DHX Media Ltd.

Unaudited Interim Condensed Consolidated Financial Statements
September 30, 2012
(expressed in thousands of Canadian dollars)

DHX Media Ltd.

Unaudited Consolidated Balance Sheets

(expressed in thousands of Canadian dollars)

	September 30, 2012 $	June 30, 2012 $
Assets		
Current assets		
Cash	16,761	19,166
Short-term investments	3,336	3,323
Amounts receivable	45,044	41,823
Prepaid expenses and deposits	1,906	1,581
Investment in film and television programs (note 4)	46,054	44,163
	113,101	110,056
Investment in associates	1,515	1,541
Property, plant, and equipment	8,743	8,520
Long-term investment	330	330
Intangible assets	2,503	2,714
Goodwill	11,773	11,800
	137,965	134,961
Liabilities		
Current liabilities		
Bank indebtedness	2,250	2,665
Accounts payable and accrued liabilities	16,678	14,019
Deferred revenue	9,878	10,647
Interim production financing	23,401	21,177
Current portion of long-term debt and obligations under capital leases	1,838	1,948
	54,045	50,456
Other liability	1,269	1,319
Long-term debt and obligations under capital leases	3,447	3,845
Deferred income taxes (note 6)	306	441
	59,067	56,061
Shareholders' Equity	78,898	78,900
	137,965	134,961

Commitments and contingencies (note 8)

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	–	–	–	–	–	318	318
Other comprehensive income for the period	–	–	–	–	880	–	880
Comprehensive income for the period	–	–	–	–	880	318	1,198
Normal course issuer bid shares repurchased and cancelled	(501)	–	–	–	–	–	(501)
Repayment of share purchase financing	–	1	–	–	–	–	1
Shares issued pursuant to the employee share purchase plan (“ESPP”)	3	–	–	–	–	–	3
Compensation expense on share purchase financing	–	46	–	–	–	–	46
Interest received on share purchase financing	–	1	–	–	–	–	1
Share-based compensation	–	–	–	183	–	–	183
Balance - September 30, 2011	75,939	(141)	210	6,266	423	(919)	81,778
Net income for the period	–	–	–	–	–	2,729	2,729
Other comprehensive loss for the period	–	–	–	–	(191)	–	(191)
Comprehensive income for the period	–	–	–	–	(191)	2,729	2,538
Shares issued pursuant to the ESPP	6	–	–	–	–	–	6
Shares cancelled pursuant to an employee loan forgiven	(50)	50	–	–	–	–	–
Normal course issuer bid shares repurchased and cancelled	(1,197)	–	–	620	–	–	(577)
Substantial issuer bid shares repurchased and cancelled, including costs of $116, net of tax effect of $35	(8,857)	–	–	3,776	–	–	(5,081)
Repayment of share purchase financing	–	4	–	–	–	–	4
Interest received on share purchase financing	–	2	–	–	–	–	2
Share-based compensation	–	–	–	263	–	–	263
Expiration of warrants, net of tax effect of $33	–	–	(210)	177	–	–	(33)
Balance - June 30, 2012	65,841	(85)	–	11,102	232	1,810	78,900
Net loss for the period	–	–	–	–	–	(72)	(72)
Other comprehensive loss for the year	–	–	–	–	(422)	–	(422)
Comprehensive loss for the year	–	–	–	–	(422)	(72)	(494)
Repayment of share purchase financing	–	1	–	–	–	–	1
Interest received on share purchase financing	–	1	–	–	–	–	1
Compensation expense on share purchase financing	–	32	–	–	–	–	32
Share-based compensation	–	–	–	65	–	–	65
Warrant expense	–	–	390	–	–	–	390
Shares issued pursuant to the ESPP	3	–	–	–	–	–	3
Balance - September 30, 2012	65,844	(51)	390	11,167	(190)	1,738	78,898

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

DHX Media Ltd.

Unaudited Consolidated Statements of Income (loss)

For the three-month periods ended September 30, 2012 and 2011

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

	Three-months ended September 30, 2012	September 30, 2011
	$	$
Revenues (note 11)	13,515	16,944
Direct production costs and amortization of film and television produced	8,091	11,844
	5,424	5,100
Operating expenses (income)		
Amortization of acquired library	217	374
Amortization of property, plant and equipment and intangible assets	633	504
Development expenses and other	573	135
Impairment in value of investment in film and television programs	-	135
Selling, general and administrative	4,066	3,668
Share of loss of associates	25	19
Finance expense (income), net	137	(216)
	5,651	4,619
Income (loss) before income taxes	(227)	481
Provision for (recovery of) income taxes		
Current income taxes	(3)	197
Deferred income taxes	(152)	(34)
	(155)	163
Net income (loss) for the years	(72)	318
Basic earnings per common share (note 9)	0.00	0.01
Diluted earnings per common share (note 9)	0.00	0.01

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-month periods ended September 30, 2012 and 2011

(expressed in thousands of Canadian dollars)

	Three-months ended September 30, 2012	September 30, 2011
	$	$
Net income (loss) for the periods	(72)	318
Other comprehensive income (loss)		
Cumulative translation adjustment	(515)	867
Changes in fair value of available-for-sale investments, net of tax	93	13
Other comprehensive income (loss) for the periods	(422)	880
Comprehensive income (loss) for the periods	(494)	1,198

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

DHX Media Ltd.

Consolidated Statements of Cash Flows

For the three-month periods ended September 30, 2012 and 2011

(expressed in thousands of Canadian dollars)

	Three-months ended September 30, 2012 $	September 30, 2011 $
Cash provided by (used in)		
Operating activities		
Net income (loss) for the periods	(72)	318
Charges (credits) to income not involving cash		
Amortization of film and television programs	1,686	3,897
Amortization of acquired library	217	374
Amortization of property, plant, and equipment	422	293
Amortization of intangible assets	211	211
Unrealized foreign exchange loss (gain)	36	(262)
Impairment in value of investment in film and television programs	-	135
Share of loss of associates	25	19
Share-based compensation	487	230
Interest on promissory notes	1	1
Recovery of deferred income taxes	(152)	(34)
	2,861	5,182
Net investment in film and television programs	(2,840)	(7,335)
Net change in non-cash working capital balances related to operations (note 10)	(3,012)	3,999
Cash provided by (used in) operating activities	(2,991)	1,846
Financing activities		
Proceeds from issuance of common shares related to ESPP	3	3
Proceeds of employee share purchase loan	1	1
Common shares repurchased and cancelled	-	(501)
Proceeds from (repayment of) bank indebtedness	(415)	988
Proceeds from (repayment of) interim production financing	2,224	(2,750)
Repayment of long-term debt and obligations under capital leases	(508)	(130)
Cash provided by (used in) financing activities	1,305	(2,389)
Investing activities		
Acquisitions of short-term investments	-	(7,185)
Proceeds on disposal of short-term investments	-	4,011
Proceeds on disposal of (acquisition of) property, plant, and equipment	(645)	(682)
Cash provided by (used in) investing activities	(645)	(3,856)
Effect of foreign exchange rate changes on cash	(74)	133
Net change in cash during the periods	(2,405)	(4,266)
Cash – Beginning of periods	19,166	19,525
Cash – End of periods	16,761	15,259

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 and adoption of IFRS

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 November 12, 2012.

3 Significant accounting policies, judgments and estimation uncertainty

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 new accounting standards and amendments not yet effective.

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

4 Investment in film and television programs

	September 30, 2012 $	June 30, 2012 $
Development costs	3,301	2,943
Theatrical and non-theatrical productions in progress		
Cost, net of government and third party assistance and third party participation	2,210	2,459
Acquired participation rights - theatrical and non-theatrical		
Cost	5,860	5,860
Accumulated amortization	(5,287)	(5,070)
	573	790
Non-theatrical productions completed and released		
Cost, net of government and third party assistance and third party participation	187,755	184,070
Accumulated amortization	(142,987)	(141,301)
Accumulated impairment in value of investment in film and television programs	(4,798)	(4,798)
	39,970	37,971
	46,054	44,163

The Company expects that 12% of the costs related to theatrical and non-theatrical productions completed and released will be realized during the year ended June 30, 2013. The Company expects that 57% of the costs related to theatrical and non-theatrical productions completed and released will be realized during the three-year period ending June 30, 2015. The Company expects that over 80% of the costs related to productions completed will be realized by June 30, 2017.

During the three months ended September 30, 2012, interest of $221 (2011 - $302) has been capitalized to investment in film and television programs.

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

	September 30, 2012 $	June 30, 2012 $
Net opening investment in film and television programs	44,163	39,184
Cost of productions (completed and released and productions in progress), net of government assistance and third party participation	3,928	14,928
Increase in development costs	358	571
Amortization	(1,903)	(10,584)
Impairment in value of certain investment in film and television programs	-	(515)
Exchange differences	(492)	579
	46,054	44,163

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

5 Share capital and contributed surplus

a) 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 Entertainment ("Cookie Jar") transaction closing by November 16th, 2012. During the three-months ended September 30, 2012, it was determined to be probable the Conditional Warrants would vest; accordingly, an expense of $390 was recognized (2011 - $nil).

On October 22, 2012, upon closing of the Cookie Jar transaction, the Conditional Warrants vested.

b) Options

During the three-months ended September 30, 2012, 430,000 options expired.

6 Income taxes

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

	September 30, 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	585	585
Property, plant and equipment	(235)	(250)
Share issuance costs and deferred financing fees	227	252
Investment in film and television programs	(3,627)	(3,730)
Intangible assets	(1,822)	(1,801)
Non-capital losses and other	3,921	3,858
Deferred income taxes asset (liability)	(306)	(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 $2,974 at September 30, 2012 (June 30, 2012 - $2,898).

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

6 Income taxes (continued)

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

	September 30, 2012 $	September 30, 2011 $
Income tax expense (recovery) based on combined federal and provincial tax rates of 37.0% (2012 - 33.2%)	(84)	204
Income taxes increased (reduced) by:		
Share based compensation	156	73
Large corporation tax	-	15
Deferred tax rates differential	44	-
Recognition of previously unrecognized tax assets	(274)	-
Other and adjustment in respect of prior periods	3	(134)
Foreign gain (losses) and California state tax expense, net	-	5
Provision for (recovery of) income taxes	(155)	163

As at September 30, 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 2012, the Company's effective tax rate was 37.0% (2012- 33.2%) based on jurisdictions in which the income was earned.

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

7 Expenses by nature and employee benefit expense

The following sets out the expenses by nature:

	Three-months ended September 30, 2012 $	Three-months ended September 30, 2011 $
Direct production and new media costs	6,405	7,947
Amortization of film and television programs	1,686	3,897
Impairment in value of investment in film and television programs	-	135
Amortization of acquired library	217	374
Development expenses and other	573	135
Office and administrative	1,033	840
Investor relations and marketing	28	150
Share of loss of associates	25	19
Finance expense (income), net	137	(216)
Professional and regulatory	59	265
Amortization of property, plant and equipment and intangibles	633	504
	10,796	14,050

The following sets out the components of employee benefits expense:

Salaries and employee benefits	2,457	2,181
Share-based compensation	487	230
Termination benefits	2	2
	2,946	2,413
	13,742	16,463

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

8 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	1,107
2014	1,096
2015	538
2016	555
2017	571
beyond 2017	889

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

9 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 September 30, 2012 $	Three-months ended September 30, 2011 $
Net income	(72)	318
Weighted average number of common shares	53,071,074	61,465,374
Basic earnings per share	0.00	0.01

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

9 Earnings per common share (continued)

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 three-months ended September 30, 2012, the weighted average number of potentially dilutive instruments, comprised of shares issuable in respect of warrants and stock options, was nil (three-months ended September 30, 2011 - 70,000). For the three-months ended September 30, 2012, the diluted weighted average number of common shares outstanding is the same as the basic weighted average number of common shares outstanding, as the Company had a net loss and the exercise of potentially dilutive instruments would be anti-dilutive.

	Three-months ended	
	September 30, 2012 $	September 30, 2011 $
Net income	(72)	318
Weighted average number of common shares	53,071,074	61,535,374
Diluted earnings per share	0.00	0.01

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

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

	Three-months ended September 30, 2012 $	2011 $
Decrease in amounts receivable	(3,180)	1,677
Increase in prepaid expenses and deposits	(325)	(575)
Increase (decrease) in accounts payable and accrued liabilities	1,261	128
Increase in deferred revenue	(768)	2,769
	(3,012)	3,999
During the period, the Company paid and received the following:		
Interest paid	313	439
Interest received	7	92
Taxes paid	18	86

11 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, 2012 $	2011 $
Production revenue	1,517	4,206
Distribution revenue	1,334	1,365
Producer and service fee revenue	6,836	6,401
Merchandising and licensing and other revenue	3,828	4,972
	13,515	16,944

Of the Company's $13,515 in revenues for the three-months ended September 30, 2012 (2011 - $16,944), $8,212 was attributable to the Company's entities based in Canada (2011 - $8,537) and $5,303 (2011 - $8,407) was attributable to the Company's entities based in the USA.

As at September 30, 2012, the following non-current assets were attributable to the Company's entities based in the USA: $1,360 of property, plant and equipment, $376 of intangible assets, and $685 of Goodwill (June 30, 2012 - $1,464, $332, and $712, 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)

12 Accumulated other comprehensive income (loss)

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

	Three-months ended September 30, 2012 $	Year ended June 30, 2012 $
Opening balance	232	(457)
Unrealized gain on available for sale investment	93	87
Cumulative translation account	(515)	602
Total accumulated other comprehensive income (loss)	(190)	232

13 Seasonality

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

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

14 Subsequent events

On October 22, 2012, the Company announced the closing of its previously announced deal to acquire the business of Cookie Jar Entertainment ("Cookie Jar"). As part of the transaction, the Company acquired all of the outstanding shares of a newly formed company holding the assets and select liabilities comprising the business of Cookie Jar for consideration of a combination of 36,044,492 common shares of the Company, $5,000 cash and the assumption of approximately $65,500 of debt (the "Acquisition"). Based on the share price at closing of the transaction of $1.87, the common shares issued as part of the transaction would be valued at $67,403. Under the terms of the agreement, the former Cookie Jar shareholders could receive up to 5,406,674 additional common shares subsequent to closing pursuant to certain indemnification obligations of the Company set forth in the agreement or have to re-convey to the Company up to 10,073,109 common shares pursuant to certain indemnification obligations of the former Cookie Jar shareholders set forth in the agreement. Cookie Jar is a creator, producer and licensor of children's animation and live action programming with a library of nearly 6,000 half-hour episodes.

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

14 Subsequent events (continued)

The combined company now controls one of the world's largest independent libraries of children's entertainment. Significant benefits of the Acquisition are as follows: Broadened relationships with new distribution channels and emerging digital buyers, greater diversification of revenue streams, expanded library to over 8,500 half-hours, expanded international merchandising and licensing presence and significant cost synergies resulting from consolidating facilities, marketing efficiencies and integration of operations. The Company is in the process completing the initial accounting for the business combination. Accordingly, purchase price allocation has not been completed and other financial information has not been included.

On October 22, 2012, upon the closing of the Acquisition, the subscription receipts issued by the Company pursuant to the previously announced bought deal prospectus offering that closed on October 3, 2012, were exchanged for common shares of DHX, resulting in the issuance of 13,002,000 additional common shares. The net proceeds of the offering of $18,292,820, after deducting the balance of the underwriter's fee and expenses, were released from escrow and used by the Company to pay down a portion of the Cookie Jar indebtedness assumed on the closing of the Acquisition.

On October 22, 2012, the Company entered into an agreement with a syndicate of Canadian banks lead by RBC Capital Markets. The credit financing consists of two senior secured credit facilities (the "Credit Facilities") in an aggregate principal amount of up to $70 million, including a term loan credit facility in the aggregate amount of $50 million (the "Term Facility") fully drawn on closing and a revolving loan credit facility in the aggregate amount of up to $20 million (the "Revolving Facility"). The Term Facility and $5,500 of the Revolving Facility was used to repay certain indebtedness of Company and its subsidiaries, including certain indebtedness of Cookie Jar assumed as part of the Acquisition, and to pay fees and expenses incurred in connection with the Acquisition. Further draw downs on the Revolving Facility will be available for working capital and general corporate purposes.