

# **DHX Media Ltd.**

Unaudited Consolidated Financial Statements

**For the periods ended March 31, 2010 and June 30, 2009**

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

May 14, 2010

## **Management's Responsibility for Financial Reporting**

The accompanying unaudited interim 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 interim consolidated financial statements and MD&A. The Board carries out this responsibility through its Audit Committee. The Audit Committee reviews the Company's interim 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 auditors 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 interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. 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 financial information 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 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

# DHX Media Ltd.

## Unaudited Consolidated Balance Sheets As at March 31, 2010 and June 30, 2009

(expressed in thousands of Canadian dollars)

	March 31, 2010 \$	June 30, 2009 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash	11,504	10,806
Short-term investments	-	272
Amounts receivable (note 4)	54,562	72,466
Prepaid expenses and deposits	969	429
Current portion of investment in film and television programs (note 5)	11,211	19,979
	<u>78,246</u>	<u>103,952</u>
Investment in film and television programs (note 5)	18,391	15,848
Restricted cash	-	8
Investment in production companies (note 6)	1,476	2,472
Assets related to discontinued operations (note 7)	-	6
Property, plant, and equipment	7,602	8,243
Long-term investment	2,042	2,042
Intangible assets (note 8)	4,337	5,144
Goodwill (note 8)	11,088	11,088
	<u>123,182</u>	<u>148,803</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness (note 9)	3,088	2,750
Accounts payable and accrued liabilities	13,028	15,476
Deferred revenue	5,324	10,108
Liabilities related to discontinued operations (note 7)	-	19
Interim production financing (note 10)	34,917	53,793
Current portion of long-term debt and obligations under capital leases (note 11)	567	635
Other liability (note 12)	25	675
	<u>56,949</u>	<u>83,456</u>
Long-term debt and obligations under capital leases (note 11)	2,758	3,164
Future income taxes	1,272	1,416
Non-controlling interest	-	217
	<u>60,979</u>	<u>88,253</u>
<b>Shareholders' Equity</b>		
Share capital and contributed surplus (note 13)	64,113	61,725
<b>Deficit</b>	<u>(1,910)</u>	<u>(1,175)</u>
	<u>62,203</u>	<u>60,550</u>
	<u>123,182</u>	<u>148,803</u>
<b>Commitments (note 14)</b>		

The accompanying notes form an integral part of these financial statements

# DHX Media Ltd.

## Unaudited Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) and Deficit

For the three-month and nine-month periods ended March 31, 2010 and 2009

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

	For the three-month period ended March 31, 2010 \$	For the three-month period ended March 31, 2009 \$	For the nine-month period ended March 31, 2010 \$	For the nine-month period ended March 31, 2009 \$
<b>Revenues</b>	9,015	12,061	31,390	50,446
<b>Direct production costs and amortization of film and television produced</b>	5,876	7,060	19,761	33,719
	<u>3,139</u>	<u>5,001</u>	<u>11,629</u>	<u>16,727</u>
<b>Operating expenses</b>				
Amortization of acquired library	149	87	610	274
Impairment in value of certain investment in film and television programs	151	-	385	-
Development expenses	35	45	60	92
Selling, general and administrative	2,923	3,546	9,655	10,809
	<u>3,258</u>	<u>3,678</u>	<u>10,710</u>	<u>11,175</u>
<b>Income (loss) before the following</b>	(119)	1,323	919	5,552
Amortization of property, plant and equipment and intangibles	468	557	1,456	1,602
Costs associated with abandoned transactions	-	-	-	1,145
Interest expense	90	91	202	306
Interest income	(5)	3	(15)	(14)
Loss (income) from strategic investments	(1)	6	23	18
Loss (income) from non-controlling interest	(5)	15	3	30
	<u>(666)</u>	<u>651</u>	<u>(750)</u>	<u>2,465</u>
<b>Income (loss) before income taxes</b>	(666)	651	(750)	2,465
<b>Provision for (recovery of) income taxes</b>				
Large corporation taxes	15	10	45	30
Current income taxes	(135)	(20)	73	-
Future income taxes	(11)	200	(133)	750
	<u>(131)</u>	<u>190</u>	<u>(15)</u>	<u>780</u>
<b>Net income (loss) and comprehensive income (loss) for the periods before discontinued operations</b>	(535)	461	(735)	1,685
<b>Discontinued operations, net of income tax (note 7)</b>	-	(17)	-	(1,039)
<b>Net income (loss) and comprehensive income (loss) for the periods</b>	<u>(535)</u>	<u>444</u>	<u>(735)</u>	<u>646</u>
<b>Deficit - Beginning of periods</b>	(1,375)	(1,348)	(1,175)	(1,550)
<b>Deficit - End of periods</b>	<u>(1,910)</u>	<u>(904)</u>	<u>(1,910)</u>	<u>(904)</u>
<b>Basic earnings (loss) before discontinued operations per common share (note 15)</b>	<u>(0.01)</u>	<u>0.01</u>	<u>(0.02)</u>	<u>0.04</u>
<b>Diluted earnings (loss) before discontinued operations per common share (note 15)</b>	<u>(0.01)</u>	<u>0.01</u>	<u>(0.02)</u>	<u>0.04</u>
<b>Basic earnings (loss) per common share (note 15)</b>	<u>(0.01)</u>	<u>0.01</u>	<u>(0.02)</u>	<u>0.02</u>
<b>Diluted earnings (loss) per common share (note 15)</b>	<u>(0.01)</u>	<u>0.01</u>	<u>(0.02)</u>	<u>0.02</u>

The accompanying notes form an integral part of these financial statements

# DHX Media Ltd.

## Unaudited Consolidated Statements of Cash Flows

### For the three-month and nine-month periods ended March 31, 2010 and 2009

(expressed in thousands of Canadian dollars)

	For the three-month period ended March 31, 2010 \$	For the three-month period ended March 31, 2009 \$	For the nine-month period ended March 31, 2010 \$	For the nine-month period ended March 31, 2009 \$
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net income (loss) for the periods	(535)	444	(735)	646
Discontinued operations, net of income tax	-	17	-	1,039
Charges (credits) to income not involving cash				
Amortization of film and television programs	4,522	7,076	15,306	33,095
Amortization of acquired library	149	87	610	274
Amortization of property, plant, and equipment	203	237	649	627
Amortization of intangible assets	265	320	807	975
Foreign exchange loss (gain)	102	(481)	534	(773)
Impairment in value of certain investment in film and television programs	151	-	385	-
Unrealized loss on short-term investments	-	14	-	115
Loss (gain) on disposal of short-term investments	-	-	44	(75)
Stock-based compensation	161	169	624	563
Interest on promissory notes	2	3	7	10
Non-controlling interest	(5)	15	3	30
Provision for (recovery of) future income taxes	(11)	200	(133)	750
	<u>5,004</u>	<u>8,101</u>	<u>18,101</u>	<u>37,276</u>
Net investment in film and television programs	(836)	(5,007)	(10,076)	(21,069)
Net change in non-cash working capital related to operations (note 16)	<u>437</u>	<u>(4,458)</u>	<u>9,777</u>	<u>(25,458)</u>
	<u>4,605</u>	<u>(1,364)</u>	<u>17,802</u>	<u>(9,251)</u>
Cash provided by (used in) operating activities - continuing operations	(13)	5	(13)	(237)
Cash provided by (used in) operating activities - discontinued operations	<u>4,592</u>	<u>(1,359)</u>	<u>17,789</u>	<u>(9,488)</u>
<b>Cash provided by (used in) operating activities</b>				
<b>Financing activities</b>				
Proceeds from issuance of common shares and warrants, net of issuance costs	1,469	-	1,469	-
Proceeds from repayment of employee share purchase loan	1	-	2	-
Common shares repurchased and cancelled	-	-	(116)	-
Proceeds from (repayment of) bank indebtedness	(37)	58	338	513
Proceeds from (repayment of) interim production financing	(7,387)	(791)	(18,876)	12,541
Proceeds from long-term debt	-	1	-	276
Repayment of long-term debt	(160)	(292)	(474)	(786)
Repayment of other liability	-	(120)	(650)	(295)
	<u>(6,114)</u>	<u>(1,144)</u>	<u>(18,307)</u>	<u>12,249</u>
Cash provided by (used in) financing activities - continuing operations	-	(4)	-	(14)
Cash used in financing activities - discontinued operations	<u>(6,114)</u>	<u>(1,148)</u>	<u>(18,307)</u>	<u>12,235</u>
<b>Cash provided by (used in) financing activities</b>				
<b>Investing activities</b>				
Business acquisitions	-	(500)	-	(1,343)
Acquisitions of short-term investments	-	(100)	-	(184)
Proceeds on disposal of short-term investments	-	-	228	291
Acquisition of property, plant, and equipment	(6)	(457)	(8)	(999)
Net cash advances from (to) investees	569	(413)	996	(1,362)
Decrease in long-term investment	-	30	-	30
	<u>563</u>	<u>(1,440)</u>	<u>1,216</u>	<u>(3,567)</u>
<b>Cash provided by (used in) investing activities</b>				
<b>Net change in cash during the periods</b>	(959)	(3,947)	698	(820)
<b>Cash – Beginning of periods</b>	12,463	11,953	10,806	8,826
<b>Cash – End of periods</b>	<u>11,504</u>	<u>8,006</u>	<u>11,504</u>	<u>8,006</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 March 31, 2010 and 2009 and June 30, 2009

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

#### 1 Nature of the business and significant accounting policies

DHX Media Ltd. (the “Company”) is a public company 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 head office is 1478 Queen Street, Halifax, Nova Scotia, Canada, B3J 2H7.

##### Basis of presentation

The accompanying unaudited interim financial statements have been prepared in accordance with the requirements of the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1751 “Interim Financial Statements.” Accordingly, certain information and note disclosure normally included in annual financial statements prepared in accordance with Canadian generally accepted accounting principles have been omitted or condensed. In the opinion of management, these statements include all adjustments, consisting of normal accruals, considered necessary by management to present a fair statement of the results of operations, financial position and cash flows. Except as indicated in note 2, these unaudited interim financial statements were prepared using the same accounting principles as were used for the consolidated financial statements for the year ended June 30, 2009 and should be read in conjunction with the financial statements of the Company for the year ended June 30, 2009, as set out in the 2009 Annual Financial Statements, available at [www.sedar.com](http://www.sedar.com).

#### 2 Changes in accounting policies and future accounting standard changes

##### a) Goodwill and intangible assets and financial instruments

###### *Goodwill and Intangible Assets*

On July 1, 2009, the Company adopted CICA Handbook Section 3064, “*Goodwill and Intangible Assets*” replacing Section 3062 “*Goodwill and Other Intangible Assets*” and Section 3450 “*Research and Development Costs*”. The section establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are aligned with International Accounting Standard (“IAS”) 38, “*Intangible Assets*”. Recommended disclosures from this section have been included in note 8 to these financial statements. The adoption of this section had no impact on the Company’s consolidated financial position or results of operations.

###### *Financial Instruments*

In June 2009, the AcSB issued amendments to Section 3862, “Financial Instruments – Disclosures”, to require enhanced disclosures about the relative reliability of the data, or “inputs”, that an entity uses in measuring the fair values of its financial instruments. The new requirements are effective for annual financial statements for fiscal years ending after September 30, 2009. The additional disclosures will be included in the Company’s annual financial statements for the year ending June 30, 2010.

# DHX Media Ltd.

## Notes to Unaudited Consolidated Financial Statements

### For the periods ended March 31, 2010 and 2009 and June 30, 2009

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

#### **2 Changes in accounting policies and future accounting standard changes** (continued)

The following is an overview of accounting standards that the Company will be required to adopt in future years:

##### **b) Future accounting standard changes**

###### *International Financial Reporting Standards (“IFRS”)*

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

While IFRS is based on a conceptual framework similar to Canadian GAAP, there are significant differences. The Company will commence reporting under the new standards on July 1, 2011. The Company is currently assessing the impact of IFRS on its information systems and its financial statements.

###### *Business Combinations, Consolidated Financial Statements and Non-controlling Interests*

In January 2009, the CICA issued Section 1582, “Business Combinations”, Section 1601, “Consolidated Financial Statements”, and Section 1602, “Non-controlling Interests” which replace Section 1581, “Business Combinations” and Section 1600, “Consolidated Financial Statements”. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1582 is applicable for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Early adoption of this section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the entity’s interim and annual consolidated financial statements for fiscal years beginning on or after January 1, 2011. Early adoption of this section is permitted. If the Company chooses to early adopt any one of these sections, the other two sections must also be adopted at the same time.

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

# DHX Media Ltd.

## Notes to Unaudited Consolidated Financial Statements

### For the periods ended March 31, 2010 and 2009 and June 30, 2009

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

### 3 Acquisitions

- (a) On January 15, 2010 (“Media Fund Effective Date”), the holders of the Media Fund Put Options exercised their rights and exchanged the Put Options for common shares of the Company (“Media Fund Transaction”). As such, the Company has acquired effectively all of the outstanding shares in Media Fund (Atlantic) Ltd. (“Media Fund”). The consideration for the exchange of the Media Fund Put Options was 425,420 shares of the Company valued at \$391.

Media Fund, prior to the exchange was a variable interest entity that the Company was consolidating into its results from operations. The Media Fund Transaction was accounted for using the purchase method and as a result, the Company’s financial position and results of operations continue to reflect revenue, expenses, assets and liabilities of Media Fund. The purchase price has been allocated to the assets acquired and liabilities assumed based on their preliminary estimated fair value as follows:

	\$
<b>Net assets acquired</b>	<u>171</u>
<b>Add: reduction in liabilities</b>	
Non-controlling interest	<u>(220)</u>
	<u>391</u>

The Company will finalize the purchase price allocation upon completion of final review of certain working capital balances. Any future adjustment resulting from its review will be recorded as an adjustment to the purchase price.

- (b) On July 20, 2008 (“imX Effective Date”), the Company acquired all the outstanding shares in imX Communications Inc. (“imX Communications” or “imX”), for consideration as follows:

- Cash consideration and transaction costs of \$904, (\$855 and \$49 respectively) on the imX Effective Date; and
- 118,216 shares of the Company valued at \$175.

The acquisition was accounted for using the purchase method. As such the results of operations reflect revenue and expenses of the assets of imX from the imX Effective Date. The purchase price has been allocated to the assets acquired and liabilities assumed based on their estimated fair value as follows:

	\$
<b>Assets acquired</b>	
Cash	30
Accounts receivable	2
Investment in film and television programs	172
Future income taxes	940
Goodwill	<u>73</u>
	<u>1,217</u>
<b>Less: liabilities assumed</b>	
Accounts payable and accrued liabilities	<u>138</u>
	<u>1,079</u>



# DHX Media Ltd.

## Notes to Unaudited Consolidated Financial Statements

### For the periods ended March 31, 2010 and 2009 and June 30, 2009

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

#### 3 Acquisitions (continued)

Of the consideration paid for imX, \$75, through the issue of 50,664 common shares of the Company was paid to a former shareholder of imX who is also a director and shareholder of the Company.

During the six-month period ended December 31, 2009, the Company finalized the purchase price allocation upon completion of its review of certain working capital balances.

(c) On March 20, 2008 (“Bulldog Effective Date”), the Company acquired all the outstanding shares in Bulldog Interactive Fitness Inc. (“Bulldog Interactive” or “Bulldog”), for the consideration as follows:

- Cash payment of \$625 on the Bulldog Effective Date and transactions costs of \$7; and
- 99,333 common shares of the Company valued at \$150.

In December 2008, the Company decided to abandon operations of Bulldog. As such, as at March 31, 2010 and June 30, 2009 the assets and liabilities have been recorded at fair value and the results of Bulldog operations from the Bulldog Effective Date have been retroactively restated and have been shown separately as discontinued operations, net of income taxes in these financial statements (note 7).

#### 4 Amounts receivable

	<b>March 31, 2010</b>	<b>June 30, 2009</b>
	\$	\$
Trade	17,579	22,223
Goods and services taxes recoverable	534	1,649
Federal and provincial film tax credits and other government assistance	36,449	48,594
	<hr/> 54,562	<hr/> 72,466

# DHX Media Ltd.

## Notes to Unaudited Consolidated Financial Statements

### For the periods ended March 31, 2010 and 2009 and June 30, 2009

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

#### 5 Investment in film and television programs

	March 31, 2010 \$	June 30, 2009 \$
<b>Development costs</b>	2,659	1,817
<b>Theatrical and non-theatrical productions in progress</b>		
Cost, net of government and third party assistance and third party participation	3,422	16,337
<b>Acquired library – theatrical and non-theatrical</b>		
Cost	5,860	5,860
Accumulated amortization	(3,555)	(2,945)
<b>Non-theatrical productions completed and released</b>		
Cost, net of government and third party assistance and third party participation	140,551	118,402
Accumulated amortization	(115,674)	(100,368)
Accumulated impairment in value of certain investment in film and television programs	(3,661)	(3,276)
	21,216	14,758
	29,602	35,827
Less: Current portion	(11,211)	(19,979)
	18,391	15,848

The Company expects that 38% of the costs related to theatrical and non-theatrical productions completed and released will be amortized during the year ending June 30, 2010. The Company expects that 71% of the costs related to theatrical and non-theatrical productions completed and released will be amortized during the three-year period ending June 30, 2012. The Company expects that over 87% of the costs related to productions completed will be amortized by June 30, 2014.

# DHX Media Ltd.

## Notes to Unaudited Consolidated Financial Statements

### For the periods ended March 31, 2010 and 2009 and June 30, 2009

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

#### 5 Investment in film and television programs (continued)

The Company has estimated the current portion of investment in film and television programs by reference to production delivery schedules, expected revenues in the next twelve months and the related amortization on a production-by-production basis. These estimates are subject to change as ultimate revenues may differ from estimates. No portion of development costs or acquired library has been reflected as current.

During the three and nine-month periods ended March 31, 2010, interest of \$354 and \$1,142 respectively (three and nine-month periods ended March 31, 2009 - \$448 and \$1,607) has been capitalized to investment in film and television programs.

#### 6 Investment in production companies

Investment in production companies represents the Company's investment in investee companies which it accounts for using the equity method.

	March 31, 2010 \$	June 30, 2009 \$
<b>The continuity of investment in production companies is as follows:</b>		
Opening balance	2,472	1,235
Net cash advances to (from) investees	(996)	1,237
	<u>1,476</u>	<u>2,472</u>

The net cash advances to investees are non-interest bearing and have no set terms of repayment.

# DHX Media Ltd.

## Notes to Unaudited Consolidated Financial Statements

### For the periods ended March 31, 2010 and 2009 and June 30, 2009

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

#### 7 Discontinued operations

In December 2008, the Company decided to abandon the operations of Bulldog Interactive (the “Discontinued Business”) due to a slow down in franchisee opportunities as a result of the global economic recession. Selected financial information for the Discontinued Business is as follows:

	Three-month period ended March 31, 2010 \$	Three-month period ended March 31, 2009 \$	Nine-month period ended March 31, 2010 \$	Nine-month period ended March 31, 2009 \$
Revenue	-	-	-	141
Direct loss	-	(27)	-	(314)
Writedown to fair value	-	-	-	(945)
Recovery of income taxes	-	10	-	220
Loss from discontinued operations	-	(17)	-	(1,039)
			March 31, 2010 \$	June 30, 2009 \$
<b>Total assets</b> (property, plant and equipment)			-	6
Bank indebtedness			-	1
Accounts payable and accrued liabilities			-	12
Long-term debt			-	6
<b>Total liabilities</b>			-	19

#### 8 Intangible assets and goodwill

##### Intangible assets

	Cost \$	Accumulated amortization \$	March 31, 2010 Net \$
Production backlog	1,033	834	199
Broadcaster relationships	4,417	1,650	2,767
Customer and distribution relationships	546	213	333
Non-compete contracts and brand	1,788	962	826
Production software	394	182	212
	8,178	3,841	4,337

# DHX Media Ltd.

## Notes to Unaudited Consolidated Financial Statements

### For the periods ended March 31, 2010 and 2009 and June 30, 2009

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

#### 8 Intangible assets and goodwill (continued)

##### Intangible assets (continued)

			<b>June 30, 2009</b>
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net</b>
	\$	\$	\$
Production backlog	1,033	613	420
Broadcaster relationships	4,417	1,257	3,160
Customer and distribution relationships	546	172	374
Non-compete contracts and brand	1,788	869	919
Production software	394	123	271
	<u>8,178</u>	<u>3,034</u>	<u>5,144</u>

The continuity of intangible assets is as follows:

	<b>Nine-months ended March 31, 2010</b>	<b>Year ended June 30, 2009</b>
	\$	\$
Net opening balance	5,144	6,418
Amortization	<u>(807)</u>	<u>(1,274)</u>
	<u>4,337</u>	<u>5,144</u>

##### Goodwill

The Company performed its annual test for goodwill impairment at June 30, 2009, in accordance with its policy. No events or circumstances have occurred since June 30, 2009 to indicate that the fair value of the reporting unit is below its carrying value, therefore no test for impairment of goodwill was required to be conducted for the nine-month period ended March 31, 2010.

# DHX Media Ltd.

## Notes to Unaudited Consolidated Financial Statements

### For the periods ended March 31, 2010 and 2009 and June 30, 2009

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

#### 9 Bank indebtedness

As of March 31, 2010, bank indebtedness (the "RBC Revolving Operating Credit Facility") was \$3,088 (June 30, 2009 - \$2,750). The maximum amount of the RBC Revolving Operating Credit Facility for general working capital purposes is \$3,510 bearing interest at bank prime plus 1.25% (June 30, 2009 - bank prime plus 1.25%). A general security agreement over all property of the Company has been pledged as security for the RBC Revolving Operating Credit Facility. The availability of the RBC Revolving Operating Credit Facility is subject to the Company maintaining interest and consolidated indebtedness coverage ratios and certain other covenants. The RBC Revolving Operating Credit Facility matures on September 30, 2010. The Company was in compliance with these covenants during the periods.

#### 10 Interim production financing

	March 31, 2010 \$	June 30, 2009 \$
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 \$25,914 at March 31, 2010 (June 30, 2009 - \$55,318)	20,659	40,401
Interim production credit facilities with various institutions, bearing interest at bank prime plus 0.5% - 1.45%. Assignment and direction of specific production financing and licensing contracts receivable, with a net book value of approximately \$26,270 at March 31, 2010 (June 30, 2009 - \$15,735)	14,258	10,903
Demand production bank loans repaid during the period	-	2,489
	<hr/> 34,917	<hr/> 53,793

During the three and nine-month periods ended March 31, 2010, the bank prime rate averaged 2.25% (three and nine-month periods ended March 31, 2009 – 2.88% and 3.88%).

The RBC Revolving Production Credit Facility with the Royal Bank has a maximum authorized amount of \$39,380. The RBC Revolving Production Credit Facility is the aggregate of interim production financing of individual programs financed through the Royal Bank which are subject to individual approved tranches (collectively the "RBC Individual Approved Tranches"). 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 Production Credit Facility matures at various dates up to March 2011, but specifically twenty-four months following the first drawdown of funds in respect of each RBC Individual Approved Tranche.

# DHX Media Ltd.

## Notes to Unaudited Consolidated Financial Statements

### For the periods ended March 31, 2010 and 2009 and June 30, 2009

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

#### 11 Long-term debt and obligations under capital leases

	March 31, 2010 \$	June 30, 2009 \$
Loans payable, bearing interest at Business Development Bank of Canada prime plus 0.5%, maturing in May 2021, repayable in monthly principal installments of \$20 plus interest, secured by first a mortgage on land and building having a net book value of \$4,523 at March 31, 2010 (June 30, 2009 - \$4,637) and a general assignment of rents	2,484	2,663
Obligation under capital lease, payable in monthly installments of \$22 including interest of 4%, maturing in February 2013	721	893
Obligations under capital leases, bearing interest at rates ranging from 5.2% to 8.4%, maturing on dates ranging from June 2010 to December 2011 and repayable in monthly instalments ranging from \$3 to \$9	120	243
	<u>3,325</u>	<u>3,799</u>
Less: Current portion	<u>(567)</u>	<u>(635)</u>
	<u>2,758</u>	<u>3,164</u>

The aggregate amount of principal repayments required through June 30, 2014 is as follows:

	\$
Year ending June 30, 2010	161
2011	542
2012	504
2013	411
2014	239

#### 12 Other liability

	March 31, 2010 \$	June 30, 2009 \$
Other liability related to the acquisition of distribution rights	<u>25</u>	<u>675</u>

The aggregate amount of payments required during the year ending June 30, 2010 is \$25.

# **DHX Media Ltd.**

Notes to Unaudited Consolidated Financial Statements

**For the periods ended March 31, 2010 and 2009 and June 30, 2009**

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

## **13 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.



# DHX Media Ltd.

## Notes to Unaudited Consolidated Financial Statements

### For the periods ended March 31, 2010 and 2009 and June 30, 2009

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

#### 13 Share capital and contributed surplus (continued)

##### b) Issued and outstanding

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

	Nine-month period ended March 31, 2010		Year ended June 30, 2009	
	Number	Amount \$	Number	Amount \$
<b>Preferred variable voting shares</b> (note 13 (c))	100,000,000	-	100,000,000	-
<b>Common shares</b> (note 13 (d))				
Opening balance	44,442,711	56,758	42,715,785	55,488
Issued for cash consideration	1,875,000	1,164	-	-
Share issuance costs net of tax effect of \$9	-	(15)	-	-
Issued in exchange for the Media Fund Put Options	425,420	391	-	-
Management bonuses	428,538	300	219,802	300
Issued as consideration for acquisition of imX	-	-	118,216	175
Issued in consideration of Studio B Earnout	-	-	1,500,000	879
Normal course issuer bid shares repurchased and cancelled	(149,833)	(116)	(111,092)	(84)
	<u>47,021,836</u>	<u>58,482</u>	<u>44,442,711</u>	<u>56,758</u>
<b>Share purchase financing</b> (note 13 (e))				
Opening balance	-	(419)	-	(432)
Repayments made by an officer	-	2	-	-
Compensation expense	-	140	-	-
Interest received on notes	-	7	-	13
	<u>-</u>	<u>(270)</u>	<u>-</u>	<u>(419)</u>
<b>Warrants</b> (note 13 (f))				
Opening balance	4,922,750	1,630	5,661,163	2,070
Issued for cash consideration	937,500	336	-	-
Warrant issuance costs, net of tax effect of \$2	-	(5)	-	-
Expiration of warrants	-	-	(738,413)	(440)
	<u>5,860,250</u>	<u>1,961</u>	<u>4,922,750</u>	<u>1,630</u>
<b>Contributed surplus and stock options</b> (note 13 (g))				
Opening balance	3,766,547	3,756	2,436,547	2,617
Compensation expense on options issued during the period	185,000	3	1,910,000	31
Management bonuses for the year ended June 30, 2008	-	-	-	(300)
Management bonuses for the year ended June 30, 2009	-	(300)	-	300
Compensation expense on existing options	-	481	-	668
Options cancelled	-	-	(580,000)	-
Warrants expired	-	-	-	440
	<u>3,951,547</u>	<u>3,940</u>	<u>3,766,547</u>	<u>3,756</u>
		<u>64,113</u>		<u>61,725</u>

# DHX Media Ltd.

## Notes to Unaudited Consolidated Financial Statements

### For the periods ended March 31, 2010 and 2009 and June 30, 2009

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

#### 13 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

On May 26, 2008, the Company issued 99,333 common shares at \$1.51 per share, for a gross amount of \$150. The 99,333 common shares were issued to former shareholders of Bulldog in connection with the purchase of Bulldog.

On July 2, 2008, the Company issued 67,552 common shares at \$1.48 per share, for a gross amount of \$100. The 67,552 shares were issued to former shareholders of imX in connection with the purchase of imX.

On October 3, 2008, the Company issued 50,664 common shares at \$1.48 per share, for a gross amount of \$75, in settlement of the imX earnout. The 50,664 common shares were issued to former shareholders of imX.

On March 26, 2009, the Company issued 219,802 common shares at \$1.36 per share, for a gross amount of \$300, for payment of certain management performance bonuses accrued at June 30, 2008.

As part of the Company's previously announced normal course issuer bid, 149,833, 109,095 and 1,997 common shares were repurchased for a gross amount of \$116, \$82 and \$2 respectively and cancelled on July 30, 2009, April 27, 2009 and April 28, 2009, respectively.

On May 13, 2009, the company issued 1,500,000 common shares at \$0.59 per share, for a gross amount of \$879 in settlement of the Studio B Earnout. The common shares were issued to the former shareholders of Studio B.

On November 20, 2009, the Company issued 428,538 common shares at \$0.70 per share, for a gross amount of \$300, for payment of certain management performance bonuses accrued at June 30, 2009.

On January 15, 2010, the Company issued 425,420 common shares at \$0.92 per share for the retirement of the Media Fund Put Options (note 3(a) and note 13 (h)).

On January 29, 2010, the Company issued 1,875,000 units ("January 29, 2010 Unit Offering") from treasury at a price of \$0.80 per unit for gross proceeds of \$1,500. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a price of \$1.15 per common share, expiring on January 26, 2012.

On April 15, 2010, the Company issued 14,605,000 common shares at a price of \$1.30 for gross proceeds of \$18,987 (note 19).

# DHX Media Ltd.

## Notes to Unaudited Consolidated Financial Statements

### For the periods ended March 31, 2010 and 2009 and June 30, 2009

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

#### 13 Share capital and contributed surplus (continued)

##### e) Share purchase financing

During the three and nine-month periods ended March 31, 2010 and March 31, 2009, the Company issued no amounts for share purchase financing. During the three and nine-month periods ended March 31, 2010, \$nil and \$140 respectively of compensation expense was recognized on an employee loan forgiven (three and nine-month periods ended March 31, 2009 - \$nil). During the three and nine-month periods ended March 31, 2010, \$2 and \$7 of interest respectively (three and nine-month periods ended March 31, 2009 - \$3 and \$10) received on these loans were recorded as capital contributions. During the three and nine-month periods ended March 31, 2010, \$1 and \$2 was received (three and nine-month periods ended March 31, 2009 - \$nil) as principal repayment of an employee loan.

##### f) Warrants

On January 29, 2010, as part of the January 29, 2010 Unit Offering, the Company issued 937,500 common share purchase warrants valued at \$0.36 per warrant. The warrants entitle the shareholder to acquire 937,500 common shares at a price of \$1.15 per share and expire on January 26, 2012. During the three and nine-month periods ended March 31, 2009 no warrants were issued or granted. During the three and nine-month periods ended March 31, 2010 and March 31, 2009 no warrants expired.

	Number of warrants	Weighted average exercise price per warrant
<b>Outstanding at June 30, 2008</b>	5,661,163	2.06
Warrants expired	(738,413)	1.80
<b>Outstanding at March 31, 2009 and June 30, 2009</b>	4,922,750	2.10
Warrants issued	937,500	1.15
<b>Outstanding at March 31, 2010</b>	5,860,250	1.95

The fair value of the warrants has been estimated by management using the Black Scholes option pricing model. The weighted average assumptions used in the pricing model to value the warrants are as follows:

Risk-free interest rate	3.76%
Expected option life	1.6 years
Expected volatility	65%
Expected dividend yield	nil

# DHX Media Ltd.

## Notes to Unaudited Consolidated Financial Statements

### For the periods ended March 31, 2010 and 2009 and June 30, 2009

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

#### 13 Share capital and contributed surplus (continued)

##### g) Stock options

At the Company's annual general meeting on February 13, 2009, the shareholders approved an increase to 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 March 31, 2010, this amounted to 4,231,965 (June 30, 2009 – 3,999,843).

At March 31, 2010 and 2009 and June 30, 2009, the Company had the following stock options outstanding:

	Number of options	Weighted average exercise price
<b>Outstanding at June 30, 2008</b>	2,436,547	2.02
Granted to an employee and a director	435,000	0.64
<b>Outstanding at March 31, 2009</b>	2,871,547	1.81
Granted to employees and directors	1,475,000	0.78
Options cancelled	(580,000)	2.11
<b>Outstanding at June 30, 2009</b>	3,766,547	1.36
Granted to employees	185,000	0.97
<b>Outstanding at March 31, 2010</b>	3,951,547	1.34
<b>Exercisable at March 31, 2009</b>	1,417,410	2.03
<b>Exercisable at June 30, 2009</b>	1,081,160	2.03
<b>Exercisable at March 31, 2010</b>	1,585,297	1.95

On November 19, 2009, 35,000 stock options were issued to employees at \$0.90 per share, vesting over four years and expiring on November 19, 2014.

On February 18, 2010, 150,000 stock options were issued to employees at \$0.99 per share, vesting over four years and expiring on February 18, 2015.

During the three and nine-month periods ended March 31, 2010 and March 31, 2009, no stock options were cancelled and none expired.

# DHX Media Ltd.

## Notes to Unaudited Consolidated Financial Statements

### For the periods ended March 31, 2010 and 2009 and June 30, 2009

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

#### 13 Share capital and contributed surplus (continued)

##### g) Stock options (continued)

During the year ended June 30, 2009, 1,910,000 stock options were issued to officers, directors and employees at prices ranging from \$0.58 to \$0.99 per share, vesting over four years and expiring from September 26, 2013 to June 17, 2014. No stock options expired during the year ended June 30, 2009 and 580,000 stock options at \$2.11 were cancelled.

The weighted average grant date value of stock options and assumptions using the Black Scholes option pricing model for the three and nine-month periods ended March 31, 2010 and the year ended June 30, 2009 are as follows:

	Three-months ended March 31, 2010	Nine-months ended March 31, 2010	Year ended June 30, 2009
Weighted average grant date value	\$0.53	\$0.51	\$0.74
Risk-free interest rate	2.28%	2.28%	2.92%
Expected option life	4 years	4 years	4 years
Expected volatility	69%	68%	65%
Expected dividend yield	nil	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 nine-month periods ended March 31, 2010, a total of \$161 and \$624 respectively (three and nine-month periods ended March 31, 2009 - \$169 and \$563) was recognized as compensation expense. Included in the compensation expense for the three and nine-month periods ended March 31, 2010 was \$nil and \$140 respectively related to employee share purchase loans (three and nine-month periods ended March 31, 2009 - \$nil) (note 13(e)).

Information related to options outstanding at March 31, 2010 is presented below:

Range of exercise prices	Number outstanding at March 31, 2010	Weighted average remaining contractual life	Weighted average exercise price \$	Number exercisable at March 31, 2010	Weighted average exercise price \$
\$0.58 - \$0.99	2,095,000	4.10 years	0.77	108,750	0.64
\$1.00 - \$2.35	1,856,547	1.68 years	1.99	1,476,547	2.04
Total	3,951,547	3.40 years	1.34	1,585,297	1.95

# DHX Media Ltd.

## Notes to Unaudited Consolidated Financial Statements

### For the periods ended March 31, 2010 and 2009 and June 30, 2009

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

#### 13 Share capital and contributed surplus (continued)

##### g) Stock options (continued)

Information related to options outstanding at June 30, 2009 is presented below:

Range of exercise prices	Number outstanding at June 30, 2009	Weighted average remaining contractual life	Weighted average exercise price \$	Number exercisable at June 30, 2009	Weighted average exercise price \$
\$0.58 - \$0.99	1,910,000	4.84 years	0.75	-	-
\$1.00 - \$2.35	1,856,547	2.44 years	1.99	1,081,160	2.03
Total	3,766,547	3.65 years	1.36	1,081,160	2.03

##### h) Put options

Pursuant to financing provided by Media Fund, the Company granted to the shareholders of Media Fund a right to have the Company purchase the common shares in Media Fund in exchange for common shares of the Company (the "Put Options") on a one-for-one basis.

On January 15, 2010, the holders of the Put Options exercised their rights and accordingly the Company issued 425,420 common shares from treasury in exchange for the retirement of the Put Options (note 3(a)).

#### 14 Commitments

The Company has entered into various operating leases for operating premises and equipment. The estimated future minimum payments under these operating leases required through June 30, 2014 are as follows:

	\$
Year ending June 30, 2010	264
2011	1,040
2012	784
2013	494
2014	521

# DHX Media Ltd.

## Notes to Unaudited Consolidated Financial Statements

### For the periods ended March 31, 2010 and 2009 and June 30, 2009

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

#### 15 Earnings (loss) per common share

Earnings (loss) per common share are calculated as follows:

	For the three-month period ended March 31, 2010 \$	For the three-month period ended March 31, 2009 \$	For the nine-month period ended March 31, 2010 \$	For the nine-month period ended March 31, 2009 \$
Net income (loss) and comprehensive income (loss) before discontinued operations for the period	(535)	461	(735)	1,685
Net income (loss) and comprehensive income (loss) for the period	(535)	444	(735)	646
Weighted average number of common shares:				
Basic	46,346,766	42,846,212	45,045,855	42,820,199
Diluted	47,160,627	42,846,212	45,649,437	42,826,282
Earnings (loss) before discontinued operations per common share:				
Basic	(0.01)	0.01	(0.02)	0.04
Diluted	(0.01)	0.01	(0.02)	0.04
Earnings (loss) per common share:				
Basic	(0.01)	0.01	(0.02)	0.02
Diluted	(0.01)	0.01	(0.02)	0.02

The weighted average number of potentially dilutive instruments, comprised of shares issuable in respect of convertible warrants, stock options, and put options, were 813,861 and 603,582 respectively for the three and nine-month periods ended March 31, 2010 (three and nine-month periods ended March 31, 2009 – nil and 6,083).

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

	For the three-month period ended March 31, 2010 \$	For the three-month period ended March 31, 2009 \$	For the nine-month period ended March 31, 2010 \$	For the nine-month period ended March 31, 2009 \$
Decrease (increase) in amounts receivable	5,624	(5,883)	17,541	(23,835)
Decrease (increase) in prepaid expenses and deposits	(100)	(57)	(540)	48
Decrease (increase) in restricted cash	4	(5)	8	450
Increase (decrease) in accounts payable and accrued liabilities	(1,740)	(854)	(2,448)	830
Increase (decrease) in deferred revenue	(3,351)	2,341	(4,784)	(2,951)
	437	(4,458)	9,777	(25,458)
During the period, the Company paid and received the following:				
Interest paid	189	751	744	2,007
Interest received	108	1	200	74
Taxes paid	85	-	397	40

# DHX Media Ltd.

## Notes to Unaudited Consolidated Financial Statements

### For the periods ended March 31, 2010 and 2009 and June 30, 2009

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

#### 17 Revenues and segmented information

The Company operates production entities and offices throughout Canada. 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:

	For the three-month period ended March 31, 2010	For the three-month period ended March 31, 2009	For the nine-month period ended March 31, 2010	For the nine-month period ended March 31, 2009
	\$	\$	\$	\$
Production revenue	5,361	6,710	16,075	40,350
Distribution revenue	1,681	3,962	8,983	7,524
Producer and service fee revenues	1,293	720	3,759	1,336
Other	680	669	2,573	1,236
	<u>9,015</u>	<u>12,061</u>	<u>31,390</u>	<u>50,446</u>

#### 18 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 and are driven by contracted deliveries with the primary broadcasters, although with the Company's continued diversification of its revenue mix, particularly in 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 also fluctuate significantly from period to period.

#### 19 Subsequent events

On April 15, 2010, the Company issued 14,605,000 common shares, from treasury, at a price of \$1.30 per share for net proceeds of \$17,487 (net of \$1,500 of issuance costs).