,496
Long-term liabilities	**4,758**	4,797
Working capital ratio [2]	**1.29**	1.25

	Three Months Ended September 30, 2009 $	Three Months Ended September 30, 2008 $
Cash Inflows (Outflows) by Activity:		
Operating activities	**7,478**	(6,935)
Investing activities	**15**	(1,633)
Financing activities	**(6,879)**	6,561
Net cash inflows	**614**	(2,007)
Adjusted Operating Activities[3]	**1,116**	(982)

(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) For the three month period ended September 30, 2009 Adjusted Operating Activites was an inflow of $1,116 (2008 – ($982) outflow) calculated as cash inflows (outflows) from operating activities of $7,479 (2008-$(6,935) outflow) adjusted by proceeds from (repayment of) interim production financing of $(6,363) (2008-$5,953). See “Use of Non-GAAP Financial Measures” section of this MD&A for a definition of Adjusted Operating Activities.

Changes in Cash

Cash at September 30, 2009 was $11.42 million compared to $10.81 million as of June 30, 2009. For September 30, 2009 the cash balance increased $4.60 million when comparing it to the cash balance as at September 30, 2008.

For the three month period ended September 30, 2009 cash flows generated from operating activities were $7.48 million. Cash flows from operating activities resulted from net income of $0.01 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, unrealized loss on short-term investments, stock-based compensation, interest on promissory notes, non-controlling interest, future income tax expense, and net change in non-cash working capital balances related to operations of $6.39 million, $0.29 million, $0.22 million, $0.27 million, $0.16 million, $0.07 million, $0.30 million, $0.01 million, $0.02 million, $0.07 million, and $1.76 million respectively. Cash flows were reduced by a credit not involving cash of $0.02 million gain on disposal of short-term investments. Cash used was $2.07 million for investments in film and television programs.

For the three month period ended September 30, 2009 cash flows from financing activities were a use of cash of $6.88 million. Cash flows used in financing activities resulted primarily from repayment of interim production financing of $6.36 million, repayments of long-term debt of $0.16 million, common shares repurchased and cancelled of $0.12 million, and repayment of other liabilities of $0.65 million. This was offset by cash generated of $0.41 million for proceeds from bank indebtedness.

For the three month period ended September 30, 2009 cash flows generated from investing activities were $0.02 million. Cash flows used in investing activities were $0.05 million for PP&E acquisitions and $0.08 million net cash advances to investees. Cash flows generated in investing activities were proceeds from disposal of short-term investments of $0.15 million.

Working Capital

Working capital ("**Working Capital**") represents the Company's current assets less current liabilities. Working Capital increased by $0.98 million as at September 30, 2009 over June 30, 2009. The working capital ratio remained strong at 1.29 for September 30, 2009.

Management was pleased with cash flow generated from Operating Activities, especially Adjusted Operating Activities of $1.12 million for the three month period ended September 30, 2009 (three months ended September 30, 2008-$0.98 million use of cash), 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 $21.47 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% maturing in March 2010 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.

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 as at:

	Measure targets	**September 30, 2009**	**June 30, 2009**
Coverage Ratio	> 4.0x	28.6x	27.0x
Net Worth Ratio	< 3.0x	1.3x	1.4x

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 September 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)]…………………………………………………	3,155	3,155	-	-	-
Acquisition of library license rights [(2)]…………………………………	25	25	-	-	-
Capital lease for equipment [(3)]…………………………………………	1,107	329	604	174	-
Long-term debt payments (principal and interest) [(4)]……………….	3,316	274	696	648	1,698
Operating leases [(5)]……………………………………………………	6,159	766	1,824	1,015	2,554
Total Contractual Obligations ……………………………………….	13,762	4,549	3,124	1,837	4,252

[(1)] RBC Revolving Operating Credit Facility with a maximum amount of $3.51 million bearing interest at bank prime plus 1.25%. See note 9 to the unaudited interim consolidated financial statements for the three month period ended September 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 September 30, 2009 was $0.02 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. Principal balances are included in note 11 to the unaudited interim consolidated financial statements for the three months ended September 30, 2009.

[(4)] See note 11 to the unaudited interim consolidated financial statements for the three months ended September 30, 2009 for details.

[(5)] Pursuant to operating leases.

Outlook

The Company's September 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.

The continuing global recession and credit crunch has resulted in a slowdown in advertising dollars for some of our broadcast customers and therefore lower visibility. This has translated into a slowdown of production revenue for Q1 2010 versus Q1 2009 as broadcasters have not been committing to new shows as quickly as they had been for Fiscal 2009. Management expects the lag to continue throughout Fiscal 2010 with some production revenue spilling over to Fiscal 2011.

With one quarter down for Fiscal 2010, and given the continuing economic climate, the Company is maintaining its target output range of 200-250 half-hours for its combined proprietary programs and Canadian and limited rights proprietary programs. For 2010, due to the downward pressure on license fees as experienced in Q1 2010, Management expects the average license fee per half-hour to be at the lower end of the historical range. 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, Management is optimistic that going forward children's programming will not be as hard hit as prime time programming.

Management is maintaining its projected 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. This has been evidenced by the Company's Q1 2010 181% growth in its producer and service fee revenue category (including Canadian and limited rights proprietary television) to $2.87 million. Management continues to target these areas to fill some of the potential gaps in its home grown proprietary programming. 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 maintaining its target range of $10-15 million for these two streams when combined with existing expected producer service fee revenues. The margins for these revenue streams as seen historically can fluctuate greatly from project to project and Management is expecting margins in the range of 15-40%.

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 continues to target SG&A reductions of 5% 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.

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 and certain Canadian and limited rights proprietary programs 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 Q1 2010 (Q1 2009-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 6 to the unaudited interim consolidated financial statements for the three months ended September 30, 2009).

Goodwill

The Company performed its annual test for goodwill impairment at June 30, 2009, in accordance with its policy. No events or circumstances have occurred since June 30, 2009 to indicate that the fair value of the reporting unit is below its carrying value, therefore no test for impairment of goodwill was required to be conducted for the three-month period ended September 30, 2009.

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

Goodwill and Intangible Assets

On July 1, 2009, the Company adopted CICA Handbook Section 3064, "*Goodwill and Intangible Assets*" replacing 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*".

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 1582, "*Business Combinations*", Section 1601, "*Consolidated Financial Statements*", and Section 1602, "*Non-controlling Interests*". 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.

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 71% of total amounts receivable at September 30, 2009 (September 30, 2008 - 68%). 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 that 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 9, 10 and 11 of the unaudited interim consolidated financial statements for September 30, 2009 for further details). As at September 30, 2009, the Company had cash on hand of $11.42 million (September 30, 2008 - $6.82 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. These specific and general risks are as follows: risks related to the nature of the entertainment industry, risks related to television and film industries, risks related to doing business internationally, loss of Canadian status, competition, limited ability to exploit filmed and television content library, protecting and defending against intellectual property claims, fluctuating results of operations, raising additional capital, concentration risk, reliance on key personnel, market share price fluctuations, risks associated with acquisitions and joint ventures, potential for budget overruns and other production risks, management estimates in revenues and earnings, stoppage of incentive programs, financial risks resulting from the Company's capital requirements, government incentive program, change in regulatory environment, litigation, technological change, labour relations, and exchange rates. *For further details see "Risk Factors" contained in the Company's Annual MD&A for the year ended June 30, 2009 and 2008 on www.sedar.com or DHX's website at www.dhxmedia.com.*

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 September 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 September 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 three months ended September 30, 2009 that to Management's knowledge have materially affected or are reasonably likely to materially affect the entity's ICFR.

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 September 30, 2009 and 2008, June 30, 2009 and 2008, March 31, 2009 and 2008, and December 31, 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 Q1 2010 and 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.*

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

	Q1-10 ($000)	Q4-09 ($000)	Q3-09 ($000)	Q2-09 ($000)
Income before income taxes and discontinued operations for the period…………	**101**	752	651	860
Interest expense…………	**77**	57	91	106
Interest (income) expense and loss (income) from strategic investments[2]…………	**47**	(153)	9	80
Costs associated with abandoned transactions and non-controlling interest expense…………	**23**	215	16	1,151
Equity income…………	-	-	-	-
Amortization …………	**777**	1,183	643	573
Impairment in value of certain investment in film and television programs[3]…………	**159**	494	-	-
Development expenses…………	**25**	333	45	39
Stock-based compensation expense…………	**301**	435	170	204
EBITDA and Adjusted EBITDA[1 & 3]…………	**1,510**	**3,316**	**1,625**	**3,013**
Selling, general and administrative, net of stock-based compensation expense…………	**3,151**	2,759	3,376	3,719
Gross Margin[1] …………	**4,661**	**6,075**	**5,001**	**6,732**

	Q1-09 ($000)	Q4-08 ($000)	Q3-08 ($000)	Q2-08 ($000)
Income (loss) before income taxes and discontinued operations for the period…………	**955**	(3,057)	1,403	207
Interest expense…………	**109**	117	143	124
Interest (income) expense and loss (income) from strategic investments[2]…………	**(84)**	65	(109)	(43)
Costs associated with abandoned transactions and non-controlling interest expense (income)…………	**7**	(274)	-	(2)
Equity income…………	-	(13)	-	(8)
Amortization …………	**660**	775	1,093	675
Impairment in value of certain investment in film and television programs[3]…………	-	2,782	-	-
Development expenses…………	**8**	293	-	35
Stock-based compensation expense…………	**190**	512	158	121
EBITDA and Adjusted EBITDA[1 & 3]…………	**1,845**	**1,200**	**2,688**	**1,109**
Selling, general and administrative, net of stock-based compensation expense…………	**3,148**	3,419	3,148	2,364
Gross Margin[1] …………	**4,993**	**4,619**	**5,836**	**3,473**

[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 Q1 2010, Q4 2009, and Q4 2008 were adjusted for $0.16 million, $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.

Q1 2010

Supplemental Information
For the three months ended September 30, 2009

1. Directors and officers as at September 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)
David Regan	EVP, Corporate Development & Investor Relations

(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.