

DHX Media Ltd.

Unaudited Consolidated Financial Statements
September 30, 2011
(expressed in thousands of Canadian dollars, except for
shares and amounts per share)

December 9, 2011

Management's Responsibility for Financial Reporting

The accompanying unaudited consolidated financial statements, Management's Discussion and Analysis ("MD&A") and supplemental information of DHX Media Ltd. (the "Company") are the responsibility of management and have been approved by the Audit Committee of the Board of Directors (the "Board"). The Board is responsible for ensuring that management fulfills its responsibilities for financial reporting, and is ultimately responsible for reviewing and approving the unaudited consolidated financial statements and MD&A. The Board carries out this responsibility through its Audit Committee. The Audit Committee reviews the Company's unaudited consolidated financial statements and recommends their approval by the Board of Directors.

The Audit Committee is appointed by the Board and all of its members are independent directors. It meets with the Company's management and reviews internal control and financial reporting matters to ensure that management is properly discharging its responsibilities before submitting the financial statements to the Board of Directors for approval.

The unaudited consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). When alternative methods of accounting exist, management has chosen those it deems most appropriate in the circumstances. The unaudited interim consolidated financial statements and information in the MD&A necessarily include amounts based on informed judgements and estimates of the expected effects of current events and transactions with appropriate consideration to materiality. In addition, in preparing the unaudited consolidated financial statements management must make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information. The MD&A also includes information regarding the impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from our present assessment of this information because future events and circumstances may not occur as expected.

These unaudited interim consolidated financial statements have not been reviewed by the external auditors of the Company.

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

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

DHX Media Ltd.

Unaudited Consolidated Balance Sheets

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

(expressed in thousands of Canadian dollars)

	September 30, 2011 \$	June 30, 2011 \$	July 1, 2010 \$
Assets			
Current			
Cash	15,259	19,525	17,276
Short-term investments (note 7)	9,249	6,060	6,098
Amounts receivable (note 8)	53,343	54,892	59,364
Prepaid expenses and deposits	1,766	1,191	622
Investment in film and television programs (note 9)	42,602	39,184	30,566
	<hr/>	<hr/>	<hr/>
	122,219	120,852	113,926
Investment in associates (note 10)	1,668	1,687	2,020
Property, plant and equipment (note 11)	10,196	9,807	7,545
Long-term investment	330	330	330
Intangible assets (note 12)	3,341	3,552	4,068
Goodwill (note 13)	11,821	11,763	11,088
Deferred income taxes (note 18)	315	245	–
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	149,890	148,236	138,977
Liabilities			
Current			
Bank indebtedness (note 14)	6,188	5,200	250
Accounts payable and accrued liabilities (note 15)	15,128	15,502	12,173
Deferred revenue	12,269	9,499	3,901
Interim production financing (note 14)	28,654	31,404	38,796
Current portion of long-term debt and obligations under capital leases (note 14)	1,052	1,017	541
	<hr/>	<hr/>	<hr/>
	63,291	62,622	55,661
Other liability (note 6)	1,358	1,251	–
Long-term debt and obligations under capital leases (note 14)	2,840	2,893	2,623
Deferred income taxes (note 18)	–	–	514
	<hr/>	<hr/>	<hr/>
	67,489	66,766	58,798
Shareholders' Equity			
	<hr/>	<hr/>	<hr/>
Commitments and contingencies (note 21)	82,401	81,470	80,179
	<hr/>	<hr/>	<hr/>
	149,890	148,236	138,977

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

DHX Media Ltd.

Unaudited Consolidated Statements of Change in Equity For the periods ending September 30, 2011 and June 30, 2011 and as at July 1, 2010

(expressed in thousands of Canadian dollars)

	Common shares \$	Share purchase financing \$	Warrants \$	Contributed surplus \$	Accumulated other comprehensive income \$	Deficit \$	Total \$
Balance – July 1, 2010	76,548	(268)	1,840	4,293	12	(2,246)	80,179
Net income for the period	–	–	–	–	–	429	429
Compensation expense on share purchase financing	–	47	–	–	–	–	47
Interest received on share purchase financing	–	2	–	–	–	–	2
Share-based compensation	–	–	–	95	–	–	95
Change in fair value of available-for-sale investments	–	–	–	–	(10)	–	(10)
Cumulative translation adjustment	–	–	–	–	54	–	54
Balance - September 30, 2010	76,548	(219)	1,840	4,388	56	(1,817)	80,796
Net income for the period	–	–	–	–	–	1,203	1,203
Share issuance costs, net of tax effect of \$38	(82)	–	–	–	–	–	(82)
Stock options exercised	30	–	–	(11)	–	–	19
Normal course issuer bid shares repurchased and cancelled	(43)	–	–	–	–	–	(43)
Issued pursuant to share purchase plan	9	–	–	–	–	–	9
Loans forgiven and shares cancelled	(25)	25	–	–	–	–	–
Repayments of share purchase financing	–	2	–	–	–	–	2
Interest received on share purchase financing	–	3	–	–	–	–	3
Expiration of warrants, net of tax effect of \$271	–	–	(1,630)	1,359	–	–	(271)
Share-based compensation	–	–	–	347	–	–	347
Change in fair value of available-for-sale investments	–	–	–	–	17	–	17
Cumulative translation adjustment	–	–	–	–	(530)	–	(530)
Balance – June 30, 2011	76,437	(189)	210	6,083	(457)	(614)	81,470
Net income for the period	–	–	–	–	–	318	318
Shares issued pursuant to the employee share purchase plan	3	–	–	–	–	–	3
Shares cancelled pursuant to an employee loan forgiven	46	–	–	–	–	–	46
Shares repurchased pursuant to a normal course issuer bid	(501)	–	–	–	–	–	(501)
Repayment of share purchase financing	–	1	–	–	–	–	1
Interest received on share purchase financing	–	1	–	–	–	–	1
Share-based compensation	–	–	–	183	–	–	183
Change in fair value of available-for-sale investments	–	–	–	–	13	–	13
Cumulative translation adjustment	–	–	–	–	867	–	867
Balance – September 30, 2011	75,939	(141)	210	6,266	423	(296)	82,401

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

DHX Media Ltd.

Unaudited Consolidated Statements of Income For the three months ended September 30, 2011 and 2010

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

	Three months ended September 30, 2011 \$	2010 \$
Revenues (note 25)	16,944	12,227
Direct production costs and amortization of film and television produced	<u>11,844</u>	<u>7,310</u>
	<u>5,100</u>	<u>4,917</u>
Other expenses (income)		
Amortization of acquired library expense	374	260
Amortization of property, plant and equipment and intangibles	504	506
Development expenses and other	135	68
Impairment in value of investment in film and television programs	135	100
Selling, general and administrative	3,668	3,423
Share of loss of associates	19	71
Finance income (note 19)	(272)	(205)
Finance expense (note 19)	<u>56</u>	<u>52</u>
	<u>4,619</u>	<u>4,275</u>
Income before income taxes	<u>481</u>	<u>642</u>
Provision for (recovery of) income taxes		
Large corporation taxes	15	15
Current income taxes	182	322
Deferred income taxes	<u>(34)</u>	<u>(124)</u>
	<u>163</u>	<u>213</u>
Net income for the periods	<u>318</u>	<u>429</u>
Earnings per share during the periods (note 23)		
Basic	<u>0.01</u>	<u>0.01</u>
Diluted	<u>0.01</u>	<u>0.01</u>

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

DHX Media Ltd.

Unaudited Consolidated Statements of Comprehensive Income For the three months ended September 30, 2011 and 2010

(expressed in thousands of Canadian dollars)

	Three months ended September 30,	
	2011	2010
	\$	\$
Net income for the periods	318	429
Other comprehensive income		
Cumulative translation	867	54
Changes in fair value of available-for-sale investments	13	(10)
Other comprehensive income for the periods	880	44
Comprehensive income for the periods	1,198	473

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

DHX Media Ltd.

Unaudited Consolidated Statements of Cash Flows For the three months ended September 30, 2011 and 2010

(expressed in thousands of Canadian dollars)

	Three months ended September 30, 2011		2010
	\$	\$	\$
Cash provided by (used in)			
Operating activities			
Net income for the periods	318	429	
Charges (credits) to income not involving cash			
Amortization of film and television programs	3,897	4,046	
Amortization of acquired library	374	260	
Amortization of property, plant and equipment	293	235	
Amortization of intangible assets	211	271	
Unrealized foreign exchange gain	(129)	(297)	
Impairment in value of certain investment in film and television programs	135	100	
Share of loss of associates	19	71	
Share-based compensation	230	142	
Interest on promissory notes	1	2	
Recovery of deferred income taxes	(34)	(124)	
	5,315	5,135	
Net investment in film and television programs	(7,335)	(6,895)	
Net change in non-cash working capital balances related to operations (note 24)	3,999	3,255	
Cash provided by operating activities	<u>1,979</u>	<u>1,495</u>	
Financing activities			
Proceeds from issuance of common shares related to employee share purchase plan	3	—	
Proceeds from repayment of employee share purchase loan	1	—	
Common shares repurchased and cancelled	(501)	—	
Proceeds from bank indebtedness	988	5,376	
Proceeds from (repayment of) interim production financing	(2,750)	370	
Repayment of long-term debt	(130)	(140)	
Cash provided by (used in) financing activities	<u>(2,389)</u>	<u>5,606</u>	
Investing activities			
Business acquisitions	—	(7,936)	
Acquisitions of short-term investments	(7,185)	(4,002)	
Proceeds on disposal of short-term investments	4,011	—	
Acquisitions of property, plant and equipment	(682)	(428)	
Cash used in investing activities	<u>(3,856)</u>	<u>(12,366)</u>	
Net change in cash during the periods	<u>(4,266)</u>	<u>(5,265)</u>	
Cash – Beginning of periods	<u>19,525</u>	<u>17,276</u>	
Cash – End of periods	<u>15,259</u>	<u>12,011</u>	

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

DHX Media Ltd.

Notes to Unaudited Consolidated Financial Statements For the periods ended September 30, 2011 and 2010

(expressed in thousands of Canadian dollars)

1 Nature of the business

DHX Media Ltd. (the “Company”) is a public company, and the ultimate parent, whose common shares are traded on the Toronto Stock Exchange (TSX), admitted on May 19, 2006 (symbol DHX). The Company, incorporated on February 12, 2004 under the laws of the Province of Nova Scotia, Canada, and continued on April 25, 2006 under the Canada Business Corporation Act, develops, produces and distributes films and television programs for the domestic and international markets. The address of the Company’s head office is 1478 Queen Street, Halifax, Nova Scotia, Canada, B3J 2H7.

2 Basis of preparation and adoption of IFRS

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

These interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 and IFRS 1. Subject to certain transition elections disclosed in note 4, the Company has consistently applied the same accounting policies in its opening IFRS balance sheet at July 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 4 discloses the impact of the transition to IFRS on the Company’s reported balance sheets, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company’s consolidated financial statements for the year ended June 30, 2011.

The policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as of December 9, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Company’s annual consolidated financial statements for the year ending June 30, 2012 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on transition to IFRS.

These interim consolidated financial statements do not include all of the financial statement disclosures required for annual financial statements and should be read in conjunction with the Company’s Canadian GAAP annual consolidated financial statements for the year ended June 30, 2011. In management’s opinion, the financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim period presented.

3 Significant accounting policies, judgments and estimation uncertainty

Significant accounting policies

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

DHX Media Ltd.

Notes to Unaudited Consolidated Financial Statements For the periods ended September 30, 2011 and 2010

(expressed in thousands of Canadian dollars)

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

Basis of measurement

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

Consolidation

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

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

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

Non-controlling interests

Non-controlling interest represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of equity. The share of net income and comprehensive income attributable to non-controlling interests is recognized directly in equity. Changes to the Company's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

Investments in associates

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

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

DHX Media Ltd.

Notes to Unaudited Consolidated Financial Statements
For the periods ended September 30, 2011 and 2010

(expressed in thousands of Canadian dollars)

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

Investments in associates (continued)

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

Segmented reporting

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

Foreign currency translation

(i) Functional and presentation currency

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

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

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

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

DHX Media Ltd.

Notes to Unaudited Consolidated Financial Statements **For the periods ended September 30, 2011 and 2010**

(expressed in thousands of Canadian dollars)

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

Foreign currency translation (continued)

(ii) Transactions and balances

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

Revenue recognition

Revenue from the licensing of film and television programs is recognized 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) collectability 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.

Revenues from production services for third parties and new media revenue on the Company's proprietary productions are recognized on a percentage-of-completion basis. Percentage-of-completion is based upon the proportion of costs incurred in the current period to total expected costs. A provision is made for the entire amount of future estimated losses, if any, on productions-in-progress.

Revenue from live tours is recorded in the period in which the show is performed and other revenue recognition criteria are met. Merchandising revenue is recognized at the point of sale to customers.

Royalty revenue is accrued for royalty streams that the Company has a history of receiving revenue for and is recognized in accordance with the substance of the relevant agreements and statements received from third party agents.

Investment in film and television programs

Investment in film and television programs represents the balance of costs of film and television programs which have been produced by the Company or for which the Company has acquired distribution rights and the Company's right to participate in certain future cash flows of film and television programs produced and distributed by other unrelated parties ("Acquired Participation Rights"). Investment in film and television programs also includes acquired film and television libraries or properties that are in production.

DHX Media Ltd.

Notes to Unaudited Consolidated Financial Statements For the periods ended September 30, 2011 and 2010

(expressed in thousands of Canadian dollars)

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

Investment in film and television programs (continued)

Costs of acquiring and producing film and television programs are capitalized. The costs are measured net of federal and provincial program contributions earned and are charged to income using the individual film forecast method, whereby capitalized costs are charged to income and ultimate participation costs are accrued in the proportion that current revenue bears to management's estimate of ultimate revenue expected to be recognized from the exploitation, exhibition or licensing of the film or television program. For film and television programs produced by the Company, capitalized costs include all direct production and financing costs incurred during production that are expected to benefit future periods. Financing costs are capitalized to the costs of a film or television program until the film or television program is complete. Capitalized production costs do not include administrative and general expenses, 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. Acquired participation costs are recognized initially at the amounts paid or the fair value of amounts due to the counterparty.

For films other than episodic television series and acquired libraries, ultimate revenue includes estimates over a period not to exceed ten years following the date of initial release. For episodic television series, ultimate revenue includes estimates of revenue over a period not to exceed ten years from the date of delivery of the first episode or, if still in production, five years from the date of delivery of the most recent episode, if later. For acquired film and television libraries previously released, ultimate revenue includes estimates of revenue over a period not to exceed twenty years from the date of acquisition.

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

Ultimate revenue estimates are prepared on a title-by-title basis and are reviewed periodically based on current market conditions. For film, ultimate revenue estimates include box office receipts, sale of DVDs, licensing of television broadcast rights and licensing of other ancillary film rights to third parties. For television programs, ultimate revenue estimates include licensed rights to broadcast television programs in development and rights to renew licenses for episodic television programs in subsequent seasons. Ultimate revenue includes estimates of secondary market revenue for produced episodes only when the Company can demonstrate through its experience or industry norms that the number of episodes already produced, plus those for which a firm commitment exists and the Company expects to deliver, can be licensed successfully in the secondary market. Ultimate estimates of future revenue involve measurement uncertainty and it is therefore possible that reductions in the carrying value of investment in film and television programs may be required as a consequence of changes in management's future revenue estimates.

The valuation of investment in film and television programs (including Acquired Participation Rights), is reviewed on a title-by-title basis when an event or change in circumstances indicates that the net realizable value of a film or television program or the acquired participation right is less than its cost. The net realizable value of the film or television program is determined using management's estimates of future revenues and costs under a discounted cash flow approach. A write-down is recorded equivalent to the amount by which the costs exceed the estimated net realizable value of the film or television program or acquired participation right.

DHX Media Ltd.

Notes to Unaudited Consolidated Financial Statements **For the periods ended September 30, 2011 and 2010**

(expressed in thousands of Canadian dollars)

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

Development costs

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

Property, plant and equipment

Property, plant and equipment are carried at historical cost, less accumulated amortization and accumulated impairment losses. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charges to the statement of income during the period in which they are incurred. Amortization is provided, commencing when the asset is available for use, over the estimated useful life of the asset, using the following annual rates and methods:

Building	4% by declining balance
Furniture, fixtures and other equipment	5% - 20% by declining balance
Computer equipment	30% by declining balance
Post-production equipment	30% by declining balance
Computer software	2 years straight-line
Website design	2 years straight-line
Leasehold improvements	5 years straight-line and straight-line over term of lease

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

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

Goodwill

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

DHX Media Ltd.

Notes to Unaudited Consolidated Financial Statements For the periods ended September 30, 2011 and 2010

(expressed in thousands of Canadian dollars)

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

Identifiable intangible assets

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

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

Impairment of non-financial assets

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

Borrowing costs

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

Government financing and assistance

The Company has access to several government programs, including tax credits that are designed to assist film and television production and distribution in Canada. Amounts received or receivable in respect of production assistance are recorded as a reduction of the production costs of the applicable production. Government assistance with respect to distribution rights is recorded as a reduction of investment in film and television programs. Government assistance towards current expenses is recorded as a reduction of the applicable expense item.

DHX Media Ltd.

Notes to Unaudited Consolidated Financial Statements For the periods ended September 30, 2011 and 2010

(expressed in thousands of Canadian dollars)

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

Provisions

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

Operating leases

Rentals payable under operating leases are charges to income on a straight-line basis over the term of the relevant lease.

Income taxes

Income taxes are comprised of current and deferred tax. Income tax is recognized in the statement of income except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

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

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

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

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

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

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

DHX Media Ltd.

Notes to Unaudited Consolidated Financial Statements For the periods ended September 30, 2011 and 2010

(expressed in thousands of Canadian dollars)

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

Share-based compensation

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

Earnings per share

Basic and fully diluted earnings per share are computed based on the weighted average number of common shares outstanding during the period. Diluted loss per share does not include the potential exercise of the employee stock options, put options and warrants where to do so would be anti-dilutive for the periods presented. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method.

Financial instruments

Financial instruments are classified as follows:

- Short-term investments and long-term investment are classified as “Available-for-Sale”. Financial assets classified as Available-for-Sale are recognized initially at fair value plus transaction costs and are subsequently carried at fair value with the changes in fair value recorded in other comprehensive income. Available-for-Sale assets are classified as non-current, unless the investment matures or management expects to dispose of them within twelve months.
- Derivative financial instruments are classified as “Held-for-Trading” and recognized initially on the balance sheet at fair value. Financial assets classified as Held-for-Trading are recognized at fair value with the changes in fair value recorded in net income.
- Cash and amounts receivable are classified as “Loans and Receivables”. After their initial fair value measurement, they are measured at amortized cost using the effective interest method, less a provision for impairment, established on an account-by-account basis, based on, among other factors, prior experience and knowledge of the specific debtor and its assessment of the current economic environment.
- Bank indebtedness, accounts payable and accrued liabilities, interim production financing, long-term debt and obligations under capital leases and other liabilities are classified as “Other Financial Liabilities”. Other Financial Liabilities are initially recognized at fair value less transaction costs. Subsequent to initial recognition, Other Financial Liabilities are measured at amortized cost using the effective interest method.

DHX Media Ltd.

Notes to Unaudited Consolidated Financial Statements **For the periods ended September 30, 2011 and 2010**

(expressed in thousands of Canadian dollars)

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

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss, as follows:

- Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.
- Available-for-Sale financial assets: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of income. This amount represents the cumulative loss in accumulated other comprehensive income that is reclassified to net income.

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

Accounting standards issued but not yet applied

IFRS 9, Financial Instruments

The International Accounting Standards Board ("IASB") has issued IFRS 9, "Financial Instruments" ("IFRS 9"), effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. IFRS 9 introduces new classification and measurement requirements for financial instruments. The Company is assessing the impact of IFRS 9 on its consolidated statement of income and balance sheet.

IFRS 10, Consolidated Financial Statements

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

DHX Media Ltd.

Notes to Unaudited Consolidated Financial Statements For the periods ended September 30, 2011 and 2010

(expressed in thousands of Canadian dollars)

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

IFRS 11, Joint Ventures

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

IFRS 12, Disclosure of Interests in Other Entities

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

IFRS 13, Fair Value measurement

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

Significant accounting judgments and estimation uncertainty

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

(i) Investment in film and television programs

The costs of acquiring and producing film and television programs are capitalized, net of federal and provincial program contributions earned, and amortized using the individual film forecast method, whereby capitalized costs are charged to income and ultimate participation costs are accrued in the proportion that current revenue bears to management’s estimate of ultimate revenue expected to be recognized from the exploitation, exhibition or licensing of the film or television program. The estimate of ultimate revenue and ultimate costs depends on management judgment and assumptions based on the pattern of historical experience and other factors.

DHX Media Ltd.

Notes to Unaudited Consolidated Financial Statements For the periods ended September 30, 2011 and 2010

(expressed in thousands of Canadian dollars)

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

Significant accounting judgments and estimation uncertainty (continued)

(ii) Goodwill

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

(iii) Intangible assets

The Company recognizes intangible assets acquired as part of business combinations at fair value at the date of acquisition. The determination of these fair values is based upon management's judgement and includes assumptions on the timing and amount of future cash flows, the selection of an appropriate discount rate and estimation of the expected useful lives of the intangible assets.

(iv) Impairment of investment in associates

In order to assess impairment, management uses judgment to determine the fair value of the Company's investment in associates using valuation techniques as there are no published price quotations. The Company uses an earnings approach to value these investments based on earnings multiples for recent transactions involving similar businesses.

(v) Share-based compensation

Share-based compensation expense is determined based on the estimated grant date fair value of stock option awards using the Black-Scholes option pricing model, which takes into account the exercise price, the current price of the underlying stock, the expected life of the option, the expected volatility of the stock and the expected forfeitures of options granted.

(vi) Income taxes and deferred income taxes

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

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

DHX Media Ltd.

Notes to Unaudited Consolidated Financial Statements **For the periods ended September 30, 2011 and 2010**

(expressed in thousands of Canadian dollars)

4 Transition to IFRS

These are the Company's first consolidated interim financial statements prepared in accordance with IFRS.

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

In preparing its opening consolidated IFRS balance sheet, the Company has adjusted amounts reported previously in its consolidated financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's balance sheet, financial performance and cash flows is summarized in this note as follows:

- i) Initial elections upon adoption
 - a) IFRS mandatory exceptions
 - b) IFRS optional exemptions
- ii) Reconciliation and comprehensive income and equity as previously reported under Canadian GAAP to IFRS
- iii) Reconciliation of statement of cash flows as previously reported under Canadian GAAP to IFRS
- iv) Notes to the reconciliation of Canadian GAAP to IFRS

i) Initial elections upon adoption

(a) IFRS mandatory exceptions

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

Exception for estimates

IFRS estimates as at July 1, 2010 are consistent with the estimates as the same date in conformity with Canadian GAAP.

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

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

DHX Media Ltd.

Notes to Unaudited Consolidated Financial Statements
For the periods ended September 30, 2011 and 2010

(expressed in thousands of Canadian dollars)

4 Transition to IFRS (continued)

i) Initial elections upon adoption (continued)

(b) IFRS optional exemptions

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

Exemption for business combinations

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

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

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

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

Comprehensive income

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

	Note 4 (iv)	Year ended June 30, 2011	Three months ended September 30, 2010
Comprehensive income – Canadian GAAP		1,713	455
IFRS adjustments increase (decrease)			
Share-based compensation	(a)	39	14
Business combinations	(b)	(159)	(71)
Cumulative translation adjustment	(d)	(476)	54
Deferred income taxes	(e)	46	21
Comprehensive income - IFRS		1,163	473

DHX Media Ltd.

Notes to Unaudited Consolidated Financial Statements For the periods ended September 30, 2011 and 2010

(expressed in thousands of Canadian dollars)

4 Transition to IFRS (continued)

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

Equity

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

Note 4 (iv)	June 30, 2011	September 30, 2010	July 1, 2010
	\$	\$	\$
Equity – Canadian GAAP	82,059	80,792	80,179
IFRS adjustments increase (decrease)			
Business combinations	(b)	(159)	(71)
Cumulative translation adjustment	(d)	(476)	54
Deferred income taxes	(e)	46	21
Equity - IFRS	81,470	80,796	80,179

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

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

DHX Media Ltd.

Notes to Unaudited Consolidated Financial Statements For the periods ended September 30, 2011 and 2010

(expressed in thousands of Canadian dollars)

4 Transition to IFRS (continued)

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

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

	Year-ended June 30, 2011	Three months ended September 30, 2010
	\$	\$
Decrease in net income for the period	(83)	(36)
Decrease in charges to income not involving cash	(78)	(35)
Increase in change in non-cash working capital balances related to operations	<u>2,975</u>	<u>744</u>
Increase in cash provided by operating activates	<u>2,814</u>	<u>673</u>
Increase in repayment of interim production financing	<u>(3,892)</u>	<u>(106)</u>
Increase in cash used in financing activities	<u>(3,892)</u>	<u>(106)</u>
Decrease in consideration paid for business acquisitions	159	71
Decrease (increase) in net investment in film and television programs	601	(768)
Decrease in net cash advances to investees	<u>(175)</u>	<u>(512)</u>
Decrease (increase) in cash used in investing activities	<u>585</u>	<u>(1,209)</u>
Increase in net change in cash during the periods	<u>(493)</u>	<u>(642)</u>
Increase in cash – Beginning of period (note 4 (iv) (c))	<u>1,356</u>	<u>1,356</u>
Increase in cash – End of period	<u>863</u>	<u>714</u>
Cash under Canadian GAAP – Beginning of period	15,920	15,920
Cash under IFRS – Beginning of period	<u>17,276</u>	<u>17,276</u>
Increase in cash under IFRS – Beginning of period	<u>1,356</u>	<u>1,356</u>
Cash under Canadian GAAP – End of period	18,662	11,297
Cash under IFRS – End of period	<u>19,525</u>	<u>12,011</u>
Increase in cash under IFRS – End of period	<u>863</u>	<u>714</u>

DHX Media Ltd.

Notes to Unaudited Consolidated Financial Statements For the periods ended September 30, 2011 and 2010

(expressed in thousands of Canadian dollars)

4 Transition to IFRS (continued)

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

a) Share-based compensation

Under IFRS, the Company expenses the estimated fair value of stock options over the vesting period using the graded vesting method of amortization, rather than the straight-line method, which was the Company's policy under Canadian GAAP. To estimate the fair value of the stock options using the Black-Scholes valuation model, the Company included an estimated forfeiture rate which was not previously included under Canadian GAAP. As a result, contributed surplus and deficit increased at the Transition Date by \$246, and reduced selling, general and administrative expenses by \$14 for the three-months ended September 30, 2010 and \$39 for the year ended June 30, 2011.

b) Business combinations

In accordance with IFRS transitional provisions, the Company elected to apply IFRS 3 - Business Combination prospectively to business combinations occurring after its transition date. As detailed in note 6, on September 14, 2010, the Company acquired all the outstanding shares in W!LDBRAIN Entertainment Inc. ("Wildbrain"). The acquisition was accounted for using the purchase method under Canadian GAAP and IFRS; however, in accordance with IFRS, at September 30, 2010, the consideration was increased by a total of \$1,334, reflecting a decrease of \$71 related to the expensing of transaction costs in accordance with IFRS of \$71 and an increase of \$1,405 related to the recognition of the fair value of certain deferred purchase price consideration, including an earnout and a holdback. As a result, professional fees increased by \$71 for the three-month period ended September 30, 2010 and by \$159 for the year-ended June 30, 2011.

c) Consolidation

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

d) Cumulative translation adjustment

Under Canadian GAAP, the Company used the temporal method of foreign exchange translation for its integrated wholly owned subsidiary, Wildbrain. Under the temporal method, non-monetary assets were converted to the presentation currency using historical foreign exchange rates and the resulting difference between the translation of Wildbrain's balance sheet and statement of income was recorded in the Company's statement of income.

DHX Media Ltd.

Notes to Unaudited Consolidated Financial Statements For the periods ended September 30, 2011 and 2010

(expressed in thousands of Canadian dollars)

4 Transition to IFRS (continued)

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

d) Cumulative translation adjustment (continued)

Under IFRS, the temporal method is not recognized and the translation methodology used to translate the financial statements of entities with presentation currencies other than Canadian dollars is driven by the determination of the functional currency in each entity in the group. Because the functional currency of Wildbrain has been determined to be the US dollar, the Company translated the assets and liabilities of Wildbrain at the exchange rate in effect at each balance sheet date. Because the acquisition of Wildbrain did not occur until September 14, 2010, there was no impact on the Company's consolidated balance sheet or equity at July 1, 2010.

As a result, other comprehensive income increased by \$54 for the three-months ended September 30, 2010 and decreased by \$476 for the year ended June 30, 2011.

e) Deferred income taxes

Deferred income tax liabilities were adjusted to give effect to both the recognition of the earnout and the expensing of the transaction costs associated with the acquisition of Wildbrain (note 4(iv)(b)) in accordance with IFRS. As a result, deferred tax liabilities decreased by \$474 and \$471 and the deferred income taxes recovered increased by \$21 and \$46 for the three-months ended September 30, 2010 and for the year-ended June 30, 2011, respectively.

5 Compensation of key management

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

	Three months ended September 30, 2011	Year ended June 30, 2011
	\$	\$
Salaries and short-term employee benefits	274	1,540
Share-based compensation	98	336
	<hr/>	<hr/>
	372	1,876

DHX Media Ltd.

Notes to Unaudited Consolidated Financial Statements For the periods ended September 30, 2011 and 2010

(expressed in thousands of Canadian dollars)

6 Acquisitions

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

- Cash consideration (including bank indebtedness incurred) of \$8,291 on the Wildbrain Effective Date; and
- An earnout in US\$ calculated as 50% of cash receipts over \$10,500 – \$11,500 from the Yo-Gabba-Gabba! property over the 36 month period from closing ("Earnout Period"). The ultimate threshold amount within the range of \$10,500 – \$11,500 of cash receipts will be determined based on a minimum of \$10,000 in cash receipts plus, once achieved, \$500 per year in operating expenses for the remaining life of the Earnout Period. The fair value of the earnout has been estimated at \$1,325 and shown in other liability at September 30, 2011 and June 30, 2011.

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

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

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

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

7 Short-term investments

As at September 30, 2011, the cost of the short-term investments were \$9,217 (June 30, 2011 - \$6,041, July 1, 2010 - \$6,086). As at September 30, 2011, short-term investments consist of a 1%, 30 day rolling term, Royal Bank of Canada GIC and government grade bonds which bear interest at rates from 3.25% to 4.0% and mature from June 15, 2012 to December 18, 2021, respectively.

DHX Media Ltd.

Notes to Unaudited Consolidated Financial Statements For the periods ended September 30, 2011 and 2010

(expressed in thousands of Canadian dollars)

8 Amounts receivable

	September 30, 2011 \$	June 30, 2011 \$	July 1, 2010 \$
Trade receivables	20,932	19,807	18,481
Less: provision for impairment of trade receivables	(70)	(70)	(131)
	<hr/>	<hr/>	<hr/>
Goods and service taxes recoverable	20,862	19,737	18,350
Federal and provincial film tax credits and other government assistance	1,335	1,267	393
	<hr/>	<hr/>	<hr/>
Amounts receivable	31,146	33,888	40,621
	<hr/>	<hr/>	<hr/>
	53,343	54,892	59,364

The aging of past due, but not impaired trade receivables is as follows:

	September 30, 2011 \$	June 30, 2011 \$	July 1, 2010 \$
Accrued and less than 60 days	19,796	17,789	15,130
Between 60 and 90 days	499	1,375	699
Over 90 days	637	643	2,652
	<hr/>	<hr/>	<hr/>
	20,932	19,807	18,481

The Company does not have security over these balances.

The movement in the Company's provision for impairment of trade receivables is as follows:

	Three months ended September 30,	
	2011 \$	2010 \$
Opening and closing balance	<hr/>	<hr/>
	70	131

All impaired trade receivables are older than 90 days.

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

DHX Media Ltd.

Notes to Unaudited Consolidated Financial Statements For the periods ended September 30, 2011 and 2010

(expressed in thousands of Canadian dollars)

9 Investment in film and television programs

	September 30, 2011 \$	June 30, 2011 \$	July 1, 2010 \$
Development costs	2,867	2,372	2,162
Theatrical and non-theatrical productions in progress			
Cost, net of government and third party assistance and third party participation	4,594	4,448	4,584
Acquired participation rights – theatrical and non-theatrical			
Cost	5,860	5,860	5,860
Accumulated amortization	(4,826)	(4,453)	(3,842)
	1,034	1,407	2,018
Non-theatrical productions completed and released			
Cost, net of government and third party assistance and third party participation	173,756	166,574	143,870
Accumulated amortization	(135,231)	(131,334)	(118,235)
Accumulated impairment in value of certain investment in firm and television programs	(4,418)	(4,283)	(3,833)
	34,107	30,957	21,802
	42,602	39,184	30,566

The Company expects that 30% of the costs related to theatrical and non-theatrical productions completed and released will be realized during the year ended June 30, 2012. The Company expects that 63% of the costs related to theatrical and non-theatrical productions completed and released will be realized during the three-year period ending June 30, 2014. The Company expects that over 79% of the costs related to productions completed will be realized by June 30, 2016.

During the period ended September 30, 2011, interest of \$302 (September 30, 2010 - \$317) has been capitalized to investment in film and television programs.

DHX Media Ltd.

Notes to Unaudited Consolidated Financial Statements
For the periods ended September 30, 2011 and 2010

(expressed in thousands of Canadian dollars)

9 Investment in film and television programs (continued)

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

	September 30, 2011	June 30, 2011
	\$	\$
Net opening investment in film and television programs	39,184	30,566
Productions acquired	–	5,903
Cost of productions (completed and released and productions in progress), net of government assistance and third party participation	6,458	17,149
Increase of acquired participation rights	–	713
Increase in development costs	495	(502)
Amortization	(4,271)	(13,710)
Impairment in value of certain investment in film and television programs	(135)	(450)
Exchange differences	871	<u>(485)</u>
	<hr/>	<hr/>
	42,602	39,184

10 Investment in associates

Investment in associates is accounted for using the equity method.

	Three months ended September 30, 2011	Year ended June 30, 2011
	\$	\$
Opening balance	1,687	2,020
Share of loss of associates	<u>(19)</u>	<u>(333)</u>
	<hr/>	<hr/>
	1,668	1,687

DHX Media Ltd.

Notes to Unaudited Consolidated Financial Statements For the periods ended September 30, 2011 and 2010

(expressed in thousands of Canadian dollars)

11 Property, plant and equipment

	Land \$	Buildings \$	Furniture, fixtures & equipment \$	Computer equipment \$	Post production equipment \$	Website design \$	Computer software \$	Leaseholds \$	Total \$
At July 1, 2010									
Cost	800	4,329	3,138	3,130	1,420	104	956	1,948	15,825
Accumulated amortization	–	(643)	(2,232)	(2,373)	(1,138)	(103)	(811)	(980)	(8,280)
Net book value	800	3,686	906	757	282	1	145	968	7,545
For the year ended June 30, 2011									
Opening net book value	800	3,686	906	757	282	1	145	968	7,545
Acquired in Wildbrain acquisition	–	–	9	146	–	–	41	16	212
Additions	–	–	181	1,687	108	–	1,048	231	3,255
Amortization	–	(145)	(193)	(363)	(98)	(1)	(236)	(148)	(1,184)
Disposals	–	–	–	(14)	(7)	–	–	–	(21)
Net book value	800	3,541	903	2,213	285	–	998	1,067	9,807
At June 30, 2011									
Cost	800	4,329	3,328	4,945	1,485	104	2,045	2,195	19,231
Accumulated amortization	–	(788)	(2,425)	(2,732)	(1,200)	(104)	(1,047)	(1,128)	(9,424)
Net book value	800	3,541	903	2,213	285	–	998	1,067	9,807
For the period ended September 30, 2011									
Opening net book value	800	3,541	903	2,213	285	–	998	1,067	9,807
Additions	–	–	–	327	1	–	169	16	513
Amortization	–	(35)	(46)	(67)	(22)	–	(77)	(48)	(295)
Exchange differences	–	–	3	126	–	–	36	6	171
Net book value	800	3,506	860	2,599	264	–	1,126	1,041	10,196
At September 30, 2011									
Cost	800	4,329	3,328	5,272	1,486	104	2,214	2,211	19,744
Accumulated amortization	–	(823)	(2,471)	(2,799)	(1,222)	(104)	(1,124)	(1,176)	(9,719)
Exchange differences	–	–	3	126	–	–	36	6	171
Net book value	800	3,506	860	2,599	264	–	1,126	1,041	10,196

DHX Media Ltd.

Notes to Unaudited Consolidated Financial Statements For the periods ended September 30, 2011 and 2010

(expressed in thousands of Canadian dollars)

12 Intangible assets

	Production backlog \$	Broadcaster relationships \$	Customer and distribution relationships \$	Non-compete contracts and brands \$	Production software \$	Total \$
At July 1, 2010						
Cost	1,033	4,417	546	1,788	394	8,178
Accumulated amortization	(907)	(1,781)	(227)	(993)	(202)	(4,110)
Net book value	126	2,636	319	795	192	4,068
For the year ended June 30, 2011						
Opening net book value	126	2,636	319	795	192	4,068
Additions	52	210	–	171	–	433
Amortization	(138)	(540)	(55)	(137)	(79)	(949)
Net book value	40	2,306	264	829	113	3,552
At June 30, 2011						
Cost	1,085	4,627	546	1,959	394	8,611
Accumulated amortization	(1,045)	(2,321)	(282)	(1,130)	(281)	(5,059)
Net book value	40	2,306	264	829	113	3,552
For the period ended September 30, 2011						
Opening net book value	40	2,306	264	829	113	3,552
Amortization	(4)	(137)	(14)	(36)	(20)	(211)
Net book value	36	2,169	250	793	93	3,341
At September 30, 2011						
Cost	1,085	4,627	546	1,959	394	8,611
Accumulated amortization	(1,049)	(2,458)	(296)	(1,166)	(301)	(5,270)
Net book value	36	2,169	250	793	93	3,341

DHX Media Ltd.

Notes to Unaudited Consolidated Financial Statements For the periods ended September 30, 2011 and 2010

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13 Goodwill

The continuity of goodwill is as follows:

	September 30, 2011 \$	June 30, 2011 \$
Opening net book value	11,763	11,088
Acquired on Wildbrain (note 6)	—	715
Exchange differences	<u>58</u>	<u>(40)</u>
Closing net book value	<u>11,821</u>	<u>11,763</u>

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

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

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

DHX Media Ltd.

Notes to Unaudited Consolidated Financial Statements For the periods ended September 30, 2011 and 2010

(expressed in thousands of Canadian dollars)

13 Goodwill (continued)

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

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

With regard to the assessment of value in use, calculations indicate that there is approximately \$10,000 of headroom when compared to carrying value at September 30, 2011.

14 Bank indebtedness, interim production financing, interest bearing loans and obligations under capital lease

	September 30, 2011 \$	June 30, 2011 \$	July 1, 2010 \$
Bank indebtedness	6,188	5,200	250
Interim production financing	28,654	31,404	38,796
Long-term debt and obligations under capital lease	3,892	3,910	3,164
Total interest bearing debt and obligations under capital lease	38,734	40,514	42,210
Amount due within 12 months	(35,894)	(37,621)	(39,587)
Amount due beyond 12 months	2,840	2,893	2,623

a) Bank indebtedness

As of September 30, 2011, the maximum amount of all the borrowing, including Interim Production Financing, with the Royal Bank of Canada (“RBC”) is \$55,000 (“RBC Master Agreement”). The RBC Master Agreement matures January 31, 2012. As part of the RBC Master Agreement, bank indebtedness was \$6,188 at September 30, 2011 (June 30, 2011 - \$5,200 and July 1, 2010 - \$250) (the “RBC Revolving Operating Credit Facility”). The maximum amount of the RBC Revolving Operating Credit Facility for general working capital purposes is \$3,510 against which, \$2,188 was drawn at September 30, 2011. In addition, RBC temporarily increased the Company’s RBC Revolving Operating Credit Facility, for the Wildbrain acquisition (note 6), by a maximum additional \$4,000 and was fully drawn at September 30, 2011.

Under the RBC Master Agreement, this temporary increase in the RBC Operating Credit Facility will be replaced by the first drawdown of a term facility with a maximum amount of \$10,000 (“RBC Acquisition Facility”) (note 27 – subsequent events – as at November 28, 2011, \$6,000 is available) to fund acceptable acquisitions as defined in the RBC Master Agreement. A general security agreement over all property of the Company and a \$4,000 GIC has been pledged as security for the expanded RBC Revolving Operating Credit and Acquisition Facility. The RBC Revolving Operating Facility bears interest at RBC prime plus 1.25% (June 30, 2011 – RBC prime plus 1.25%). The RBC Acquisition Facility bears interest at RBC prime plus 2.50%. Each advance under the RBC Acquisition Facility will be amortized over 3 years with quarterly payments of principal and monthly payments of interest. The availability of the RBC Revolving Operating Credit and Acquisition Facility are subject to the Company maintaining interest and consolidated indebtedness coverage ratios and certain other covenants (note 22).

The Company considers that the fair value of bank indebtedness is equal to the carrying value, as the interest rate is floating and the impact of discounting is not significant.

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Notes to Unaudited Consolidated Financial Statements
For the periods ended September 30, 2011 and 2010

(expressed in thousands of Canadian dollars)

14 Bank indebtedness, interim production financing, interest bearing loans and obligations under capital lease (continued)

b) Interim production financing

	September 30, 2011 \$	June 30, 2011 \$	July 1, 2010 \$
Revolving production credit facility (“RBC Revolving Production Credit Facility”), bearing interest at bank prime plus 0.5% - 2.0%. Assignment and direction of specific production financing and licensing contracts receivable, with a net book value of approximately \$21,419 at September 30, 2011 (June 30, 2011 - \$27,887 and July 1, 2010 - \$21,214)	17,355	17,448	19,468
Interim production credit facilities with various institutions, bearing interest at bank prime plus 0.5% - 2.25%. Assignment and direction of specific production financing and licensing contracts receivable, with a net book value of approximately \$15,432 at September 30, 2011 (June 30, 2011 - \$19,552 and July 1, 2010 - \$25,531)	<hr/> 11,299	<hr/> 13,956	<hr/> 19,328
	<hr/> 28,654	<hr/> 31,404	<hr/> 38,796

During the three months ended September 30, 2011, the bank prime rate averaged 3.00% (year ended June 30, 2011 – 2.94 %).

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

The Company considers that the fair value of interim production financing is equal to the carrying value, as the interest rate is floating and the impact of discounting is not significant.

DHX Media Ltd.

Notes to Unaudited Consolidated Financial Statements For the periods ended September 30, 2011 and 2010

(expressed in thousands of Canadian dollars)

14 Bank indebtedness, interim production financing, interest bearing loans and obligations under capital lease (continued)

c) Long-term debt and obligations under capital leases

	September 30, 2011 \$	June 30, 2011 \$	July 1, 2010 \$
Loans payable, bearing interest at Business Development Bank of Canada prime minus 1.0%, maturing in May 2021, repayable in monthly principal instalments of \$20 plus interest, secured by a first mortgage on the land and building having a net book value of \$4,306 at September 30, 2011 (June 30, 2011 - \$4,341 and July 1, 2010 - \$4,486) and a general assignment of rents	2,126	2,186	2,424
Obligation due under various capital leases with total quarterly instalments of \$195, bearing interest at rates ranging from 4.0% to 9.8%, maturing on dates ranging from November 2011 to October 2013 of which \$1,402 is denominated in USD (June 30, 2011 - \$1,290 and July 1, 2010 - \$nil).	1,766	1,724	740
Less: Current portion	<u>3,892</u> <u>(1,052)</u>	<u>3,910</u> <u>(1,017)</u>	<u>3,164</u> <u>(541)</u>
	<u>2,840</u>	<u>2,893</u>	<u>2,623</u>

The Company considers that the fair value of the current portion of long-term debt and obligations under capital leases is equal to the carrying value, as the majority of the interest rates are floating and the impact of discounting is not significant.

The Company has the following undrawn borrowing facilities:

	September 30, 2011 \$	June 30, 2011 \$	July 1, 2010 \$
Bank indebtedness	1,322	2,310	3,260
Acquisition facility	10,000	10,000	-
Interim production financing	22,929	22,836	25,484
Other	448	387	475
	<u>34,699</u>	<u>35,533</u>	<u>29,219</u>

15 Accounts payable and accrued liabilities

Accounts payable and accrued liabilities include the following:

	September 30, 2011 \$	June 30, 2011 \$	July 1, 2010 \$
Accounts payable	6,260	5,082	2,961
Accrued liabilities	8,868	10,420	9,212
	<u>15,128</u>	<u>15,502</u>	<u>12,173</u>

DHX Media Ltd.

Notes to Unaudited Consolidated Financial Statements For the periods ended September 30, 2011 and 2010

(expressed in thousands of Canadian dollars)

16 Share capital and contributed surplus

a) Authorized

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

b) Issued and outstanding

Changes in the Company's issued share capital during the periods were as follows:

	September 30, 2011		June 30, 2011	
	Number	Amount \$	Number	Amount \$
Preferred variable voting shares (note 16(c))	100,000,000	—	100,000,000	—
Common shares (note 16(d))				
Opening balance	61,596,615	76,437	61,626,836	76,548
Share issuance costs, net of tax of \$38	—	—	—	(82)
Issued as part of employee share purchase plan	3,061	3	9,293	9
Share cancelled related to employee loan forgiven	—	—	(13,514)	(25)
Normal course issuer bid shares repurchased and cancelled	(606,500)	(501)	(51,000)	(43)
Options exercised	—	—	25,000	30
Ending balance	60,993,176	75,939	61,596,615	76,437
Share purchase financing (note 16(e))				
Opening balance	—	(189)	—	(268)
Repayments made by an officer	—	1	—	2
Loan forgiven	—	—	—	25
Compensation expense	—	46	—	47
Interest received	—	1	—	5
Ending balance	—	(141)	—	(189)
Warrants (note 16(f))				
Opening balance	937,500	210	5,860,250	1,840
Expiration of warrants	—	—	(4,922,750)	(1,630)
Ending balance	937,500	210	937,500	210
Contributed surplus and stock options (note 16(g))				
Opening balance	4,020,000	6,083	4,111,547	4,293
Compensation expense on options issued during the period	300,000	95	870,000	108
Compensation expense on existing options	—	88	—	334
Stock options exercised	—	—	(25,000)	(11)
Options expired	(125,000)	—	(746,547)	—
Options forfeited	—	—	(190,000)	—
Warrants expired, net of tax of \$1,271	—	—	—	1,359
Ending balance	4,195,000	6,266	4,020,000	6,083

DHX Media Ltd.

Notes to Unaudited Consolidated Financial Statements **For the periods ended September 30, 2011 and 2010**

(expressed in thousands of Canadian dollars)

16 Share capital and contributed surplus (continued)

c) Preferred variable voting shares

The Preferred variable voting shares were issued May 12, 2006 to an officer and director.

d) Common shares

During the three-months ended September 30, 2011, the Company issued 3,061 common shares, at an average price of \$0.83 as part of the Company's employee share purchase plan (year-ended June 30, 2011 – 9,293 at 0.96 per share).

During the three-months ended September 30, 2011, as part of the Company's previously announced normal course issuer bid, 606,500 common shares were repurchased for \$501 and cancelled (year-ended June 30, 2011 – 51,000 for \$43).

e) Share purchase financing

During the three-months ended September 30, 2011 and the year-ended June 30, 2011, the Company issued no amounts for share purchase financing. During the period ended September 30, 2011, \$46 of compensation expense was recognized on an employee loan forgiven (year-ended June 30, 2011 - \$47). During the period ended September 30, 2011, \$1 of interest (year-ended June 30, 2011 - \$5) received on these loans was recorded as a capital contribution. During the period ended September 30, 2011, \$1 was received (year-ended June 30, 2011 – \$2) as principal repayment of an employee loan.

f) Warrants

During the three months ended September 30, 2011, no warrants were issued or granted (year-ended June 30, 2011 – nil and nil). During the three months ended September 30, 2011, no warrants expired (year-ended June 30, 2011 – 4,922,750)

	Number of warrants	Weighted average exercise price per warrant \$
Outstanding at July 1, 2010	5,860,250	1.95
Warrants expired	<u>(4,922,750)</u>	<u>2.10</u>
Outstanding at June 30, 2011 and September 30, 2011	937,500	1.15

DHX Media Ltd.

Notes to Unaudited Consolidated Financial Statements For the periods ended September 30, 2011 and 2010

(expressed in thousands of Canadian dollars)

16 Share capital and contributed surplus (continued)

g) Stock options

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

	Number of options	Weighted average exercise price per option \$
Outstanding at July 1, 2010	<u>4,111,547</u>	1.33
Granted to an employee	170,000	0.96
Granted to directors	700,000	0.93
Options exercised	(25,000)	0.78
Options expired	(746,547)	2.25
Options forfeited	(190,000)	1.45
Outstanding at June 30, 2011	<u>4,020,000</u>	1.07
Options forfeited	(125,000)	1.33
Options granted	300,000	0.83
Outstanding at September 30, 2011	<u>4,195,000</u>	1.04
Exercisable at June 30, 2011	<u>2,081,250</u>	1.16
Exercisable at September 30, 2011	<u>2,430,000</u>	1.19

The total maximum number of common shares to be reserved for issuance through the Company stock option plan to 9% of the total number of issued and outstanding common shares at any time. As at September 30, 2011, this amounted to 5,489,385 (June 30, 2011 – 5,543,695).

On September 21, 2011, 300,000 stock options were issued to an employee at \$0.83 per share, 100% of which vested upon grant, expiring on September 21, 2016.

DHX Media Ltd.

Notes to Unaudited Consolidated Financial Statements For the periods ended September 30, 2011 and 2010

(expressed in thousands of Canadian dollars)

16 Share capital and contributed surplus (continued)

g) Stock options (continued)

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

During the three-months ended September 30, 2011, 125,000 options were forfeited and none expired (year-ended June 30, 2011 – 190,000 and 746,547).

The weighted average grant date fair value of stock options granted during the period ended September 30, 2011 has been estimated at \$0.32 (year ended June 30, 2011 - \$0.48) using the Black-Scholes option pricing model. The following weighted average assumptions were used in the calculations:

	Three months ended September 30, 2011	Three months ended September 30, 2010
Risk-free interest rate	1.26%	1.79%
Expected option life	4 years	4 years
Expected volatility	65%	68%
Expected dividend yield	nil	nil

Changes in the assumptions can materially affect the fair value estimate and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the stock options.

During the three-months ended September 30, 2011, a total of \$229 (September 30, 2010 - \$142) was recognized as compensation expense. Included in the compensation expense for September 30, 2011 was \$46 (September 30, 2010 - \$47) awarded as bonuses to certain key executives of the Company to be paid in common shares of the Company based on achieving certain financial benchmarks by a wholly-owned subsidiary. Included in the three-months ended September 30, 2011 was \$nil related to employee share purchase loans (three months ended September 30, 2010 - \$25).

17 Government financing and assistance

During the period ended September 30, 2011, investment in film and television programs was reduced by \$108 (year ended June 30, 2011 - \$2,737) related to production financing from government agencies. This financing is related to equity participation by government agencies and is repayable from distribution revenue of the specific productions for which the financing was made. In addition, during the year, investment in film also has been reduced by \$491 (year ended June 30, 2011 - \$2,376) related to non-repayable contributions from the Canadian Television Fund license fee program. During the period, investment in film and television programs has been reduced by \$1,177 (year ended June 30, 2011 - \$11,754) in tax credits relating to production activities. Lastly, during the period ended September 30, 2011, the Company received \$4,723 in government financing and assistances (year ended June 30, 2011 - \$19,358).

DHX Media Ltd.

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18 Income taxes

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

	September 30, 2011 \$	June 30, 2011 \$	July 1, 2010 \$
Cultural donations	—	4	432
Leasehold inducements	124	124	—
Foreign tax credits	296	296	245
Deferred production revenue	426	426	—
Participation payables, capital lease obligations and other liabilities	730	714	249
Property, plant and equipment	(268)	(263)	(77)
Share issuance costs and deferred financing fees	395	452	656
Investment in film and television programs	(3,393)	(3,448)	(2,239)
Intangible assets	(1,833)	(1,848)	(2,153)
Non-capital losses and other	<u>3,838</u>	<u>3,788</u>	<u>2,373</u>
Deferred income tax asset (liability)	<u>315</u>	<u>245</u>	<u>(514)</u>

19 Finance income and finance expense

Finance income and finance expense are comprised of the following:

	Three months ended September 30, 2011 \$	Three months ended September 30, 2010 \$
Finance income		
Interest income	63	59
Net foreign exchange gains	<u>209</u>	<u>146</u>
	<u>272</u>	<u>205</u>
Finance expense		
Interest expense on bank indebtedness	20	7
Interest expense on long-term debt and capital leases	<u>36</u>	<u>45</u>
	<u>56</u>	<u>52</u>
Net finance income (expense)	<u>216</u>	<u>153</u>

DHX Media Ltd.

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20 Expenses by nature and employee benefit expense

The following sets out the expenses by nature:

	Three months ended September 30, 2011	September 30, 2010
	\$	\$
Direct production and new media costs	7,947	3,264
Amortization of film and television programs	3,897	4,046
Impairment of film and television programs	135	100
Amortization of acquired library	374	260
Development expenses and other	135	68
Office and administrative	839	640
Investor relations and marketing	150	99
Professional and regulatory	265	272
Amortization and impairment of property, plant and equipment and intangibles	504	506
	<hr/>	<hr/>
	14,246	9,255

The following sets out the components of employee benefits expense:

Salaries and short-term benefits	2,182	2,249
Stock based compensation	230	142
Termination benefits	2	21
	<hr/>	<hr/>
	2,414	2,412
	<hr/>	<hr/>
	16,660	11,667

21 Commitments and contingencies

Commitments

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

Year ending June 30,	\$
2012	1,560
2013	1,529
2014	1,126
2015	538
2016	555

DHX Media Ltd.

Notes to Unaudited Consolidated Financial Statements For the periods ended September 30, 2011 and 2010

(expressed in thousands of Canadian dollars)

21 Commitments and contingencies (continued)

Contingencies

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

22 Capital disclosures

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

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

	September 30, 2011 \$	June 30, 2011 \$	July 1, 2010 \$
Total bank indebtedness, long-term debt and obligations under capital leases	10,080	9,110	3,414
Less: Cash	<u>(15,259)</u>	<u>(19,525)</u>	<u>(17,276)</u>
Net debt	(5,179)	(10,415)	(13,862)
Total Shareholders' Equity	<u>82,401</u>	<u>81,470</u>	<u>80,179</u>
	77,222	71,055	66,317

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 Production Credit Facilities (note 14), including but not limited to:

- Funded Debt Ratio, defined as funded debt (the total of all obligations for borrowed money which bear interest or imputed interest (not including interim production financing), all capital lease obligations, and any contingent liabilities) ("Funded Debt") to consolidated EBITDA; and
- The Fixed Charge Ratio, defined as adjusted consolidated EBITDA (consolidated EBITDA less cash, income taxes and unfunded capital expenditures) to fixed charges (consolidated interest expense, scheduled principal payments on Funded Debt, and Company distributions).

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(expressed in thousands of Canadian dollars)

22 Capital disclosures (continued)

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

	Measure targets	September 30, 2011	June 30, 2011
Funded Debt Ratio	< 3.0x	1.4x	1.3x
Fixed Charge Ratio	> 1.25x	7.86x	6.22x

The Company has been in compliance with these and all previous ratios since the inception of the RBC Master Credit Facility.

23 Earnings per common share

a) Basic

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

	Three months ended	
	September 30, 2011	September 30, 2010
	\$	\$
Net income	318	429
Weighted average number of common shares	61,465,374	61,626,836
Basic earnings per share	0.01	0.01

b) Diluted

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

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Notes to Unaudited Consolidated Financial Statements For the periods ended September 30, 2011 and 2010

(expressed in thousands of Canadian dollars)

23 Earnings per common share (continued)

For the three-months ended September 30, 2011, the weighted average number of potentially dilutive instruments, comprised of shares issuable in respect of convertible warrants, stock options and put options, was 70,000 (three months ended September 30, 2010 – 406,650).

	Three months ended	
	September 30, 2011	September 30, 2010
	\$	\$
Net income	318	429
Weighted average number of common shares in issue	61,535,374	62,033,486
Adjustment for: Stock options	70,000	406,650
Diluted earnings per share	0.01	0.01

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

	Three months ended	
	September 30, 2011	September 30, 2010
	\$	\$
Decrease (increase) in amounts receivable	1,677	(1,761)
Decrease (increase) in prepaid expenses and deposits	(575)	(479)
Increase (decrease) in accounts payable and accrued liabilities	128	1,623
Increase (decrease) in deferred revenue	2,769	3,872
	3,999	3,255

During the period, the Company paid and received the following:

Interest paid	439	356
Interest received	92	153
Taxes paid	86	11

DHX Media Ltd.

Notes to Unaudited Consolidated Financial Statements For the periods ended September 30, 2011 and 2010

(expressed in thousands of Canadian dollars)

25 Revenues and segmented information

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

	Three months ended September 30,	2011	2010
	\$	\$	\$
Production revenue	4,206	4,372	
Distribution revenue	1,365	2,949	
Producer and service fee revenues	6,401	2,423	
Other revenue including royalties	4,972	2,483	
	<hr/>	<hr/>	<hr/>
	16,944	12,227	

Of the Company's \$16,944 in revenues for the three-months ended September 30, 2011 (three-months ended September 30, 2010 - \$12,227), \$8,537 was attributable to the Company's entities based in Canada (three-months ended September 30, 2010 - \$9,042) and \$8,407 (three-months ended September 30, 2010 - \$3,185) was attributable to the Company's entities based in the USA.

26 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 year to year.

27 Subsequent events

On November 21, 2011, the Company announced its intentions to make a substantial issuer bid (the "SIB"), pursuant to which the Company will offer to purchase for cancellation up to \$5 million in value of its common shares from shareholders. The SIB will proceed by way of a modified "Dutch Auction" and the range of SIB prices will be between \$0.60 and \$0.70 per share, with increments of \$0.01 permitted within the range. The SIB will be for up to a maximum of approximately 14% of the total number of issued and outstanding common shares, based on a purchase price equal to the minimum purchase price per share of \$0.60 and 60,554,996 common shares outstanding on November 18, 2011. If the purchase price is higher than the minimum, then a smaller of the percentage of the issued and outstanding shares will be purchased. The SIB will remain open for acceptance for at least 35 days from the date of commencement, unless withdrawn or extended by the Company.

DHX Media Ltd.

Notes to Unaudited Consolidated Financial Statements

For the periods ended September 30, 2011 and 2010

(expressed in thousands of Canadian dollars)

27 Subsequent events (continued)

On November 28, 2011, the Company closed the first drawdown on the RBC Acquisition Facility for Wildbrain in the amount of \$4,000. The amortization is 3 years maturing November 28, 2014 with quarterly payments of principal and monthly payments of interest. Concurrently, the \$4,000 temporary increase in the RBC Revolving Operating Credit Facility has been removed and the security over the Company's \$4,000 GIC has been released.