DHX Media Ltd.

Unaudited Interim Condensed Consolidated
Financial Statements
December 31, 2012
(expressed in thousands of Canadian dollars)

In accordance with National Instrument 51-102, released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited interim condensed consolidated financial statements for the period ended December 31, 2012.

DHX Media Ltd.

Unaudited Consolidated Balance Sheets

(expressed in thousands of Canadian dollars)

	December 31, 2012 $	June 30, 2012 $
Assets		
Current assets		
Cash	14,960	19,166
Short-term investments (note 5)	-	3,323
Restricted cash (note 10)	2,603	-
Amounts receivable (note 6)	79,651	41,823
Prepaid expenses and deposits	2,692	1,581
Investment in film and television programs (note 7)	121,094	44,163
	221,000	110,056
Investment in associates	1,460	1,541
Long-term accounts receivable	3,227	-
Deferred financing fees	740	-
Property, plant, and equipment	9,593	8,520
Long-term investment	330	330
Intangible assets (note 8)	27,268	2,714
Goodwill (note 9)	69,182	11,800
Deferred income taxes (note 13)	3,720	-
	336,520	134,961
Liabilities		
Current liabilities		
Bank indebtedness (note 10)	10,000	2,665
Accounts payable and accrued liabilities (note 11)	55,036	14,019
Deferred revenue	22,080	10,647
Interim production financing (note 10)	33,003	21,177
Current portion of long-term debt and obligations under capital leases (note 10)	4,230	1,948
	124,349	50,456
Other liability	1,284	1,319
Long-term debt and obligations under capital leases (note 10)	45,774	3,845
Long-term deferred revenue	307	-
Deferred income taxes (note 13)	-	441
	171,714	56,061
Shareholders' Equity (note 12)	164,806	78,900
	336,520	134,961

Commitments and contingencies (note 16)

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

DHX Media Ltd.

Unaudited Consolidated Statements of Changes in Equity

(expressed in thousands of Canadian dollars)

	Common shares $	Share purchase financing $	Warrants $	Contributed surplus $	Accumulated other comprehensive income (loss) $	Retained earnings (deficit) $	Total $
Balance - June 30, 2011	76,437	(189)	210	6,083	(457)	(1,237)	80,847
Net income for the period	–	–	–	–	–	2,153	2,153
Other comprehensive income for the period	–	–	–	–	583	–	583
Comprehensive income for the period	–	–	–	–	583	2,153	2,736
Normal course issuer bid (“NCIB”)shares repurchased and cancelled	(1,656)	–	–	610	–	–	(1,046)
Substantial issuer bid shares repurchased and cancelled	(8,857)	–	–	3,776	–	–	(5,081)
Shares cancelled pursuant to an employee loan forgiven	(50)	50	–	–	–	–	–
Repayment of share purchase financing	–	2	–	–	–	–	2
Shares issued pursuant to the employee share purchase plan (“ESPP”)	5	–	–	–	–	–	5
Compensation expense on share purchase financing	–	46	–	–	–	–	46
Interest received on share purchase financing	–	2	–	–	–	–	2
Share-based compensation	–	–	–	263	–	–	263
Balance - December 31, 2011	65,879	(89)	210	10,732	126	916	77,774
Net income for the period	–	–	–	–	–	894	894
Other comprehensive income for the period	–	–	–	–	106	–	106
Comprehensive income for the period	–	–	–	–	106	894	1,000
NCIB shares repurchased and cancelled	(42)	–	–	10	–	–	(32)
Shares issued pursuant to the ESPP	4	–	–	–	–	–	4
Repayment of share purchase financing	–	3	–	–	–	–	3
Interest received on share purchase financing	–	1	–	–	–	–	1
Share-based compensation	–	–	–	183	–	–	183
Expiration of warrants	–	–	(210)	177	–	–	(33)
Balance - June 30, 2012	65,841	(85)	–	11,102	232	1,810	78,900
Net income for the period	–	–	–	–	–	215	215
Other comprehensive loss for the period	–	–	–	–	(491)	–	(491)
Comprehensive loss for the period	–	–	–	–	(491)	215	(276)
Repayment of share purchase financing	–	2	–	–	–	–	2
Issued for cash consideration	18,043	–	–	–	–	–	18,043
Cookie Jar acquisition	67,403	–	–	–	–	–	67,403
Stock options exercised	2	–	–	(1)	–	–	1
Interest received on share purchase financing	–	1	–	–	–	–	1
Compensation expense on share purchase financing	–	32	–	–	–	–	32
Share-based compensation	–	–	–	304	–	–	304
Warrant expense	–	–	390	–	–	–	390
Shares issued pursuant to the ESPP	6	–	–	–	–	–	6
Balance - December 31, 2012	151,295	(50)	390	11,405	(259)	2,025	164,806

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

DHX Media Ltd.

Unaudited Consolidated Statements of Income

For the three and six-month periods ended December 31, 2012 and 2011

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

	Three-months ended		Six-months ended	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
	$	$	$	$
Revenues (note 20)	26,358	24,675	39,873	41,619
Operating expenses (income)				
Direct production costs and amortization of film and television produced	10,900	16,990	18,991	28,834
Amortization of acquired library	1,937	104	2,154	478
Acquisition costs	852	-	1,368	-
Amortization of property, plant and equipment and intangible assets	1,255	717	1,888	1,220
Development expenses and other	793	75	851	210
Impairment in value of investment in film and television programs	-	-	-	135
Selling, general and administrative	9,346	4,140	13,411	7,824
Share of loss of associates	56	7	81	26
Realized loss on sale of short term investment	29	-	29	-
Finance expense (income), net	442	105	579	(111)
	25,610	22,138	39,352	38,616
Income before income taxes	748	2,537	521	3,003
Provision for (recovery of) income taxes				
Current income taxes	(349)	555	(352)	737
Deferred income taxes	810	147	658	113
	461	702	306	850
Net income for the years	287	1,835	215	2,153
Basic earnings per common share (note 18)	0.00	0.03	0.00	0.04
Diluted earnings per common share (note 18)	0.00	0.03	0.00	0.04

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

DHX Media Ltd.

Unaudited Consolidated Statements of Comprehensive Income (loss)

For the three and six-month periods ended December 31, 2012 and 2011

(expressed in thousands of Canadian dollars)

	Three-months ended		Six-months ended	
	December 2012	December 31, 2011	December 31, 2012	December 31, 2011
	$	$	$	$
Net income for the periods	287	1,835	215	2,153
Other comprehensive income (loss)				
Cumulative translation adjustment	130	(352)	(385)	515
Realized loss on available-for-sale investments	29	-	29	-
Changes in fair value of available-for-sale investments, net of tax	(228)	55	(135)	68
Other comprehensive income (loss) for the periods	(69)	(297)	(491)	583
Comprehensive income (loss) for the periods	218	1,538	(276)	2,736

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

DHX Media Ltd.

Consolidated Statements of Cash Flows

For the six-month periods ended December 31, 2012 and 2011

(expressed in thousands of Canadian dollars)

	Six-months ended December 31, 2012 $	December 31, 2011 $
Cash provided by (used in)		
Operating activities		
Net income (loss) for the periods	215	2,153
Charges (credits) to income not involving cash		
Amortization of film and television programs	4,291	7,547
Amortization of acquired library	2,154	478
Amortization of property, plant, and equipment	936	798
Amortization of intangible assets	952	422
Unrealized foreign exchange loss (gain)	(153)	64
Impairment in value of investment in film and television programs	-	135
Share of loss of associates	81	26
Realized loss on disposal of short-term investments	29	-
Share-based compensation	726	310
Interest on promissory notes	1	2
Deferred income tax expense	658	113
	9,890	12,048
Net investment in film and television programs	(10,405)	(11,979)
Net change in non-cash working capital balances related to operations (note 19)	(5,306)	6,177
Cash provided by (used in) operating activities	(5,821)	6,246
Financing activities		
Proceeds from issuance of common shares, net of issue costs	17,364	-
Proceeds from issuance of common shares related to ESPP and options	8	6
Proceeds of employee share purchase loan	2	1
Common shares repurchased and cancelled	-	(6,056)
Proceeds from (repayment of) bank indebtedness	7,335	(2,682)
Proceeds from (repayment of) interim production financing	4,935	(3,302)
Proceeds from long-term debt, net of debt issue costs	48,149	4,000
Increase in deferred financing fees	(740)	-
Repayment of long-term debt and obligations under capital leases	(60,680)	(263)
Repayment of shareholder debt assumed on acquisitions	(8,665)	-
Cash provided by (used in) financing activities	7,708	(8,296)
Investing activities		
Cash paid on business acquisition, net of cash acquired	(2,191)	-
Acquisitions of short-term investments	-	(7,185)
Proceeds on disposal of short-term investments	3,293	8,009
Increase in restricted cash	(2,603)	
Acquisition of property, plant, and equipment	(1,071)	(1,049)
Change in long-term receivables and payables	(820)	-
Decrease in long-term deferred revenue	(1,891)	-
Cash provided by (used in) investing activities	(5,283)	(225)
Effect of foreign exchange rate changes on cash	(810)	44
Net change in cash during the periods	(4,206)	(2,231)
Cash – Beginning of periods	19,166	19,525
Cash – End of periods	14,960	17,294

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

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

1 Nature of 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, distributes and licenses 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

The Company prepares its unaudited interim condensed consolidated financial statements (the "financial statements") in accordance with Canadian generally accepted accounting principles ("GAAP") 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") as issued by the International Accounting Standards Board ("IASB").

These financial statements are in compliance with International Accounting Standards 34, *Interim Financial Reporting* ("IAS 34"). Accordingly, certain information normally included in annual financial statements, prepared with IFRS, as issued by IASB, have been omitted or condensed. The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements have been set out in note 3 of the Company's consolidated financial statements for the year ended June 30, 2012. These financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended June 30, 2012.

These financial statements include all adjustments, composed of normal recurring adjustments, considered necessary by management to fairly state the Company's results of operations, financial position and cash flows. The operating results for interim periods are not necessarily indicative of results that may be expected for any other interim period or for a full year.

These financial statements have been authorized by the Board of Directors on February 13, 2013.

3 Significant accounting policies, judgments and estimation uncertainty

Except as otherwise noted herein, these financial statements have been prepared using the same policies and methods of computation as the annual consolidated financial statements of the Company for the year ended June 30, 2012. Refer to note 3 of the Company's consolidated financial statements for the year ended June 30, 2012 for information on judgements and estimation uncertainty, new accounting standards and amendments not yet effective.

Deferred financing fees and debt issue costs

Debt issue costs related to bank indebtedness are recorded as a deferred charge and amortized, using the straight-line method, over the term of the related bank indebtedness and the amortization expense is included in interest expense. Debt issue costs related to long-term debt are recorded as a reduction of long-term debt and amortized using the effective interest rate method and the amortization expense is included in interest expense. At December 31, 2012, the balance recorded as deferred financing fees was $740 and the balance recorded as a reduction of long-term debt was $1,851.

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

4 Acquisitions

On October 22nd, 2012, ("Cookie Jar Effective Date") the Company acquired all of the outstanding shares of a newly formed company holding all of the assets and select liabilities comprising the business of Cookie Jar Entertainment ("Cookie Jar"), an industry leader in the creation, production and marketing of animated and live-action programming and possessing a library of nearly 6,000 half-hours of programming. Total consideration of $72,403 is comprised of cash of $5,000 and 36,044,492 common shares of the Company valued at $67,403 on the Cookie Jar Effective Date.

The preliminary goodwill value of $57,154 arising from the acquisition is attributable to acquired workforce and economies of scale expected from combining the operations for the Company and Cookie Jar. None of the goodwill recognised is expected to be deductible for income tax purposes.

The acquisition was accounted for using the purchase method. As such, the results of operations reflect revenue and expenses of the assets of Cookie Jar from the Cookie Jar Effective Date. All special purpose entities have been identified and are accounted for in accordance with the principles of consolidation disclosed in the June 30, 2012 financial statements.

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

	$
Assets acquired	
Cash	2,809
Accounts receivable	31,794
Prepaid expenses and deposits	783
Investment in film and television programs	72,226
Property, plant and equipment	937
Intangible assets	25,439
Goodwill	57,154
Deferred tax assets	4,150
	195,292
Less: Liabilities assumed	
Accounts payable and accrued liabilities	38,504
Deferred revenue	12,087
Interim production financing	6,891
Long-term debt	56,742
Shareholder loans payable	8,665
	122,889
	72,403

The Company will finalize the purchase price allocation upon completion of review of certain working capital balances and determination of the fair value of the tangible and intangible assets acquired. Any future adjustment resulting from this review will be recorded as an adjustment to the purchase price.

Had Cookie Jar been consolidated from July 1, 2012, the consolidated statement of income would show revenue of $52,939 and net loss of $357.

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

5 Short-term investments

The investments are shown on the balance sheet at fair value. As at December 31, 2012, the cost of the short-term investments were $nil (June 30, 2012 - $3,217). As at June 30, 2012, short-term investments consisted of Canadian government grade bonds which had interest rates ranging from 3.25% to 3.80% respectively.

6 Amounts receivable

	December 31, 2012 $	June 30, 2012 $
Trade receivables	41,742	15,939
Less: Provision for impairment of trade receivables	(132)	(105)
	41,610	15,834
Goods and services taxes recoverable	2,800	1,105
Federal and provincial film tax credits and other government assistance	35,241	24,884
Amounts receivable	79,651	41,823

The aging of trade receivables is as follows:

	December 31, 2012 $	June 30, 2012 $
Less than 60 days	34,131	13,537
Between 60 to 90 days	1,108	535
Over 90 days	6,371	1,762
	41,610	15,834

The Company does not have security over these balances. 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.

Provision for impairment of trade receivables:

	Six-months ended December 31, 2012 $	Year ended June 30, 2012 $
Opening balance	105	70
Provision for receivables	28	35
Receivables written off during the year	(1)	–
Closing balance	132	105

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

7 Investment in film and television programs

	December 31, 2012 $	June 30, 2012 $
Development costs	2,812	2,943
Theatrical and non-theatrical productions in progress		
Cost, net of government and third party assistance and third party participation	2,208	2,459
Acquired participation rights – theatrical and non-theatrical		
Cost	78,086	5,860
Accumulated amortization	(7,224)	(5,070)
	70,862	790
Non-theatrical productions completed and released		
Cost, net of government and third party assistance and third party participation	195,602	184,070
Accumulated amortization	(145,592)	(141,301)
Accumulated impairment in value of investment in film and television programs	(4,798)	(4,798)
	45,212	37,971
	121,094	44,163

The Company expects that 7% of the costs related to theatrical and non-theatrical productions completed and released will be realized during the year ending June 30, 2013. The Company expects that 39% of the costs related to theatrical and non-theatrical productions completed and released will be realized during the period ending June 30, 2015. The Company expects that over 60% of the costs related to productions completed will be realized by June 30, 2017.

During the three and six-months ended December 31, 2012, interest of $310 and $531 (three and six-months ended December 31, 2011 - $542 and $859) has been capitalized to investment in film and television programs.

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

	Six-months ended December 31, 2012 $	Year-ended June 30, 2012 $
Net opening investment in film and television programs	44,163	39,184
Cookie Jar productions acquired (note 4)	72,226	-
Cost of productions (completed and released and productions in progress), net of government assistance and third party participation	11,532	14,928
(Recovery of) increase in development costs	(131)	571
Amortization	(6,445)	(10,584)
Impairment in value of certain investment in film and television programs	-	(515)
Exchange differences	(251)	579
	121,094	44,163

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

8 Intangible assets

	Production backlog $	Broadcaster relationships $	Customer and distribution relationships $	Non-compete contracts and brands $	Production software $	Total $
For the year ended June 30, 2012						
Opening net book value	40	2,306	264	829	113	3,552
Amortization	(16)	(544)	(55)	(144)	(79)	(838)
Net book value	24	1,762	209	685	34	2,714
At June 30, 2012						
Cost	1,085	4,627	546	1,959	394	8,611
Accumulated amortization	(1,061)	(2,865)	(337)	(1,274)	(360)	(5,897)
Net book value	24	1,762	209	685	34	2,714
For the six-months ended December 31, 2012						
Opening net book value	24	1,762	209	685	34	2,714
Additions (note 4)	–	2,561	10,293	12,585	–	25,439
Amortization	(8)	(372)	(269)	(269)	(34)	(952)
Foreign exchange differences	–	7	27	33	–	67
Net book value	16	3,958	10,260	13,034	–	27,268
At December 31, 2012						
Cost	1,085	7,188	10,839	14,544	394	34,050
Accumulated amortization	(1,069)	(3,237)	(606)	(1,543)	(394)	(6,849)
Foreign exchange differences	–	7	27	33	–	67
Net book value	16	3,958	10,260	13,034	–	27,268

9 Goodwill

The continuity of goodwill is as follows:

	Six-months ended December 31, 2012 $	Year ended June 30, 2012 $
Opening net book value	11,800	11,763
Acquired on Cookie Jar (note 4)	57,154	–
Exchange differences	228	37
	69,182	11,800

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

10 Bank indebtedness, interim production financing, long-term debt and obligations under capital lease

	December 31, 2012 $	June 30, 2012 $
Bank indebtedness	10,000	2,665
Interim production financing	33,003	21,177
Long-term debt and obligations under capital lease	50,004	5,793
Total interest bearing debt and obligations under capital lease	93,007	29,635
Amount due within 12 months	(47,233)	(25,790)
Amount due beyond 12 months	45,774	3,845

a) Bank indebtedness

On October 22, 2012, the Company entered into a credit agreement (the "Senior Secured Credit Facilities") with a syndicate of lenders, which provides for a revolving facility (the "Revolving Facility") and a term facility (the "Term Facility"). The Revolving Facility is available to a maximum amount of $20,000, maturing on October 22, 2016. The Revolving Facility may be drawndown by way of either $CDN bankers acceptances, $CDN prime, $USD base rate, $USD, €EUR and/or £GBP LIBOR advances (the "Drawdown Rate") and bears interest at a floating rate ranging from the Drawdown Rate + 1.25% up to the Drawdown Rate + 3.25% as determined by a combination of the Drawdown Rate selected and the Company's Funded Debt to Adjusted EBITDA ratio.

All amounts borrowed pursuant to the Senior Secured Credit Facility are guaranteed by DHX Media Ltd. and certain of its subsidiaries, with each providing a first priority security interest in respect of all of the capital stock of the subsidiaries of DHX Media Ltd. and the guarantors in favour of the syndicate of lenders and all present and after acquired real and personal property of DHX Media Ltd. and the guarantors.

Prior to entering into the Senior Secured Credit Facilities, as of June 30, 2012, the maximum amount of all borrowing, including Interim Production Financing, with the Royal Bank of Canada ("RBC") was $55,000 ("RBC Master Agreement"). Upon entering into the Senior Secured Credit Facilities, the RBC Master Agreement matured and all amounts were repaid on October 22, 2012.

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

10 Bank indebtedness, interim production financing, long-term debt and obligations under capital lease (continued)

b) Interim production financing

	December 31, 2012 $	June 30, 2012 $
Revolving production credit facility ("RBC Revolving Production Credit Facility"), repaid during the period	-	13,701
Interim production credit facilities with various institutions, bearing interest at bank prime plus 0.65% to 13%. Assignment and direction of specific production financing and licensing contracts receivable, with a net book value of approximately $46,859 at December 31, 2012 (June 30, 2012 - $7,686), certain of which are secured by a restricted cash balance of $2,603 at December 31, 2012 (June 30, 2012 - $nil)	33,003	7,476
	33,003	21,177

During the period ended December 31, 2012, the $CDN bank prime rate averaged 3.00% (year ended June 30, 2012 - 3.00%).

Prior to entering into the Senior Secured Credit Facilities, as part of the RBC Master Agreement, the Company also had a RBC Revolving Production Credit Facility with a maximum authorized amount of $40,284. The RBC Revolving Production Credit Facility matured October 22, 2012 and was replaced by individual interim production facilities.

c) Long-term debt and obligations under capital leases

The Senior Secured Credit Facility entered into on October 22, 2012 provides for a Term Facility with an initial principal amount of $50,000, maturing on October 22, 2016, repayable in annual amortization payments (as a percentage of the initial principal amount of the Term Facility) of 7% in 2013, 8% in 2014, 12% in 2015 and 13% in 2016 payable in equal quarterly installments, with the full remaining amount due upon maturity. The Term Facility may be drawndown by way of either $CDN bankers acceptances, $CDN prime, $USD base rate, $USD, €EUR and/or £GBP LIBOR advances (the "Drawdown Rate") and bears interest at a floating rate ranging from the Drawdown Rate + 1.25% up to the Drawdown Rate + 3.25% as determined by a combination of the Drawdown Rate selected and the Company's Funded Debt to Adjusted EBITDA ratio. All amounts borrowed pursuant to the Senior Secured Credit Facility are guaranteed by DHX Media Ltd. and certain of its subsidiaries, with each providing a first priority security interest in respect of all of the capital stock of the subsidiaries of DHX Media Ltd. and the guarantors in favour of the syndicate of lenders and all present and after acquired real and personal property of DHX Media Ltd. and the guarantors.

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

10 Bank indebtedness, interim production financing, long-term debt and obligations under capital lease (continued)

c) Long-term debt and obligations under capital leases (continued)

	December 31, 2012 $	June 30, 2012 $
Term Facility entered into pursuant to the Senior Secured Credit Facility ((note 10(a) and (b)), net of issue costs of $1,851 at December 31, 2012	47,412	-
Loans payable, bearing interest at Business Development Bank of Canada prime minus 1.5%, maturing in May 2021, repayable in monthly principal installments of $20 plus interest, secured by a first mortgage on land and building having a net book value of $4,133 at December 31, 2012 (June 30, 2012 - $4,198) and a general assignment of rents	1,828	1,947
Obligation under various capital leases, with total quarterly instalments of $90, bearing interest at rates ranging from 4.0% to 9.8%, maturing on dates ranging from February 2013 to October 2016, of which $109 is denominated in USD (June 30, 2012 - $342)	764	513
RBC Acquisition Facility	-	3,333
	50,004	5,793
Less: Current portion	(4,230)	(1,948)
	45,774	3,845

The aggregate amount of principal repayments required in each of the next five years is as follows:

	$
Year ending June 30, 2013	2,053
2014	4,399
2015	5,940
2016	6,752
2017	31,956
beyond 2017	755

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

10 Bank indebtedness, interim production financing, long-term debt and obligations under capital lease (continued)

c) Long-term debt and obligations under capital leases (continued)

Upon entering into the Senior Secured Credit Facilities, the RBC Acquisition Facility was repaid (June 30, 2012 - $3,333).

The Company has the following undrawn borrowing facilities:

	December 31, 2012 $	June 30, 2012 $
Bank indebtedness/Revolving facility	10,000	845
Interim production financing	-	26,583
Term facility	-	6,667
Other	-	995
	10,000	35,090

11 Accounts payable and accrued liabilities

Accounts payable and accrued liabilities include the following:

	December 31, 2012 $	June 30, 2012 $
Accounts payable	12,039	728
Accrued liabilities	42,997	13,291
	55,036	14,019

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

12 Share capital and contributed surplus

a) Issued and outstanding

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

	December 31, 2012		June 30, 2012	
	Number	Amount $	Number	Amount $
Preferred Variable Voting shares	100,000,000	-	100,000,000	-
Common shares (note 12 (b))				
Opening balance	53,069,712	65,841	61,596,615	76,437
Substantial issuer bid shares repurchased and cancelled, net of costs			(7,142,857)	(8,857)
Common shares issued on Cookie Jar acquisition	36,044,492	67,403	-	-
Issued for cash consideration, net of costs	13,002,000	18,043		
Shares issued pursuant to ESPP	4,105	6	12,454	9
Share cancelled related to employee loan	-	-	(27,000)	(50)
Normal course issuer bid shares repurchase and cancelled	-	-	(1,369,500)	(1,698)
Options Exercised	1,250	2	-	-
Ending balance	102,121,559	151,295	53,069,712	65,841
Share purchase financing				
Opening balance	-	(85)	-	(189)
Principal payments made by an officer	-	2	-	5
Loan forgiven	-	-	-	50
Compensation expense adjustment	-	32	-	46
Interest received	-	1	-	3
	-	(50)	-	(85)
Warrants (note 12 (c))				
Opening balance	1,000,000	-	937,500	210
Expiration of warrants	-	-	(937,500)	(210)
Warrants vested	-	390	1,000,000	-
Ending balance	1,000,000	390	1,000,000	-
Contributed surplus and stock options (note 12 (d))				
Stock options				
Opening balance	4,343,750	11,102	4,020,000	6,083
Share repurchased and cancelled	-	-	-	4,396
Issued to a director or employee	2,140,000	177	1,080,000	191
Stock based compensation	-	127	-	255
Stock options exercised	(1,250)	(1)	-	-
Options expired	(430,000)	-	(450,000)	-
Options forfeited	(121,250)	-	(306,250)	-
Warrants expired	-	-	-	177
Ending balance	5,931,250	11,405	4,343,750	11,102

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

12 Share capital and contributed surplus (continued)

b) Common shares

During the six-months ended December 31, 2012, the Company issued 4,105 common shares, at an average price of $1.46, respectively as part of the Company's employee share purchase plan (year-ended June 30, 2012 - 12,454 at $0.81 per share).

On October 22, 2012, the company issued 13,002,000 common shares at $1.50 for gross proceeds of $19,503. Cost of the issuance was $1,460, net of the tax effect of $679.

On October 22, 2012, as part of the Cookie Jar acquisition, the Company issued 36,044,492 common shares with a value of $67,403 based on the closing price of $1.87 on October 22, 2012.

c) Warrants

As disclosed in the Company's consolidated financial statements for the year ended June 30, 2012, 1,000,000 conditional warrants ("Conditional Warrants") were previously granted to consultants of the Company at a strike price of $0.785 per share (2011 - $nil). The vesting for the Conditional Warrants was conditional upon the Cookie Jar transaction closing by November 16th, 2012. During the period, the Conditional Warrants vested and an expense of $390 was recognized.

d) Stock options

At December 31, 2012 and June 30, 2012, the Company had the following stock options outstanding:

	Number of options	Weighted average exercise price per stock option $
Outstanding at July 1, 2011	4,020,000	1.07
Forfeited	(306,250)	1.22
Expired	(450,000)	2.05
Granted	1,080,000	0.82
Outstanding at June 30, 2012	4,343,750	0.90
Granted to employees	1,650,000	1.76
Granted to directors	490,000	1.81
Exercised	(1,250)	0.90
Forfeited	(121,250)	0.86
Expired	(270,000)	1.62
Directors options expired	(160,000)	1.62
Outstanding at December 31, 2012	5,931,250	1.16
Exercisable at June 30, 2012	2,683,750	0.94
Exercisable at December 31, 2012	2,550,000	0.84

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

12 Share capital and contributed surplus (continued)

d) Stock options (continued)

The total maximum number of common shares to be reserved for issuance through the Company's stock option plan is 9% of the total number of issued and outstanding common shares at any time. As at December 31, 2012, this amounted to 9,190,940 (June 30, 2012 – 4,776,274).

On October 4, 2012, 500,000 stock options were issued to an employee at $1.63 per share, vesting over four years and based on achieving certain benchmarks, expiring on October 4, 2017.

On November 22, 2012, 1,640,000 stock options were issued to employees and directors at $1.81 per share, vesting over four years and some of which are based on achieving certain benchmarks and expiring on November 22, 2017.

During the three and six-months ended December 31, 2012, 1,250 stock options were exercised at a price of $0.90 per common share (2012 - nil).

During the three and six-months ended December 31, 2012, 121,250 options were forfeited and 430,000 expired (2011 - 190,000 and 746,547).

The weighted average grant date fair value of stock options and assumptions using the Black-Scholes option pricing model for six-months ended December 31, 2012 and the year ended June 30, 2012:

	December 31, 2012	June 30, 2012
Weighted average grant value date	0.83	0.32
Risk-free interest rate	1.27%	1.25%
Expected option life	4 years	4 years
Expected volatility	61%	65%
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 and six-months ended December 31, 2012, a total of $239 and $726 (three and six-months ended December 31, 2011 - $77 and 219) was recognized as compensation expense. Included in the compensation expense for the three and six-months ended December 31, 2012 was $nil and $32 related to employee share purchase loans (three and six-months ended December 31, 2011 - $nil and $46).

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

12 Share capital and contributed surplus (continued)

d) Stock options (continued)

Information related to options outstanding at December 31, 2012 is presented below:

Range of exercise prices $	Number outstanding at December 31, 2012	Weighted average remaining contractual life	Weighted average exercise price $	Number exercisable at December 31, 2012	Weighted average exercise price $
0.58 - 0.99	3,791,250	2.42 years	0.82	2,475,000	0.81
1.00 - 1.81	2,140,000	4.86 years	1.77	75,000	1.81
Total	5,931,250	3.30 years	1.16	2,550,000	0.84

Information related to options outstanding at June 30, 2012 is presented below:

Range of exercise prices $	Number outstanding at June 30, 2012	Weighted average remaining contractual life	Weighted average exercise price $	Number exercisable at June 30, 2012	Weighted average exercise price $
0.58 - 0.99	3,913,750	2.70 years	0.82	2,253,750	0.81
1.00 - 1.62	430,000	0.02 years	1.62	430,000	1.62
Total	4,343,750	2.72 years	0.90	2,683,750	0.94

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

13 Income taxes

Significant components of the Company's deferred income tax asset (liability) as at December 31, 2012 and June 30, 2012 are as follows:

	December 31, 2012 $	June 30, 2012 $
Leasehold inducement	250	250
Foreign tax credits	320	320
Deferred production revenue	75	75
Participation payables and capital lease obligations and other liabilities	739	585
Property, plant and equipment	191	(250)
Share issuance costs and deferred financing fees	806	252
Investment in film and television programs	139	(3,730)
Intangible assets	(7,319)	(1,801)
Non-capital losses and other	8,519	3,858
Deferred income tax asset (liability)	3,720	(441)

Deferred income tax liabilities have not been recognized for the withholding tax and other taxes that would be payable on unremitted earnings of certain subsidiaries, as such amounts are permanently reinvested. Unremitted earnings totalled $3,314 at December 31, 2012 (June 30, 2012 - $2,898).

The reconciliation of income taxes computed at the statutory tax rates to income tax expense (recovery) is as follows:

	December 31, 2012 $	December 31, 2011 $
Income tax expense (recovery) based on combined federal and provincial tax rates of 51.4% at December 31, 2012 (December 31, 2011 - 32.2%)	268	968
Income taxes increased (reduced) by:		
Share based compensation	230	98
Deferred tax rates differential	2	-
Recognition of previously unrecognized tax assets	(11)	-
Other and adjustment in respect of prior years	(184)	(222)
Foreign gain (losses) and California state tax expense, net	1	6
Provision for income taxes	306	850

As at December 31, 2012, the Company has losses carried forward of $1.2 million for which no deferred tax asset has been recorded. The Company operates in multiple jurisdictions with differing tax rates. The Company's effective tax rates are dependent on the jurisdiction to which income relates. In fiscal 2013, the Company's effective tax rate was 51.4% (2012- 32.2%) based on jurisdictions in which the income was earned.

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

14 Expenses by nature and employee benefit expense

The following sets out the expenses by nature:

	Three-months ended		Six-months ended	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
	$	$	$	$
Direct production and new media costs	8,295	13,340	14,700	21,287
Amortization of film and television programs	2,605	3,650	4,291	7,547
Impairment in value of investment in film and television programs	-	-	-	135
Amortization of acquired library	1,937	104	2,154	478
Development expenses and other	793	75	851	210
Acquisition costs	852	-	1,368	-
Office and administrative	1,826	673	2,858	1,512
Investor relations and marketing	278	256	306	423
Share of loss of associates	56	7	81	26
loss on sale of short term investment	29	-	29	-
Finance expense (income), net	442	105	579	(111)
Professional and regulatory	944	380	1,003	645
Amortization of property, plant and equipment and intangibles	1,255	717	1,888	1,220
	19,312	19,307	30,108	33,372
Salaries and employee benefits	4,059	2,731	6,516	4,912
Share-based compensation	239	80	726	310
Termination benefits	2,000	20	2,002	22
	6,298	2,831	9,244	5,244
	25,610	22,138	39,352	38,616

15 Financial instruments

a) Credit risk

Credit risk arises from cash, short-term investments, restricted cash and deposits, as well as credit exposure to customers, including outstanding receivables. The Company manages credit risk on cash, restricted cash and short-term investments by ensuring that the counterparties are banks, governments and government agencies with high credit ratings.

The balance of trade amounts receivable are mainly with Canadian broadcasters and large international distribution companies. Management believes that the net amounts recorded are fully collectible. Management manages credit risk by regularly reviewing aged accounts receivables and appropriate credit analysis. The Company has booked an allowance for doubtful accounts of approximately 1% against the gross amounts for certain trade amounts receivable and management believes that the net amount of trade amounts receivable is fully collectible.

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

15 Financial instruments (continued)

b) Interest rate risk

The Company is exposed to interest rate risk arising from fluctuations in interest rates as its bank indebtedness, interim production financing, certain long-term debt and a portion of cash bear interest at floating rates. A 1% fluctuation would have an approximate $750 to $1,000 affect on net income

c) Liquidity risk

The Company manages liquidity by forecasting and monitoring operating cash flows and through the use of capital leases and maintaining revolving credit facilities (note 10). As at December 31, 2012, the Company had cash on hand of $14,960 (June 30, 2012 - $19,166).

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. The Company maintains appropriate cash balances and has access to financing facilities to manage fluctuating cash flows.

d) Currency risk

The Company's activities involve holding foreign currencies and incurring production costs and earning revenues denominated in foreign currencies. These activities result in exposure to fluctuations in foreign currency exchange rates. The Company periodically enters into foreign exchange purchases contracts to manage its foreign exchange risk on USD,GBP and Euro denominate contracts. At each balance sheet date, the Company revalued its financial instruments denominated in a foreign currency at the prevailing exchange rates. A 1% change in the USD, GBP or Euro exchange rate would have less than a $100 effect on net income and minimal affect on the balance sheet items.

e) Long-term investment

As at December 31, 2012, management is continuing to value its investment in Woozworld at $330 (June 30, 2012 - $330). It continues to be a private company and, as such, a quoted market price in an active market is not available.

Management has estimated the fair value of the investment by comparing value to the pro-rata valuation from a recent equity raise made by Woozworld. The Company does not expect to dispose of this investment in the near term, and believes there is no impairment of the long-term investment as at December 31, 2012 and June 30, 2012.

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

15 Financial instruments (continued)

f) Contractual maturity analysis for financial liabilities

	Total $	Less than 1 year $	1 to 3 years $	4 to 5 years $	After 5 years $
Bank indebtedness	10,000	10,000	–	–	–
Long-term debt	49,240	3,945	10,143	34,516	636
Capital lease obligations	764	285	431	48	–
	60,004	14,230	10,574	34,564	636

Payments noted above do not include interest.

g) Fair values

The carrying value of cash and short-term investments approximates the fair value.

The maximum exposure to credit risk for cash, short-term investments, restricted cash deposits and trade and other receivables approximate the amount recorded on the consolidated balance sheets.

Management believes the carrying amounts reported on the financial statements for amounts receivable, accounts payable and accrued liabilities and current portion of long-term debt and obligations under capital leases all approximate their fair values due to their immediate or short-term maturities or variable interest rates. Interim production financing, bank indebtedness and a component of long-term debt were renegotiated during the six-months ended December 31, 2012 to reflect current interest rates; therefore, management believes the carrying amounts also approximate their fair values.

The fair value of the non-current portion of long-term debt and obligations under capital leases is set out below and is estimated using discounted cash flow analyses based on discount rates that reflect current market conditions for instruments with similar terms and risks.

	December 31, 2012		June 30, 2012	
	Carrying value $	Fair value $	Carrying value $	Fair value $
Available-for-sale assets	330	330	3,653	3,653
Foreign currency forward contracts	17	17	(70)	(70)
Long-term debt and obligations under capital leases	45,774	45,774	3,845	3,516

Fair value estimates are made at a specific point in time on relevant market information. These are estimates and involve uncertainties and matters of significant judgment and cannot be determined with precision. Change in assumptions and estimates could significantly affect fair values.

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

15 Financial instruments (continued)

h) Fair value hierarchy

Financial instruments recorded at fair value on the balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The value hierarchy has the following levels:

Level 1 - valuation based on quoted prices observed in active markets for identical assets and liabilities.

Level 2 - valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable for that instrument, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - valuation techniques with significant unobservable market inputs.

A financial instrument is classified to the lowest of the hierarchy for which a significant input has been considered in measuring fair value.

The following table presents the financial instruments recorded at fair value in the consolidated balance sheets as at December 31, 2012, classified using the fair value hierarchy described above:

	Level 1 $	Level 2 $	Level 3 $
Restricted cash	2,603	–	–
Foreign currency contracts	17	–	–
Long-term investments	–	–	330

Foreign currency contracts

At December 31, 2012 31, 2012, the Company had notional principal of approximately $2,290 (June 30, 2012 - $3,985) in contracts to sell United States dollars. The carrying value of these contracts is the fair value based on exchange rates at December 31, 2012. The contracts expire at various dates between April 2013 and November 2013.

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

16 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, 2013	1,860
2014	2,417
2015	1,559
2016	1,276
2017	936
beyond 2017	1,291

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 exposure at December 31, 2012 and June 30, 2012, related to the above matters is estimated at $400.

17 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 six-months ended December 31, 2012 or the year ended June 30, 2012.

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

	December 31, 2012 $	June 30, 2012 $
Total bank indebtedness, long-term debt and obligations under capital leases	60,004	8,458
Less: Cash	(14,960)	(19,166)
Net debt (cash)	45,044	(10,708)
Total Shareholders' Equity	164,806	78,900
	209,850	68,192

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 is in compliance with all debt covenants under the Senior Secured Credit Facilities.

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

18 Earnings per common share

a) Basic

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

	Three-months ended		Six-months ended	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Net income	$ 287	$ 1,835	$ 215	$ 2,153
Weighted average number of common shares	90,392,430	60,647,918	71,731,749	61,056,646
Basic earnings per share	$ 0.00	$ 0.03	$ 0.00	$ 0.04

b) Diluted

Diluted earnings per common share is calculated by adjusting the weighted average number of 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 is compared with the number of shares that would have been issued assuming exercises of the warrants and stock options.

For the for the three and six-months ended December 31, 2012, the weighted average number of potentially dilutive instruments, comprised of shares issuable in respect of warrants and stock options, was 3,144,310 and 2,168,526 (three and six-months ended December 31, 2011 – 75,998 and 74,985).

	Three-months ended		Six-months ended	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Net income	$ 287	$ 1,835	$ 215	$ 2,153
Weighted average number of common shares	93,536,740	60,723,916	73,900,275	61,131,631
Diluted earnings per share	$ 0.00	$ 0.03	$ 0.00	$ 0.04

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

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

	Six-months ended	
	December 31, 2012 $	December 31, 2011 $
Decrease in amounts receivable	(8,371)	(1,753)
Increase in prepaid expenses and deposits	(328)	(561)
Increase in accounts payable and accrued liabilities	1,847	3,374
Increase in deferred revenue	1,546	5,117
	(5,306)	6,177
During the period, the Company paid and received the following:		
Interest paid	1,070	784
Interest received	46	148
Taxes paid	189	310

20 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		Six-months ended	
	December 2012 $	December 31, 2011 $	December 31, 2012 $	December 31, 2011 $
Production revenue	3,668	4,911	5,185	9,117
Distribution revenue	9,252	1,804	10,586	3,169
Producer and service fee revenues	5,822	9,847	12,658	16,248
Merchandising and licensing and other	7,616	8,113	11,444	13,085
	26,358	24,675	39,873	41,619

Of the Company's $26,358 and $39,973 in revenues for the three and six-months ended December 31, 2012 ($24,675 and $41,619 for the three and six-months ended December 31, 2011), $9,961 and $18,173 was attributable to the Company's entities based in Canada ($11,488 and $20,025 for the three and six-months ended December 31, 2011) and $11,339 and $16,642 ($13,187 and $21,594 for the three and six-months ended December 31, 2011) was attributable to the Company's entities based in the USA and $5,058 and $5,058 ($nil and $nil for the three and six-months ended December 31, 2011) was attributable to the Company's entities based outside of Canada and the USA.

As at December 31, 2012, the following non-current assets were attributable to the Company's entities based in the USA: $1,416 of property, plant and equipment, $414 of intangible assets, and $656 of Goodwill (June, 31, 2012 - $1,464, $332, $712 respectively). As at December 31, 2012, the following non-current assets were attributable to the Company's entities based outside of Canada and the USA: $367 of property, plant and equipment, $2,876 of intangible assets, and $15,899 of Goodwill (June, 30, 2012 - $nil, $nil, $nil respectively). All other non-current assets were attributable to the Company's entities based in Canada.

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

21 Accumulated other comprehensive income (loss)

The components of the Company's accumulated other comprehensive income (loss) are as follows:

	Three-months ended December 31, 2012 $	Six-months ended December 31, 2012 $	Year ended June 30, 2012 $
Opening balance	(190)	232	(457)
Changes in fair value of available-for-sale investments	(228)	(135)	87
Cumulative translation account	130	(385)	602
Realized loss on available-for-sale investments	29	29	-
Total accumulated other comprehensive income (loss)	(259)	(259)	232