

# **DHX Media Ltd.**

Unaudited Consolidated Financial Statements  
**December 31, 2008 and June 30, 2008**  
(expressed in Canadian dollars)

February 13, 2009

## **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 December 31, 2008 and June 30, 2008

(expressed in Canadian dollars)

	<b>December 31, 2008</b>	<b>June 30, 2008</b>
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash	11,952,996	8,825,559
Short-term investments	53,332	286,350
Amounts receivable (note 4)	73,010,344	54,764,136
Prepaid expenses and deposits	942,454	1,047,658
Current portion of investment in film and television programs (note 5)	21,561,035	31,418,187
	<u>107,520,161</u>	<u>96,341,890</u>
Investment in film and television programs (note 5)	18,310,006	18,563,015
Restricted cash	2,795	457,730
Investment in production companies (note 6)	2,183,931	1,235,167
Property, plant, and equipment	8,113,314	6,656,596
Assets related to discontinued operations (note 7)	472,052	1,464,920
Long-term investment, at cost (note 3(b))	2,071,722	2,071,722
Intangible assets	5,762,600	6,417,784
Goodwill	10,765,421	10,765,421
	<u>155,202,002</u>	<u>143,974,245</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness (note 8)	3,125,000	2,670,000
Accounts payable and accrued liabilities	15,057,613	13,236,148
Deferred revenue	9,053,989	14,346,887
Liabilities related to discontinued operations (note 7)	103,874	326,679
Interim production financing (note 9)	60,822,005	47,489,747
Current portion of long-term debt and obligations under capital leases (note 10)	1,150,632	676,351
Current portion of other long-term liabilities	1,100,000	1,275,000
	<u>90,413,113</u>	<u>80,020,812</u>
Long-term debt and obligations under capital leases (note 10)	3,379,274	2,767,411
Future income taxes	2,236,092	2,805,000
Non-controlling interest	202,529	188,129
	<u>96,231,008</u>	<u>85,781,352</u>
<b>Shareholders' Equity</b>		
Share capital and contributed surplus (note 12)	60,318,861	59,743,168
Retained earnings (deficit)	(1,347,867)	(1,550,275)
	<u>58,970,994</u>	<u>58,192,893</u>
	<u>155,202,002</u>	<u>143,974,245</u>

# DHX Media Ltd.

## Unaudited Consolidated Statements of Income and Comprehensive Income and Deficit For the three-month and six-month periods ended December 31, 2008 and 2007

(expressed in Canadian dollars)

	For the three-month period ended December 31, 2008 \$	For the three-month period ended December 31, 2007 \$	For the six-month period ended December 31, 2008 \$	For the six-month period ended December 31, 2007 \$
<b>Revenues</b>	21,514,065	9,306,751	38,384,646	19,969,453
<b>Direct production costs and amortization of film and television programs produced</b>	14,780,649	5,833,142	26,658,195	13,188,990
	6,733,416	3,473,609	11,726,451	6,780,463
<b>Operating expenses</b>				
Amortization of acquired library	47,014	304,276	187,590	393,406
Development expenses	39,105	35,259	46,622	35,259
Selling, general and administrative	3,923,089	2,484,704	7,262,360	4,807,630
	4,009,208	2,824,239	7,496,572	5,236,295
<b>Income before the following and discontinued operations</b>	2,724,208	649,370	4,229,879	1,544,168
Amortization	526,383	370,709	1,045,446	629,557
Costs associated with uncompleted transactions	1,144,362	-	1,144,362	-
Equity income	-	(7,755)	-	(31,019)
Interest expense	106,227	124,336	214,742	295,850
Interest income	(4,996)	(141,861)	(17,031)	(167,825)
Loss from strategic investments	84,844	98,763	12,754	7,808
Non-controlling interest	6,974	(1,773)	14,401	3,394
<b>Income before income taxes and discontinued operations</b>	860,414	206,951	1,815,205	806,403
<b>Provision for (recovery of) income taxes</b>				
Large corporation taxes	10,000	25,000	20,000	50,000
Current income taxes	20,000	(216,000)	20,000	(569,000)
Future income taxes	215,000	261,000	550,000	814,000
	245,000	70,000	590,000	295,000
<b>Net income and comprehensive income for the period before discontinued operations</b>	615,414	136,951	1,225,205	511,403
Discontinued operations, net of income taxes	(943,201)	-	(1,022,797)	-
<b>Net income (loss) and comprehensive income (loss) for the period</b>	(327,787)	136,951	202,408	511,403
<b>Deficit – Beginning of period</b>	(1,020,080)	(211,008)	(1,550,275)	(585,460)
<b>Retained earnings (deficit) – End of period</b>	(1,347,867)	(74,057)	(1,347,867)	(74,057)
<b>Basic earnings per Common share before discontinued operations (note 15)</b>				
Basic	0.01	0.00	0.03	0.01
Diluted	0.01	0.00	0.03	0.01
<b>Basic earnings (loss) per Common share (note 15)</b>				
Basic	(0.01)	0.00	0.00	0.01
Diluted	(0.01)	0.00	0.00	0.01

# DHX Media Ltd.

## Unaudited Consolidated Statements of Cash Flows

### For the three-month and six-month periods ended December 31, 2008 and 2007

(expressed in Canadian dollars)

	For the three-month period ended December 31, 2008 \$	For the three-month period ended December 31, 2007 \$	For the six-month period ended December 31, 2008 \$	For the six-month period ended December 31, 2007 \$
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net income (loss) and comprehensive income (loss) for the periods	(327,787)	136,951	202,408	511,403
Charges (credits) to income not involving cash				
Amortization of film and television programs	14,790,385	5,890,754	26,018,937	13,195,576
Amortization of acquired library	47,014	304,276	187,590	393,406
Amortization of property, plant, and equipment	198,791	160,634	390,262	261,425
Amortization of intangible assets	327,592	210,074	655,184	368,131
Unrealized loss on short-term investments	149,858	148,788	101,014	77,333
Gain on disposal of short-term investments	(59,028)	(37,517)	(75,294)	(37,517)
Stock-based compensation	203,782	121,260	393,905	233,887
Interest on promissory notes	3,448	3,352	6,788	6,355
Interest	-	2,558	-	91,828
Equity income	-	(7,755)	-	(31,019)
Non-controlling interest	6,974	(1,773)	14,401	3,394
Future income tax expense	215,000	261,000	550,000	814,000
	15,556,029	7,192,602	28,445,195	15,888,202
Investment in film and television programs	(5,740,683)	(10,338,080)	(16,061,896)	(19,105,030)
Net change in non-cash working capital related to operations (note 16)	(11,781,842)	1,403,043	(21,292,649)	673,861
Discontinued operations	770,368	-	779,858	-
	(1,196,128)	(1,742,435)	(8,129,492)	(2,542,967)
<b>Financing activities</b>				
Proceeds from issuance of common shares and warrants, net of issuance costs	-	16,014,190	-	16,014,190
Issuance costs adjusted on shares of a subsidiary	-	-	-	(1,400)
Proceeds from bank indebtedness	360,000	1,419,154	455,000	1,419,154
Proceeds from (repayment of) interim production financing	7,379,698	4,056,985	13,332,258	2,949,742
Proceeds from long-term debt	266,800	-	275,378	-
Repayment of long-term debt and obligations under capital leases	(318,353)	(116,268)	(494,220)	(189,066)
Repayment of note payable	-	(400,000)	-	(400,000)
Increase in (repayment of) other long-term liabilities	(175,000)	(120,000)	(175,000)	(240,000)
Discontinued operations	(4,902)	-	(9,795)	-
	7,508,243	20,854,061	13,383,621	19,552,620
<b>Investing activities</b>				
Business acquisitions	-	(7,638,333)	(843,232)	(7,638,333)
Acquisition of short-term investments	-	(183,730)	(83,844)	(183,730)
Proceeds on disposal of short-term investments	127,402	236,809	291,142	236,809
Acquisition of property, plant, and equipment	(506,228)	(165,295)	(541,994)	(223,628)
Net cash advances (to) from investees	(799,601)	(203,209)	(948,764)	621,845
Long-term investment	-	(2,061,296)	-	(2,061,296)
Discontinued operations	-	-	-	-
	(1,178,427)	(10,015,054)	(2,126,692)	(9,248,333)
<b>Net change in cash during the period</b>	<b>5,133,688</b>	<b>9,096,572</b>	<b>3,127,437</b>	<b>7,761,320</b>
<b>Cash – Beginning of period</b>	<b>6,819,308</b>	<b>2,098,672</b>	<b>8,825,559</b>	<b>3,433,924</b>
<b>Cash – End of period</b>	<b>11,952,996</b>	<b>11,195,244</b>	<b>11,952,996</b>	<b>11,195,244</b>

# DHX Media Ltd.

## Notes to Unaudited Consolidated Financial Statements December 31, 2008 and 2007 and June 30, 2008

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(expressed in Canadian dollars)

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

DHX Media Ltd. (the “Company”) is a public company whose common shares were admitted to trading on the Alternate Investment Market (AIM) and the Toronto Stock Exchange (TSX) 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 adjustment, 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, 2008 and should be read in conjunction with the financial statements of the Company for the year ended June 30, 2008, as set out in the 2008 Annual Financial Statements, available at [www.sedar.com](http://www.sedar.com).

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

During the six-month period ended December 31, 2008, the Company adopted the following accounting standards:

#### a) Financial instruments and capital disclosures

##### *Financial instruments*

On July 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants (“CICA”) Handbook section 3862, “Financial Instruments - Disclosures”, section 3863, “Financial Instruments - Presentation”, and section 1535, “Capital Disclosures”.

*Section 3862 “Financial Instruments - Disclosures” and Section 3863 “Financial Instruments – Presentation”* have replaced *Section 3861 “Financial Instruments – Presentation and Disclosure”* revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. Recommended disclosure from these sections has been included in note 13 of these unaudited interim financial statements.

# DHX Media Ltd.

## Notes to Unaudited Consolidated Financial Statements December 31, 2008 and 2007 and June 30, 2008

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(expressed in Canadian dollars)

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

#### a) Financial instruments and capital disclosures (continued)

##### *Capital disclosures*

Section 1535 “*Capital Disclosures*”, establishes disclosure requirements about an entity’s capital and how it is managed. The purpose is to enable users of the financial statements to evaluate the entity’s objectives, policies and processes for managing capital and provide disclosures including compliance with externally imposed capital requirements. Recommended disclosures from this section of the handbook have been included in note 14 of these unaudited interim financial statements.

The Company has applied these standards without restatement of prior years.

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

#### b) Goodwill and intangible assets and research and developments costs

The CICA issued one new accounting standards: Section 3064, *Goodwill and Intangible Assets* will be effective for fiscal years beginning on or after October 1, 2008 and the Company will adopt it on July 1, 2009. The Company is in the process of evaluating the impact on disclosure and presentation of these new standards.

Section 3064, *Goodwill and Intangible Assets*, will replace section 3062, *Goodwill and Other Intangible Assets* and section 3450 *Research and Development costs*. The standard establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. The provision relating to the definition and initial recognition of intangible assets including internally generated intangible assets, are aligned with IFRS IAS 38 *Intangible Assets*.

### 3 Acquisitions and long-term investment

During the six-months ended December 31, 2008, the following acquisition occurred:

(a) On July 20, 2008 (“the Effective Date”), the Company acquired all the outstanding shares in imX Communications Inc. (“imX Communications” or “imX”), and its library of 20 feature films and 26 half-hours of television drama, documentary and animation entertainment for consideration as follows:

- Cash consideration and transaction costs of \$873,270, (\$855,000 and \$18,270 respectively) on the Effective Date; and
- 118,216 shares of the Company valued at \$175,000.

# DHX Media Ltd.

## Notes to Unaudited Consolidated Financial Statements December 31, 2008 and 2007 and June 30, 2008

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(expressed in Canadian dollars)

### 3 Acquisitions and long-term investment (continued)

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 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	30,038
Accounts receivable	2,427
Investments in film and television programs	34,470
Future income tax asset	<u>1,118,908</u>
	<u>1,185,843</u>
<b>Less: liabilities assumed</b>	
Accounts payable and accrued liabilities	<u>137,573</u>
	<u>1,048,270</u>

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

Of the consideration paid for imX, \$75,000 through the issue of 50,664 common shares of the Company were issued to a former shareholder of imX who is also a director and shareholder of the Company.

During the twelve-months ended June 30, 2008, the following acquisitions occurred:

- (b) On November 22, 2007 the Company completed a strategic investment in privately-held Tribal Nova Inc. ("Tribal Nova") by acquiring a 16.77% interest in the company for consideration of \$2,071,722 including transaction costs of \$71,722. The Company has accounted for the investment using the cost method.
- (c) On December 4, 2007 ("the Effective Date"), the Company acquired all the outstanding shares in Studio B Productions Inc. ("Studio B"), a privately-owned producer of primarily proprietary children's programming for the consideration as follows:
  - An initial cash payment of \$8,000,000 on the Effective Date and transaction costs of \$36,125;
  - An earnout amount calculated as 4.5 times the average "EBITDA" (as that term is defined in the agreement) for the years ended October 31, 2007 ("Fiscal 2007") and October 31, 2008 ("Fiscal 2008") up to a maximum of \$20,000,000. The earnout amount is subject to Studio B meeting certain financial performance benchmarks for Fiscal 2007 and Fiscal 2008 and would be paid 30% in cash and 70% in shares of DHX Media.

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



# DHX Media Ltd.

## Notes to Unaudited Consolidated Financial Statements December 31, 2008 and 2007 and June 30, 2008

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(expressed in Canadian dollars)

### 3 Acquisitions and long-term investment (continued)

	\$
<b>Assets acquired</b>	
Cash	497,043
Amounts receivable	10,349,292
Investment in production companies	130,274
Prepays and deposits	9,614
Investment in film and television programs	4,146,656
Property, plant and equipment	1,006,102
Intangible assets	4,898,000
Goodwill	3,607,880
	<u>24,644,861</u>
<b>Less: liabilities assumed</b>	
Bank indebtedness	297,000
Accounts payable and accrued liabilities	2,741,561
Deferred revenue	307,857
Interim production financing	10,759,535
Long-term debt and obligations under capital leases	912,783
Future income tax liabilities	1,590,000
	<u>16,608,736</u>
	<u>8,036,125</u>

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

The purchase agreement includes a contingent payment, based on an earnout amount as described above, consisting of readily available funds and common shares. The purchase consideration and the allocation of the cost of the purchase does not include any amounts related to the earnout amount. The earnout amount is not determinable as the cash component and number of common shares that will be issued and the value attributed to these common shares will only be determined when the earnout amount conditions are met. When the contingency is resolved, any earnout amount due will be attributed to goodwill.

(d) On March 20, 2008 (“the Effective Date”), the Company acquired all the outstanding shares in Bulldog Interactive Fitness Inc. (“Bulldog Interactive” or “Bulldog”), a developer of children’s entertainment centres, for the consideration as follows:

- Cash payment of \$625,000 on the Effective Date and transactions costs of \$6,787; and
- 99,333 common shares of the Company valued at \$149,993.

# DHX Media Ltd.

## Notes to Unaudited Consolidated Financial Statements December 31, 2008 and 2007 and June 30, 2008

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(expressed in Canadian dollars)

### 3 Acquisitions and long-term investment (continued)

The acquisition was originally accounted for using the purchase method. In December 2008, the Company decided to dispose of Bulldog assets or shares either by sale or wind-up (note 7). As such, the results of Bulldog Interactive operations have been retroactively restated out of revenue and expenses and shown separately in discounted operations, net of income taxes in the Company's Statement of Income and Comprehensive Income from the Effective Date. The purchase price was allocated to the assets acquired (including all identifiable intangible assets arising from the purchase) and liabilities assumed based on their estimated fair value at the date of acquisition as follows:

	\$
<b>Assets acquired</b>	
Cash	5,094
Amounts receivable	32,454
Prepays and deposits	6,159
Property, plant and equipment	145,950
Intangible assets	431,000
Goodwill	388,325
Future income tax asset	100,000
	<u>1,108,982</u>
<b>Less: liabilities assumed</b>	
Accounts payable and accrued liabilities	168,570
Deferred revenue	85,469
Long-term debt	73,163
	<u>327,202</u>
	<u>781,780</u>

For December 31, 2008, the assets and liabilities have been shown at their current estimated fair value. (note 7)

# DHX Media Ltd.

## Notes to Unaudited Consolidated Financial Statements December 31, 2008 and 2007 and June 30, 2008

(expressed in Canadian dollars)

### 4 Amounts receivable

	<b>December 31, 2008</b>	<b>June 30, 2008</b>
	\$	\$
Trade	25,023,432	17,593,416
Income taxes receivable	83,088	59,984
Goods and services taxes recoverable	983,983	1,048,043
Federal and provincial film tax credits and other government assistance	46,919,841	36,062,693
	<u>73,010,344</u>	<u>54,764,136</u>

### 5 Investment in film and television programs

	<b>December 31, 2008</b>	<b>June 30, 2008</b>
	\$	\$
<b>Development costs</b>	<u>1,772,303</u>	<u>1,757,410</u>
<b>Theatrical and non-theatrical productions in progress</b>		
Cost, net of government and third party assistance and third party participation	<u>18,262,708</u>	<u>30,792,880</u>
<b>Acquired participation rights – theatrical and non-theatrical</b>		
Cost	5,720,455	5,720,455
Accumulated amortization	(2,396,481)	(2,208,891)
	<u>3,323,974</u>	<u>3,511,564</u>
<b>Non-theatrical productions completed and released</b>		
Cost, net of government and third party assistance and third party participation	108,253,316	79,641,671
Accumulated amortization and impairment	(91,741,260)	(65,722,323)
	<u>16,512,056</u>	<u>13,919,348</u>
	39,871,041	49,981,202
Less: Current portion	<u>(21,561,035)</u>	<u>(31,418,187)</u>
	<u>18,310,006</u>	<u>18,563,015</u>

# DHX Media Ltd.

## Notes to Unaudited Consolidated Financial Statements December 31, 2008 and 2007 and June 30, 2008

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(expressed in Canadian dollars)

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

The Company expects that 37% of the costs related to non-theatrical and theatrical productions completed and released will be amortized during the remainder of the year ending June 30, 2009. The Company expects that 81% of the costs related to non-theatrical productions completed and released will be amortized by June 30, 2011. The Company expects that over 90% of the costs related to productions completed will be amortized by June 30, 2013.

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 Participation Rights has been reflected as current.

During the six-month period ended December 31, 2008, interest of \$1,158,646 (six-months ended December 31, 2007 - \$1,167,349) has been capitalized to investment in film and television.

### 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.

	<b>December 31, 2008</b>	<b>June 30, 2008</b>
	\$	\$
<b>The continuity of investment in production companies is as follows:</b>		
Opening balance	1,235,167	1,210,362
Equity income	-	44,136
Acquired (note 3(c))	-	130,274
Net cash advances to (from) investees	948,764	(149,605)
	<u>2,183,931</u>	<u>1,235,167</u>

The advances to investees are non-interest bearing with no set terms of repayment.

# DHX Media Ltd.

## Notes to Unaudited Consolidated Financial Statements December 31, 2008 and 2007 and June 30, 2008

(expressed in Canadian dollars)

### 7 Discontinued operations

In December 2008, the Company decided to dispose of Bulldog Interactive (the “Discontinued Business”) due to a slow down in franchisee opportunities as a result of the global economic recession. The Company was not prepared to fund the required projected losses to achieve breakeven results. As of December 31, 2008, the Company was exploring its options for sale of the assets or for the wind up of Bulldog Interactive.

The following tables present selected financial information for the Discontinued Business:

	For the three-month period ended December 31, 2008 \$	For the three-month period ended December 31, 2007 \$	For the six-month period ended December 31, 2008 \$	For the six-month period ended December 31, 2007 \$
Revenue	17,789	-	140,044	-
Direct loss	(162,521)	-	(287,117)	-
Writedown to fairvalue	(945,680)	-	(945,680)	-
Recovery of income taxes	165,000	-	210,000	-
Loss from discontinued operations	(943,201)	-	(1,022,797)	-
Basic loss per common share	(0.02)	-	(0.02)	-
Diluted loss per common share	(0.02)	-	(0.02)	-

	December 31, 2008 \$	June 30, 2008 \$
Cash	31,446	39,217
Amounts receivable	7,606	394,843
Prepaid expenses and deposits	-	7,406
Property, plant and equipment	15,000	130,486
Intangible assets	-	404,643
Goodwill	-	388,325
Future income taxes *	418,000	100,000
Total assets	<b>472,052</b>	<b>1,464,920</b>
Accounts payable and accrued liabilities	47,081	185,390
Deferred revenue	-	74,700
Long-term debt	56,793	66,589
Total liabilities	<b>103,874</b>	<b>326,679</b>

\* Future income taxes is netted against Future income taxes under liabilities and shown as a net liability.

# DHX Media Ltd.

## Notes to Unaudited Consolidated Financial Statements December 31, 2008 and 2007 and June 30, 2008

(expressed in Canadian dollars)

### 8 Bank indebtedness

As of December 31, 2008, bank indebtedness was \$3,125,000 (June 30, 2008 - \$2,670,000) (the "RBC Revolving Operating Credit Facility"). The maximum amount of the RBC Revolving Operating Credit Facility for general working capital purposes is \$3,510,000. 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 has been extended to February 28, 2009. The Company is currently in negotiations for a longer-term operating facility.

### 9 Interim production financing

	December 31, 2008	June 30, 2008
	\$	\$
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 \$58,388,275 (year ended June 30, 2008 - \$65,485,982)	46,393,675	39,287,627
Interim production credit facilities with various institutions, bearing interest at bank prime plus 0.5%. Assignment and direction of specific production financing and licensing contracts receivable, with a net book value of approximately \$10,298,126 (June 30, 2008, - \$nil)	9,913,998	-
Demand production bank loans (assumed on acquisition of Studio B (note 3(c)) less repayments subsequent to acquisition), bearing interest at bank prime plus 1.25% - 1.50%. Assignment and direction of specific production financing and licensing contracts receivable, with a net book value of approximately \$5,426,490 (June 30, 2008 - \$9,369,672)	4,514,332	8,202,120
	<u>60,822,005</u>	<u>47,489,747</u>

During the six-month period ended December 31, 2008, the bank prime rate averaged 4.35% (period ended December 31, 2007 – 6.19%).

The Company has a revolving production credit facility with the Royal Bank of Canada ("Royal Bank") with a maximum authorized amount of \$71,516,000. 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 twenty-four months following the first drawdown of funds in respect of each RBC Individual Approved Tranche. The Company is in the process of negotiating an expanded longer-term facility.

# DHX Media Ltd.

## Notes to Unaudited Consolidated Financial Statements December 31, 2008 and 2007 and June 30, 2008

(expressed in Canadian dollars)

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

	December 31, 2008 \$	June 30, 2008 \$
Loans payable, bearing interest at Business Development Bank of Canada prime plus 0.5%, maturing in April 2010 and May 2021, repayable in monthly principal installments of \$19,880 plus interest. A first mortgage on land and building having a net book value of \$4,714,707 (June 30, 2008 - \$4,794,191) and a general assignment of rents.	2,782,070	2,901,350
Loan payable, Royal Bank, repaid during the period	-	56,669
Demand loan payable, repaid during the period	-	254,925
Demand loan payable, bearing interest at the Royal Bank US Base Rate plus 1.25%, compounded annually and payable monthly	304,500	
Obligations under capital leases payable in monthly payments of \$9,119 bearing interest at 8.4%, maturing in June 2010; and \$2,549 bearing interest 6.9%, maturing in May 2011; and \$3,078 maturing in December 2011.	324,323	230,818
Obligation under capital lease (maximum lease facility with Royal Bank - \$1,200,000) payable in monthly payments of \$20,710 beginning in January of 2010 bearing interest at 6.38%, maturing in November 2012.	1,119,013	
	<u>4,529,906</u>	<u>3,443,762</u>
Less: Current portion	<u>(1,150,632)</u>	<u>(676,351)</u>
	<u>3,379,274</u>	<u>2,767,411</u>

The aggregate amount of principal repayments required for the remainder of fiscal year 2009 and in each of the next five years is as follows:

	\$
Year ending June 30, 2009	819,997
2010	608,698
2011	518,718
2012	488,996
2013	384,947

A general security agreement covering all assets of a wholly-owned subsidiary (Studio B) along with guarantees and postponements of claims have been pledged as security for the loans payable, Royal Bank.

# DHX Media Ltd.

## Notes to Unaudited Consolidated Financial Statements December 31, 2008 and 2007 and June 30, 2008

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(expressed in Canadian dollars)

### 11 Other long-term liabilities

	December 31, 2008 \$	June 30, 2008 \$
Other long-term liabilities include \$1,100,000 (June 30, 2008 - \$1,100,000) related to the acquisition of distribution rights	1,100,000	1,275,000
Less: Current portion	(1,100,000)	(1,275,000)
	<u>-</u>	<u>-</u>

The aggregate amount of payments required during the year ending June 30, 2009 is \$1,100,000.

### 12 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

10,000,000 Class A preferred shares, convertible to common shares at the option of the holder, redeemable at the option of the holder or the Company on or after June 16, 2010, at 1.5 times the issue price, voting

Unlimited common shares without nominal or par value



# DHX Media Ltd.

## Notes to Unaudited Consolidated Financial Statements December 31, 2008 and 2007 and June 30, 2008

(expressed in Canadian dollars)

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

#### b) Issued and outstanding

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

	December 31, 2008		June 30, 2008	
	Number	Amount \$	Number	Amount \$
<b>Preferred variable voting shares</b> (note 12 (c))	100,000,000	100	100,000,000	100
<b>Common shares</b> (note 12 (d))				
Opening balance	42,715,785	55,487,244	32,801,452	40,778,665
Issued for cash consideration	-	-	9,815,000	15,939,560
Share issuance costs, net of tax effect of \$645,350	-	-	-	(1,380,974)
Issued as consideration for acquisition of Bulldog Interactive	-	-	99,333	149,993
Issued as consideration for acquisition of imX	118,216	175,000	-	-
	<u>42,834,001</u>	<u>55,662,244</u>	<u>42,715,785</u>	<u>55,487,244</u>
<b>Common share purchase loans receivable</b>				
Opening balance	-	(431,418)	-	(444,803)
Interest received on notes	-	6,788	-	13,385
	<u>-</u>	<u>(424,630)</u>	<u>-</u>	<u>(431,418)</u>
<b>Warrants</b> (note 12 (f))				
Opening balance	5,661,163	2,069,908	435,125	217,280
Issued for cash consideration	-	-	4,922,750	1,732,808
Warrant issuance costs, net of tax effect of \$40,650	-	-	-	(103,394)
Broker warrants issued	-	-	738,413	440,494
Expiration of warrants	-	-	(435,125)	(217,280)
	<u>5,661,163</u>	<u>2,069,908</u>	<u>5,661,163</u>	<u>2,069,908</u>
<b>Contributed surplus</b> (note 12 (g))				
Stock options				
Opening balance	2,436,547	2,617,334	1,921,547	1,495,819
Options issued during the period	75,000	3,789	790,000	158,843
Compensation expense on existing options	-	390,116	-	445,392
Options expired or cancelled	-	-	(275,000)	-
Management Bonuses	-	-	-	300,000
Warrants expired	-	-	-	217,280
	<u>2,511,547</u>	<u>3,011,239</u>	<u>2,436,547</u>	<u>2,617,334</u>
		<u>60,318,861</u>		<u>59,743,168</u>

# DHX Media Ltd.

## Notes to Unaudited Consolidated Financial Statements December 31, 2008 and 2007 and June 30, 2008

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(expressed in Canadian dollars)

### 12 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 November 13 and 14, 2007, the Company issued a combined 9,815,000 units ("Unit or Units") from the treasury at a price of C\$1.80 per Unit for aggregate gross proceeds of C\$17,667,000 (the "Offering"). Each Unit consists of one common share in the capital of the Company and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at a price of C\$2.10 per common share, expiring on November 13, 2010.

On May 26, 2008, the Company issued 99,333 common shares at \$1.51 per share for a gross amount of \$149,993. The 99,333 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 \$100,000. 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 \$75,000 in settlement of the imX earnout. The 50,664 common shares were issued to former shareholders of imX.

#### e) Share purchase financing

During the six-month period ended December 31, 2008, the Company issued no amounts for share purchase financing (year ended June 30, 2008 - nil).

The Company accounts for share purchase financing as a reduction of share capital and the benefit of the financing has been estimated using the Black Scholes option pricing model and the following assumptions: risk-free interest rate - 4.25%; expected life two years; expected volatility 50%; and expected dividend yield 0%.

For the six-month period ended December 31, 2008, no compensation expense was recognized (year ended June 30, 2008 - nil). Interest of \$6,788 (year ended June 30, 2008 - \$13,385) received on these loans are being recorded as a capital contribution.

# DHX Media Ltd.

## Notes to Unaudited Consolidated Financial Statements December 31, 2008 and 2007 and June 30, 2008

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(expressed in Canadian dollars)

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

#### f) Warrants

During the six-month period ended December 31, 2008 nil warrants were granted and nil expired. During the year ended June 30, 2008, in connection with the Offering, the Company issued 4,922,750 common share purchase warrants valued at \$0.35 per warrant for cash consideration. The warrants entitle the shareholders to acquire 4,922,750 common shares for \$2.10 and expire on November 13 and 14, 2010. Also, in connection with the Offering, the Company granted 738,413 common share warrants valued at \$0.60 per warrant to the brokers of the Offering. The warrants entitle the holders to purchase 738,413 common shares for \$1.80 and expire on May 13 and 14, 2009.

	Number of warrants	Weighted average exercise price
<b>Outstanding at June 30, 2007</b>	435,125	2.35
Issued for cash consideration	4,922,750	2.10
Broker warrants issued	738,413	1.80
	<hr/>	
<b>Outstanding at December 31, 2007</b>	6,096,288	2.08
	<hr/>	
<b>Outstanding at June 30, 2008 and December 31, 2008</b>	5,661,163	2.06

The fair value of the broker issued 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:

	December 31, 2008 \$	June 30, 2008 \$
Risk-free interest rate	4.25%	4.25%
Expected option life	1.5 years	1.5 year
Expected volatility	65%	65%
Expected dividend yield	nil	nil

# DHX Media Ltd.

## Notes to Unaudited Consolidated Financial Statements December 31, 2008 and 2007 and June 30, 2008

(expressed in Canadian dollars)

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

#### g) Stock options

At December 31, 2008 and June 30, 2008, the Company had the following stock options outstanding:

	Number of options	Weighted average exercise price
<b>Outstanding at June 30, 2007</b>	1,921,547	2.20
Granted to employees and directors	510,000	1.62
Options cancelled	(100,000)	1.85
<b>Outstanding at December 31, 2007</b>	2,331,547	2.09
Granted to consultants	280,000	1.52
Options cancelled	(175,000)	2.35
<b>Outstanding at June 30, 2008</b>	2,436,547	2.02
Granted to an employee	75,000	0.93
<b>Outstanding at December 31, 2008</b>	2,511,547	1.98
<b>Exercisable at June 30, 2008</b>	642,024	2.19
<b>Exercisable at December 31, 2008</b>	823,274	2.22

On September 26, 2007, 510,000 stock options were issued at \$1.62 per share, vesting over four years and expiring on September 26, 2012. On May 14, 2008, the Company issued 100,000 stock options to consultants at \$1.42 per share vesting at various times over a nine month period and expiring on May 14, 2013. On March 5, 2008, the Company issued 180,000 stock options to consultants at \$1.57 per share, vesting at various times over a nine month period and expiring on March 5, 2013. No stock options expired during the six-month period ending December 31, 2007 and 100,000 stock options at \$1.85 were cancelled and 175,000 options at \$1.85 were cancelled during the remainder of the year ended June 30, 2008.

During the six-month period ended December 31, 2008, 75,000 stock options were issued at \$0.93 per share, vesting over four years and expiring on September 26, 2013. No stock options expired or cancelled during this six-month period.

As at December 31, 2008, 887,724 options to purchase common shares were issued by the Company above the maximum number of options issuable by the Company of 1,623,823. No exercise of these 887,724 additional options shall occur until approval for their issuance and exercise is obtained from holders of common shares. As at December 31, 2008, 407,500 of the options issued, above the maximum number of options issuable, would have vested under all of the terms of the share option plan, however because they are conditional on shareholder approval they have not been included in the 823,274 options exercisable at December 31, 2008. The Company intends to seek the approval of holders of common shares to raise the maximum number of options issuable under the employee share option plan.

# DHX Media Ltd.

## Notes to Unaudited Consolidated Financial Statements December 31, 2008 and 2007 and June 30, 2008

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(expressed in Canadian dollars)

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

#### g) Stock options (continued)

The weighted average grant date value of stock options granted at December 31, 2008 has been estimated at \$0.95 (December 31, 2007 - \$0.97) using the Black Scholes option pricing model. The following weighted average assumptions were used in the calculations:

	<b>For the six-month period ended December 31, 2008 \$</b>	<b>For the six-month period ended December 31, 2007 \$</b>
Risk-free interest rate	4.10%	4.08%
Expected option life	4 years	4 years
Expected volatility	62%	60%
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 six-month period ended December 31, 2008, a total of \$393,905 (six-month period ended December 31, 2007 - \$233,887) was recognized as compensation expense.

#### h) Put options

Pursuant to a financing by Media Fund, the Company granted to the new shareholders of Media Fund a right to have the Company purchase their common shares in exchange for common shares of the Company (the "put option") on a one-for-one basis. The put options are automatically exercised on January 15, 2010 (corrected, previously reported January 15, 2009), unless the holder rejects the put right. The Company has a buy-out right to acquire all of the Media Fund shares after obtaining a public listing unless more than 25 percent of the shareholders reject the put right.

The common shares of Media Fund are redeemable by January 15, 2010 (corrected, previously reported January 15, 2009) since a listing of the Company has occurred. However, as these shares of Media Fund are residual equity in Media Fund, these shares have been presented as non-controlling interest.

The put option was issued for no consideration. At December 31, 2008, 425,420 (June 30, 2008 - 425,420) shares in Media Fund carried the put option described above.

# DHX Media Ltd.

## Notes to Unaudited Consolidated Financial Statements December 31, 2008 and 2007 and June 30, 2008

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(expressed in Canadian dollars)

### 13 Financial instruments

#### a) Fair value of financial instruments

Management believes that the carrying amounts reported on the financial statements for amounts receivable, accounts payable and accrued liabilities, interim production financing, bank indebtedness, other long-term liabilities and long-term debt all approximate their fair values due to their immediate or short-term maturities or variable interest rates.

#### b) Credit risk

Amounts receivable from the Canadian federal government and other government agencies in connection with production financing represents 70% of total amounts receivable at December 31, 2008 (June 30, 2008 - 70%). Certain of these amounts are subject to audit by the government agency. Management believes that these amounts are fully collectible. The balance of trade accounts receivable are mainly with Canadian broadcasters and large distribution companies. Management believes that these amounts are fully collectible. Management believes that it is normal course for the industry for some amounts receivable to take considerable time to collect, for instance it is normal course for federal and provincial tax credits receivable, to take up to 24 months to proceed through audit and collection. However, based on management's historical collection experience and based on the fact that management believes no significant balances are outside the normal course of collection, no allowance has been set up on trade amounts receivable.

The Company adjusts amounts receivable from Canadian federal government and other government agencies including federal and provincial tax credits receivables, in connection with production financing, quarterly for any known differences arising from internal or external audit of these balances. An allowance against Federal and Provincial tax credits receivable has been booked based on the Company history of collection of these receivables.

#### c) Interest rate risk

The Company is exposed to interest rate risk arising from fluctuations in interest rates as its interim production financing and certain long-term debt bear interest at floating rates. A 1% fluctuation would have an approximate \$200,000 to \$300,000 affect on net income.

#### d) 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 (notes 8, 9 and 10). As at December 31, 2008, the Company had cash of \$11,952,996

The Company is in negotiations for expanded long-term credit facilities, and given current market conditions, it is anticipated that such financing may occur at terms that are less favourable than current terms.

# DHX Media Ltd.

## Notes to Unaudited Consolidated Financial Statements December 31, 2008 and 2007 and June 30, 2008

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(expressed in Canadian dollars)

### 13 Financial instruments (continued)

#### e) 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. At the statement date, the Company revalued its financial instruments denominated in a foreign currency at the prevailing exchange rates. A 1% change in the USD or Euro exchange rate would have less than a \$100,000 effect on net income.

#### f) Investment in Tribal Nova

Management is continuing to value its investment in Tribal Nova at cost as fair value cannot be measured reliably, it continues to be a private company and, as such, a quoted market price in an active market is not available. The Company does not expect to dispose of this investment in the near term.

#### g) Contractual maturity analysis for financial liabilities

	<b>Total</b>	<b>Less than 1 year</b>	<b>1 to 3 years</b>	<b>4 to 5 years</b>	<b>After 5 years</b>
Bank indebtedness	3,125,000	3,125,000	-	-	-
Long-term debt	3,086,570	543,060	477,120	477,120	1,589,270
Other long-term liabilities	1,100,000	1,100,000	-	-	-
Capital lease obligations	1,119,013	607,571	511,442	-	-
Operating leases	5,738,629	814,618	1,635,845	1,026,417	2,261,750
	<u>14,169,212</u>	<u>6,190,249</u>	<u>2,624,406</u>	<u>1,503,537</u>	<u>3,851,020</u>

Payments noted above do not include interest.

# DHX Media Ltd.

## Notes to Unaudited Consolidated Financial Statements December 31, 2008 and 2007 and June 30, 2008

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(expressed in Canadian dollars)

### 14 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 and distribution of its film and television properties. To maximize ongoing development and growth effort, the Company will not pay out dividends during the year ended June 30, 2009.

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

	<b>December 31, 2008</b>	<b>June 30, 2008</b>
	\$	\$
Total bank indebtedness, long term debt and obligations under capital lease and other long term liabilities	8,754,906	7,388,762
Less: Cash	(11,952,996)	(8,825,559)
Net Debt	<u>(3,198,090)</u>	<u>(1,436,797)</u>
Total Shareholders' Equity	<u>58,970,994</u>	<u>58,192,893</u>
	<u>55,772,904</u>	<u>56,756,096</u>

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 approved by the board of directors.

The Company monitors capital using a number of financial ratios, specifically for the RBC Revolving Operating and Production Credit Facilities (notes 8 and 9) (including but not limited to):

- The Coverage Ratio defined as consolidated EBITDA to interest expense (defined as interest on long-term debt); and
- The Net Worth Ratio defined as funded debt to consolidated net worth.

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

	<b>Measure Targets</b>	<b>December 31, 2008</b>	<b>June 30, 2008</b>
Coverage Ratio	>4.0x	18.0x	10.6x
Net Worth Ratio	<3.0x	1.3x	1.3x

The Company has been in compliance with these ratios since inception of the RBC Revolving Operating and Production Credit Facilities.



# DHX Media Ltd.

## Notes to Unaudited Consolidated Financial Statements December 31, 2008 and 2007 and June 30, 2008

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(expressed in Canadian dollars)

### 15 Earnings (loss) per common share

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

	For the three-month period ended December 31, 2008 \$	For the three-month period ended December 31, 2007 \$	For the six-month period ended December 31, 2008 \$	For the six-month period ended December 31, 2007 \$
Net income and comprehensive income for the period before discontinued operations	615,414	136,951	1,225,205	511,403
Net income (loss) and comprehensive income (loss) for the period	(327,787)	136,951	202,408	511,403
Weighted average number of Common shares:				
Basic	42,834,001	38,029,006	42,834,001	35,429,512
Diluted	42,834,001	44,174,749	42,834,001	39,864,040
Earnings per Common share before discontinued operations				
Basic	0.01	0.00	0.03	0.01
Diluted	0.01	0.00	0.03	0.01
Earnings (loss) per Common share:				
Basic	(0.01)	0.00	0.00	0.01
Diluted	(0.01)	0.00	0.00	0.01

The weighted average number of potentially dilutive instruments, comprised of shares issuable in respect of convertible warrants, stock options, and put options, at December 31, 2008 is \$nil (December 31, 2007 – 6,145,742).

# DHX Media Ltd.

## Notes to Unaudited Consolidated Financial Statements December 31, 2008 and 2007 and June 30, 2008

(expressed in Canadian dollars)

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

	For the three-month period ended December 31, 2008 \$	For the three-month period ended December 31, 2007 \$	For the six-month period ended December 31, 2008 \$	For the six-month period ended December 31, 2007 \$
Increase in amounts receivable	(10,159,046)	(2,343,537)	(18,243,781)	(3,376,761)
Decrease (increase) in prepaid expenses and deposits	452,675	(475,880)	105,204	(1,005,881)
Decrease in restricted cash	4,589	32,126	454,936	26,668
Increase (decrease) in accounts payable and accrued liabilities	172,425	(1,467,415)	1,683,890	(286,075)
Increase in deferred revenue	(2,252,485)	5,657,749	(5,292,898)	5,315,910
	<u>(11,781,842)</u>	<u>1,403,043</u>	<u>(21,292,649)</u>	<u>673,861</u>
During the period, the Company paid and received the following:				
Interest paid	318,437	770,065	1,266,123	1,392,729
Interest received	233	418,644	73,358	574,541
Taxes Paid	40,469	-	40,469	-

### 17 Revenues and segmented information

The Company operates production entities and offices in Canada and the United Kingdom. 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 December 31, 2008 \$	For the three-month period ended December 31, 2007 \$	For the six-month period ended December 31, 2008 \$	For the six-month period ended December 31, 2007 \$
Production revenue	16,842,149	6,276,594	30,950,166	15,053,096
Distribution revenue	2,106,849	2,472,066	3,561,900	3,885,403
Producer and service fee revenues	2,279,133	291,616	3,305,311	291,616
Other	285,934	266,475	567,269	739,338
	<u>21,514,065</u>	<u>9,306,751</u>	<u>38,384,646</u>	<u>19,969,453</u>

# **DHX Media Ltd.**

## **Notes to Unaudited Consolidated Financial Statements December 31, 2008 and 2007 and June 30, 2008**

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(expressed in Canadian dollars)

### **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. The Company at times during the initial broadcast of the rights is reliant on the broadcaster financing and budget cycle and at times the license period gets delayed and commences at a later date than originally projected or scheduled.

The Company's film and television revenues are generally highest in the third and fourth fiscal quarters, driven by contracted deliveries with the primary broadcasters. Distribution revenues are contract and demand driven and can fluctuate significantly from period-to-period.

### **19 Reconciliation of Canadian Generally Accepted Accounting Principles ("GAAP") and International Financial Reporting Standards ("IFRS")**

These consolidated financial statements have been prepared in accordance with Canadian GAAP. In certain aspects, GAAP, as applied under IFRS differs from Canadian GAAP.

#### **a) Judgments made by management**

IFRS requires disclosure of judgments that have been made by management in the preparation of the financial statements. In this regard, other than estimates which are disclosed under Canadian GAAP, management has made judgments about which development projects, with total costs of \$1,772,303 at December 31, 2008 (year ended June 30, 2008 - \$1,757,410), are likely to result in productions. Development projects which, during the reporting period, have not been assessed as likely to proceed are written off.

#### **b) Leases**

Under IFRS total costs to expenses under operating leases must be disclosed. The Company incurred rent expense of \$702,731 for the six-month period ended December 31, 2008 (six-month period ended December 31, 2007 - \$172,301).

#### **c) Financial instruments**

Beginning on July 1, 2007, the Company adopted prospectively new financial instrument handbook sections and on July 1, 2008, the Company adopted the amended and replacement Financial Instrument sections (note 2(a)). Under both new sections of Canadian GAAP standards, assets held for trading are measured at fair market value, which is consistent with IFRS.

