DHX MEDIA LTD.

Fiscal 2008

Annual Report

Management Discussion and Analysis
of Financial Condition and Results of Operations
For the Years Ended June 30, 2008 and June 30, 2007

DHX MEDIA LTD.

Annual Report
June 30, 2008

MANAGEMENT DISCUSSION AND ANALYSIS

*The following Management Discussion & Analysis ("**MD&A**") prepared as of September 28, 2008, should be read in conjunction with the DHX Media Ltd.'s* (the "**Company**" or "**DHX**") *audited consolidated financial statements and accompanying notes for the years ended June 30, 2008 and 2007. The audited consolidated financial statements and accompanying notes for the years ended June 30, 2008 and 2007 have been prepared in accordance with Canadian generally accepted accounting principles.*

*The audited consolidated financial statements and accompanying notes for the year ended June 30, 2008 include only 210 days of activity from December 4, 2007, the date of acquisition, to June 30, 2008 for Studio B Productions Inc. ("**Studio B**" or "**Studio B division**"), and only 103 days of activity from March 20, 2008, the date of acquisition, to June 30, 2008 for Bulldog Interactive Fitness Inc. ("**Bulldog**" or "**Bulldog division**") (see–"Acquisition and Long-term Investment" section of this MD&A for further details on the Studio B and Bulldog acquisitions).*

DHX is a public company incorporated under the Canadian Business Corporations Act and its shares were listed on the TSX and AIM Exchanges on May 19, 2006 (symbol DHX). Additional information relating to the Company can be found on its website at www.dhxmedia.com or on SEDAR at www.sedar.com.

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles. Figures in this MD&A are shown as millions (for example, $100,000 is shown as $0.10 million) and are approximate and have been rounded to the nearest ten thousand.

This MD&A contains certain forward-looking statements, which reflect DHX management's ("**Management**") expectations regarding the Company's growth, results of operations, performance, and business prospects and opportunities.

Statements about the Company's future plans and intentions, results, levels of activity, performance, goals or achievements, or other future events constitute forward-looking statements. Wherever possible, words such as "may," "will," "should," "could," "expect," "plan," "intend," "anticipate," "believe," "estimate," "predict," or "potential" or the negative or other variations of these words, or other similar words or phrases, have been used to identify these forward-looking statements. These statements reflect Management's current beliefs and are based on information currently available to Management.

Forward-looking statements involve significant risk, uncertainties, and assumptions. Many factors could cause actual results, performance, or achievements to differ materially from the results discussed or implied in the forward-looking statements. These factors should be considered carefully and readers should not place undue reliance on the forward-looking statements. Although the forward-looking statements contained in this MD&A are based on what Management believes to be reasonable assumptions, the Company cannot assure readers that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this MD&A, and the Company assumes no obligation to update or revise them to reflect new events or circumstances. Many factors could cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements that may be expressed or implied by such forward-looking statements, including: general economic and market segment conditions, competitor activity, product capability and acceptance, international risk and currency exchange rates, and technology changes. An assessment of the risks that could cause actual results to materially differ from current expectations is contained in the "Risk Assessment" section of this MD&A. For a more detailed assessment of the risks that could cause actual results to materially differ from current expectations see the "Risk Assessment" section of this MD&A.

The foregoing is not an exhaustive list and other risks are detailed from time to time in other continuous disclosure filings of the Company. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, or expected.

Business of the Company

DHX is a leading independent supplier and distributor of television and film productions. The Company is the result of the combination of The Halifax Film Company Limited ("**Halifax Film**") and Decode Entertainment Inc. ("**Decode**") during Fiscal 2006 and as of December 4, 2007 and March 20, 2008, DHX has added another two companies, Studio B and Bulldog respectively (See "Acquisition and Long-term Investment" section of this MD&A).

The Company produces, distributes, and exploits the rights for television and film programming. DHX's primary focus is on children's, youth, and family (collectively "**Children's and Family**") productions because of the international sales potential and longer-term and multiple revenue streams that this genre of programming provides. Children's and Family programming travels across cultures more easily than other genres and can therefore be sold into numerous markets, typically has a longer lifespan than other genres, and can be leveraged for merchandising and licensing revenues.

DHX's content library includes over 2,190 half-hours of programming and over 50 individual titles produced. The Company has 15 children's series currently in first window broadcast on multiple major cable and broadcast networks in North America and internationally, including, *The Mighty Jungle, Bo on the Go!, Franny's Feet, Chop Socky Chooks, Urban Vermin,* and *Naturally Sadie*. The Company's prime-time production slate also includes notable achievements in the comedy genre, including the award-winning Canadian prime-time comedy series *This Hour Has 22 Minutes,* which is produced for the CBC and has recently been picked up for a 16th season. The Company operates from its offices and production facilities in Halifax, Toronto, and Vancouver, producing content for distribution in domestic and international markets which is marketed via its Toronto and London, UK based sales group.

Revenue Model

The Company historically earns revenues primarily from four categories: 1) production, 2) distribution of its proprietary productions, 3) producer and service fees from production services for third parties and equity investments, and 4) other revenues which include rental of studios and office facilities, music and royalty revenue, royalty revenue from Bulldog franchisees, and new media revenue. The Company is able to generate revenue from productions by licensing its initial broadcast rights and pre-licensing of territories for its programs. Production revenues include the initial broadcast license revenues and any pre-sales or distribution advances included in the initial financing of the production of a film and television program. Once a production is completed and delivered, the program is included in the Company's library of film and television programming. Further revenue from exploitation of the program is included in distribution revenue. The Company also generates revenue from production services for third parties and equity investments. These service and corporate overhead fees are earned for producing productions whose copyright is owned by third parties.

Production Revenue

The Company derives production revenues from the grant of initial broadcast rights for the initial showing of commissioned productions and pre-licensing of territories. These fees are typically collected partially upon commissioning of a production, during production, and finally once a completed production is delivered for broadcast, and at some point in time after delivery as a holdback (See "Critical Accounting Policies and Estimates" section of this MD&A for details on revenue recognition).

Distribution Revenue

The Company is able to retain the ownership rights to its proprietary production, which permits the Company to generate further revenues from the distribution of the Company's productions. In addition to generating revenues from the sale of initial broadcast rights, the Company is able to concurrently generate revenues from the sale of broadcast rights in other jurisdictions and on other platforms (such as DVD and video) for specified periods of time. Distribution revenue also includes theatrical and other revenues generated on its feature films.

Producer and Service Fee Revenue

These service and corporate overhead fees are earned for producing productions whose copyright is owned by third parties.

Other Revenue

Other revenue includes rental of studios and office facilities, music and royalty (including merchandising and licensing (**"M&L"**) and beginning Q3 2008, royalty revenue earned from Bulldog franchisees), and new media revenue.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The summary consolidated financial information set out below for the years ended June 30, 2008, 2007, and 2006 has been derived from the Company's audited consolidated financial statements and accompanying notes for the years ended June 30, 2008, 2007, and 2006 and can be found at www.sedar.com.. **Each reader should read the following information in conjunction with those statements and the related notes.**

	Year Ended June 30,		
	2008	**2007**	**2006**
	$	**$**	**$**
Consolidated Statements of Income and Comprehensive Income Data:[1]			
Revenues…………	**52,446,847**	25,970,619	15,748,409
Direct production costs and amortization of film and television programs produced…………	**35,144,598**	16,237,033	12,928,759
Gross margin…………	**17,302,249**	9,733,586	2,819,650
Selling, general, and administrative…………	**12,226,876**	7,340,714	2,627,177
Impairment of certain investments in film and television programs…	**2,781,802**	-	-
Income (loss) before the following…………	**742,653**	1,381,740	(8,842)
Income (loss) from strategic investments…………	**(59,062)**	1,736,761	187,230
Interest and other (expenses), net…………	**(1,672,661)**	(1,327,746)	(1,167,278)
Provision for (recovery of) income taxes…………	**40,000**	590,000	(74,000)
Net income (loss) and comprehensive income…………	**(1,029,070)**	1,200,755	(914,890)
Basic earnings (loss) per common share…………	**(0.03)**	0.04	(0.06)
Fully diluted earnings (loss) per common share…………	**(0.03)**	0.03	(0.06)
Weighted average common shares outstanding			
Basic…………	**39,038,719**	32,698,508	15,076,332
Fully Diluted…………	**39,038,719**	35,732,836	16,452,346
Consolidated Balance Sheet Data:			
Cash, restricted cash and short-term investments…………	**9,608,856**	5,778,545	9,572,729
Investment in film and television programs…………	**49,981,202**	47,025,343	21,249,652
Total assets…………	**143,874,245**	103,005,130	77,798,440
Total debts…………	**85,681,352**	61,543,529	38,202,322
Shareholder equity…………	**58,192,893**	41,461,601	39,596,118

[1]The financial information for the years ended June 30, 2008 in the table includes a full year's of activity of Halifax Film and Decode, 210 days of activity for Studio B, and 103 days of activity for Bulldog (see–"Acquisition and Long-term Investment" section of this MD&A for further details on the Studio B and Bulldog acquisitions). Years ended June 30, 2007 and 2006 are for prior to the acquisitions of Studio B and Bulldog. The year ended June 30, 2006 includes the activity of Halifax Film and 43 days of activity for Decode.

Year Ended June 30, 2008 (“Fiscal 2008” or “2008”) Compared to Year Ended June 30, 2007 (“Fiscal 2007” or “2007”)

Revenues

Revenues for Fiscal 2008 were $52.45 million, up from $25.97 million for Fiscal 2007, an increase of 102%. The increase was generally due to increases in the Company’s production and distribution revenue categories. Management is extremely pleased with the growth in revenue and feels that it is validation of the Company’s model to focus on developing and producing quality Children’s and Family programming and distributing its content internationally. The Company benefited somewhat from previous Fiscal 2007 deliveries in the amount of $3.21 million in proprietary production revenues where the license periods commenced in Fiscal 2008.

Proprietary production revenues for Fiscal 2008 of $34.41 million were up 156% over the $13.45 million for Fiscal 2007. The increase included a 95% increase to $14.98 million (Fiscal 2007-$7.67 million) in proprietary production revenue for Halifax Film, a 203% increase to $17.55 million for Fiscal 2008 (Fiscal 2007-$5.78 million) for Decode, and the inclusion of $1.88 million (Fiscal 2007-nil) for Studio B. The increase in Halifax Film related partially to the delivery of the feature film *Shake Hands With The Devil* and the related documentary *The Making of Shake Hands With The Devil,* in the cumulative amount of $1.90 million during Fiscal 2008 versus no feature film deliveries for Fiscal 2007.

For Fiscal 2008 the Company recognized $34.41 million-233.5 half-hours of proprietary film and television program production revenue (generally in line with its expected 240 half-hours target for Fiscal 2008), an increase of 85% over the 126 half-hours for Fiscal 2007, where the programs have been delivered and the license periods have commenced.

The breakdown for deliveries and dollar value subtotals for divisions for consolidated and non-consolidated entities for Fiscal 2008 and Fiscal 2007 was as follows:

		Fiscal 2008		Fiscal 2007	
Title	Season or Type	$ Million	Half-hours	$ Million	Half-hours
Consolidated Entities					
Decode:					
Chop Socky Chooks	I		8.0		9.0
Clang Invasion	I		7.0		-
Delilah & Julius	II		26.0		-
The Latest Buzz	I		13.0		-
Naturally Sadie	II		-		26.0
Naturally Sadie	III		-		13.0
Naturally Sadie (SRC)	III		N/A [1]		-
Planet Sketch	II		13.0		-
Super Why (CBC)	I		N/A [1]		5.0
Super Why (PBS)	I		36.0		-
Urban Vermin	I		15.0		11.0
Subtotals		$ 17.55	118.0	$ 5.78	64.0
Studio B:					
Class of the Titans	II		10.0		-
Being Ian	III		N/A [1]		-
Being Ian	IV		8.0		-
Ricky Sprocket - Showbiz Boy	I		8.0		-
-Teletoon-French-8 half-hours, English-1 half-hour					
Subtotals		1.88	26.0	-	-
Halifax Film:					
Animal Mechanicals	I		10.0		-
Animal Mechanicals	II		1.5		-
Bo on the Go!	I		6.0		20.0
Bo on the Go!	II		6.0		-
The Guard	I		14.0		-
The Making of Shake Hands with the Devil	Documentary		1.0		-
The Mighty Jungle	I		3.0		-
The Mighty Jungle	II		13.0		-
POKO	III		-		8.0
Shake Hands with the Devil	Feature Film		4.0		-
Show Us Your Shorts TV	Pilot		2.0		-
This Hour Has 22 Minutes	XIV		-		21.0
This Hour Has 22 Minutes	XV		21.0		-
The Truth About	Pilot		-		1.0
Subtotals		14.64	81.5	7.13	50.0
Total Consolidated Entities		34.07	225.5	12.91	114.0
Non-consolidated Entities Accounted for Using the Equity Method					
Lunar Jim	I		-		N/A [1]
Lunar Jim	II		8.0		12.0
Subtotals		0.34	8.0	0.54	12.0
Total All Entities		**$ 34.41**	**233.5**	**$ 13.45**	**126.0**

[1]N/A – Not applicable as deliveries of half-hours have already been counted when title delivered in the first instance.

The Company recorded an additional $0.05 million as an equity pickup for *Lunar Jim* Season II and no amounts for *Lunar Jim* Season I for Fiscal 2008, versus $0.01 million and $0.35 million respectively for Fiscal 2007.

In addition, as of June 30, 2008 the Company delivered $3.09 million-26 half-hours of proprietary television programs where the license periods had not yet commenced by June 30, 2008, and therefore the revenue recognition criteria have not been met to recognize in Fiscal 2008. The additional proprietary television programs were $2.99 million-26 half-hours of *The Latest Buzz* Season II and $0.10 million of *The Making of Shake Hands with the Devil*. These license periods are scheduled to commence throughout Fiscal 2009 and will be recognized in the corresponding quarters, when the license periods have commenced and all revenue recognition criteria have been met.

For Fiscal 2008 the Company earned $1.72 million ($0.41 million for *George of the Jungle* Season I, $0.66 million for *Martha Speaks* Season I, $0.39 million for *Pucca* Season II, $0.11 million for *Side Show Christmas* Season I, and $0.15 million for *Peanuts* Season I) for producer and service fee revenues up 56% over 2007 where the Company recorded producer and service fees revenue of $1.09 million and $0.01 million for the feature films *Outlander* and *Slevin* respectively.

For Fiscal 2008 distribution revenues were up 48% to $14.43 million from $9.76 million for Fiscal 2007. Management was very pleased with this growth and views it as confirmation that the organic growth within the legacy divisions and recent acquisitions are translating into significant gross margin and shareholder value. For Fiscal 2008 the Company recognized revenue on several contracts throughout its existing library and delivered episodes of newer titles. Some of the more significant sales were on the following titles: $0.76 million for *This Hour Has 22 Minutes* Seasons I to XIII, $0.58 million for *Franny's Feet* Seasons I and II, $0.83 million for *Naturally Sadie* Seasons I to III, $0.96 million for *Bo on the Go!* Season I, $1.44 million for *Urban Vermin* Season I, $1.18 million for *Chop Socky Chooks* Season I, $3.01 million for *The Latest Buzz* Seasons I and II, and $0.94 million for *Delilah & Julius* Season II. Fiscal 2008 distribution revenues also included $1.06 million related to the feature film *Shake Hands With the Devil*.

For Fiscal 2008 music and royalty revenues (including royalties earned from Bulldog franchisees starting in Q3 2008) declined 2% to $0.86 million (Fiscal 2007-$0.88 million) while new media revenues were generally in line with Fiscal 2007 at $0.65 million (Fiscal 2007-$0.44 million).

For Fiscal 2008 rental revenues were $0.38 million (Fiscal 2007-$0.35 million) from the rental of studio and office facilities to third parties from the Company's Electropolis subsidiary and from rental of currently unused office space in the Company's headquarters in Halifax, Nova Scotia.

Gross Margin

Gross margin for Fiscal 2008 was $17.30 million, an increase of 78% in absolute dollars compared to $9.73 million for Fiscal 2007, but at an overall 33% of revenue represents a slight decline in percentage compared to 37% of revenue for Fiscal 2007. The margin percentage is down due to the delivery of slightly lower margin revenue mix for production in Fiscal 2008 as compared to 2007. The absolute margin dollars increased by $7.57 million as there were significant increases in production and distribution revenues.

For Fiscal 2008 the margins for each revenue category in absolute dollars and as a margin percentage are as follows: production revenue margin of $7.69 million or 22%, producer and service fee revenue margin of $1.48 million or 86%, distribution revenue margin of $6.89 million or 47% ($5.77 million or 40% when $1.12 million for the amortization of acquired libraries is removed), music and royalty revenue margin of $0.80 million or 93%, new media revenue margin of $0.06 million or 8%, and rental revenue margin of $0.38 million or 100%. The production, distribution, and producer and service fee revenue streams were significant contributors to the absolute dollar margin increase for Fiscal 2008.

In particular, production, service, and distribution in terms of absolute dollars contributed $7.69 million, $1.48 million, and $6.89 million respectively or 93% of the total margin. Production margin at 22% was in line with Management's expectations. Producer and service fee margin at 86% was at the high end of the range and is partially as a result of accounting for some of these productions using the equity method, but in line with Management's expectations. Distribution margin can fluctuate greatly from title-to-title and at 47% slightly exceeds Management's expectations. Going forward Management would expect the range on distribution margin to be from 35 to 50%. Music and royalty margin at 93% was in line with Management's expectations and is generally already on a net basis as the Company's license arrangements call for the deducting of third party commissions and expenses prior to the receipt of the royalty stream to the Company. Therefore, Management would expect this revenue stream to have low costs going forward with margins in the 70-90% range. New media margins at 8% were at the low end of Management's expectations. Rental revenue at this time requires no dedicated costs associated with the earning of the revenue, so predominately all rental revenues will fall to the bottom line with the exception of nominal administrative charges of up to 5%.

Overall gross margin for Fiscal 2008 at 33% was in line with Management's projected margin range and we would expect that future periods' gross margin will be within the 25 to 35% range.

Operating Expenses

Operating expenses for Fiscal 2008 were $16.56 million compared to $8.35 million for Fiscal 2007, an increase of 98%. The increase for Fiscal 2008 is mainly due to a 67% increase in SG&A to $12.23 million up from $7.34 million for Fiscal 2007 and a $2.78 million impairment recorded on certain investments in film and television programs (see "Impairment of Certain Investments in Film and Television Programs" section of this MD&A). SG&A costs have increased as a result of the Company's growth and continuing to add key personnel and expanding facilities as a result of increased activities and increased regulatory requirements from being public, plus the addition of 210 days of Studio B as of December 4, 2007 and 103 days of activity for Bulldog as of March 20, 2008. For Fiscal 2008, included in Operating Expenses is $1.12 million for amortization of acquired library versus $0.61 million for Fiscal 2007 (see "Amortization" section in this MD&A for further details).

Impairment of Certain Investments in Film and Television Programs

During Q4 and for Fiscal 2008 the Company recorded an impairment of certain investments in film and television programs of $2.78 million. The breakdown was $2.20 million related to an impairment on the feature film *Shake Hands With the Devil* ("**SHWTD**"). The remaining $0.58 million was recorded on a few minor television shows generally older in nature with no one show being more than $0.25 million.

As reported in the MD&A for the nine months ended March 31, 2008 "Provisions" section in relation to SHWTD, Management stated, "The Company has also booked provisions against investment in film and television programs. These provisions include specific balances where Management believes the likelihood of ultimate revenues is remote" and went on further to say, "Sales on the film are materializing, although at a slower pace than Management would like and for smaller dollar amounts."

Since Q3 2008 Management has received updated reports from the Canadian theatrical distributor and revised estimated international sales projections and has now finalized the production costs related to the film. Based on this new information and due to the fact that Management's core competency is predominantly Children's and Family entertainment, it felt it was prudent to take a conservative outlook to the fair value of this asset and as such the Company has recorded the impairment. After the additional amortization charge recorded in Q4 of $1.20 million and the impairment booked at $2.20 million, the net exposure has been written down to the fair value of the current projected revenue stream to $1.17 million. To date Management has secured $0.23 million worth of contracts against these future revenues and believes it has sufficiently discounted the remaining projections. Barring further deterioration of the remaining projections, the Company is not expecting any further impairment on this asset.

Management recognizes that the Company is in the business of producing film and television programs and as such is by nature of the industry exposed to certain risks (see "Risk Assessment" section of this MD&A). The Company has used this unusual item to move forward policy changes and enhancements and will continue to evaluate its policy for investments in productions to ensure the Company's focus remains on its core strengths of Children's and Family productions. While risks are always present, these changes will serve to help mitigate the risks and to focus the ongoing "green light" process for productions of the Company.

Income (Loss) from Strategic Investments

For Fiscal 2008 loss from strategic investments activities relating to receipt of distributions of capital and realized capital gains of $0.05 million and $0.04 million respectively, offset by an unrealized loss from short-term investments held for trading of $0.15 million, versus $0.05 million for receipts of distributions of capital and $1.69 million related to realized capital gains for Fiscal 2007. All investments were strategic in nature and were in the same or similar businesses as the business of the Company.

Adjusted EBITDA and EBITDA

In Fiscal 2008 Adjusted EBITDA (for 2008 the Adjusted EBITDA calculation includes the adding back of the impairment of $2.78 million as in Management's view this is an exceptional item) was $5.92 million, a 32% improvement as compared to the EBITDA of $4.50 million for Fiscal 2007. This was adjusted as in Management's view it represents a better comparison to 2007 and more closely approximates normal reoccurring operating EBITDA with 2007. For Fiscal 2008 compared to Fiscal 2007 changes were due to the increase in gross margin dollars of $7.57 million, adding back an increase of non-cash stock-based compensation expense of $0.53 million, and offset by the increase in SG&A, net of income from strategic investments of $6.68 million, for a positive total dollar change of $1.42 million.

Amortization

Amortization includes amortization of acquired libraries, property, plant, and equipment ("**PP&E**"), and intangible assets. For Fiscal 2008 amortization was $2.92 million (Fiscal 2007-$1.69 million). The breakdown for amortization was $1.12 million, $0.72 million, and $1.08 million for amortization of acquired libraries, PP&E, and intangible assets respectively. For Fiscal 2008

the amortization of acquired libraries was $1.12 million (Fiscal 2007-$0.61 million) which relates to the library titles that have a 20 year amortization policy, have minimal ongoing cash costs associated with selling, and are viewed as long-term assets. For Fiscal 2008 amortization of PP&E was $0.72 million (Fiscal 2007-$0.46 million) due to slight changes to PP&E. For Fiscal 2008 amortization of intangible assets was $1.08 million (Fiscal 2007-$0.63 million) which relates to the intangible assets acquired as part of the acquisitions of Decode and Studio B.

Interest

Interest expense net of interest revenue for Fiscal 2008 was $0.29 million versus interest expense of $0.29 million for Fiscal 2007. Net interest expense consists of $0.29 million, $0.12 million, $0.02 million, and $0.12 million for interest expense on long-term debt, interest accreted from other long-term liabilities, interest on notes payable related to the Decode acquisition, and interest and bank charges (Fiscal 2007-$0.28 million, nil, $0.07 million, and $0.10 million) offset by interest revenue in Fiscal 2008 of $0.26 million (Fiscal 2007-$0.16 million).

Equity Income, Costs Associated with Abandoned Acquisition, and Non-Controlling Interest

For Fiscal 2008 the Company recorded equity income of $0.05 million (Fiscal 2007-$0.36 million income) for its investment in production companies, no amounts for costs associated with abandoned acquisition (Fiscal 2007-$0.29 million), and $0.37 million income for non-controlling interest (Fiscal 2007-$0.02 million expense).

Income Taxes

Income tax expense for Fiscal 2008 was $0.04 million (Fiscal 2007-$0.59 million expense) made up from provisions of $0.04 million (Fiscal 2007-$0.11 million expense) for large corporation taxes, $0.01 million recovery (Fiscal 2007-$0.27 million tax recovery) for current income taxes, and future income tax provision of $0.01 million (Fiscal 2007-$0.75 million tax expense).

Net Income (Loss) and Comprehensive Income (Loss)

Net income and comprehensive income for Fiscal 2008 was a loss of $1.03 million, down compared to a net income of $1.20 million for Fiscal 2007, totalling a decrease of $2.23 million in absolute dollars. Net income (loss) and comprehensive income (loss) adjusted for the after-tax effect of the impairment would have resulted in adjusted income of $1.75 million which compared with 2007 would represent an adjusted increase of 46%. For Fiscal 2008 compared to Fiscal 2007 the overall decrease of $2.23 million was due to changes over Fiscal 2007 of the following amounts: a gross margin increase of $7.57 million, offset by an increase in operating expenses, net of income from strategic investments of $10.00 million, a $0.35 million increase in net interest and other expenses, and increased by a $0.55 million change in provision for income taxes.

SELECTED CONSOLIDATED QUARTERLY FINANCIAL INFORMATION

The following table sets out selected consolidated financial information for each of the last eight quarters with the last one being the most recent quarter ended June 30, 2008. In the opinion of Management, this information has been prepared on the same basis as the audited consolidated financial statements for the years ended June 30, 2008 and 2007 as filed on www.sedar.com, and all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly the unaudited quarterly results when read in conjunction with the audited consolidated financial statements and the notes to those statements. The operating results for any quarter should not be relied upon as any indication of results for any future period.

	Fiscal 2008[3 & 4]				**Fiscal 2007[4]**			
	Q4 30-Jun $	**Q3[2] 31-Mar $**	**Q2[2] 31-Dec $**	**Q1 30-Sep $**	**Q4 30-Jun $**	**Q3[2] 31-Mar $**	**Q2 30-Dec $**	**Q1 30-Sep $**
Revenue	**13,645,028**	18,832,366	9,306,751	10,662,702	10,699,693	5,366,329	6,704,811	3,199,786
Gross Margin[1]	**4,680,845**	5,840,941	3,473,609	3,306,854	4,180,294	2,112,998	2,361,030	1,079,264
EBITDA and Adjusted EBITDA[1]	**1,048,089**	2,673,545	1,011,402	1,187,510	2,837,585	631,386	950,859	80,135
Net Income (Loss) and Comprehensive Income (Loss)	**(2,416,006)**	875,533	136,951	374,452	1,034,649	133,890	234,165	(201,949)
Basic Earnings (Loss) Per Share	**(0.06)**	0.02	0.00	0.01	0.03	0.01	0.01	(0.01)
Diluted Earnings (Loss) Per Share	**(0.06)**	0.02	0.00	0.01	0.03	0.00	0.01	(0.01)

[1]Certain of the comparative Non-GAAP Financial Measures ("**NGFM**") are adjusted for all necessary adjustments, consisting of normal recurring adjustments and any changes in the current definition of NGFM (see "Use of Non-GAAP Financial Measures" section of this MD&A for further details).

[2]Q3 2008 and Q2 2008 figures for revenues and direct service costs have been adjusted by $1.56 million and $0.52 million respectively with no effect on Gross Margin, EBITDA, or Net Income as a result of non-material corrections of certain accounting treatment on final audit. Q3 2007 figures were revised to reflect the reversal of revenue previously recorded during the quarter relating to 6.5 half-hours or $0.608 million of revenue and $0.286 million in Gross Margin, EBITDA, and $0.177 million (net of $0.109 million in income tax expense) in Net Income as the license period had not yet commenced and therefore the revenues should not have been recognized.

[3]The figure shown for Q4 2008 has also been adjusted for the $2.78 million impairment of certain investments in film and television programs recorded during the quarter as management believes this to be a more meaningful indicator of fourth quarter operating performance (see "Reconciliation of Historical Results to EBITDA and Adjusted EBITDA" section of this MD&A).

[4]The financial information for Q4 2008 includes all four divisions: Halifax Film, Decode, Studio B, and Bulldog. Q3 2008 includes only 12 days of activity for the Bulldog division, as well as Halifax Film, Decode, and Studio B. Q2 2008 includes only 28 days of activity for the Studio B division, as well as Halifax Film and Decode and excludes Bulldog. Q1 2008 and prior pre-dates the acquisitions of Studio B and Bulldog (see– "Acquisitions and Long-term Investment" section of this MD&A for further details on the Studio B and Bulldog acquisitions).

Results for the three months ended June 30, 2008 ("Q4 2008") compared to the three months ended June 30, 2007 ("Q4 2007")

Revenues

Revenues for Q4 2008 were $13.65 million, up from $10.70 million for Q4 2007, an increase of 28%. The increase was generally due to increases in the Company's production, distribution, and production service fee revenue categories. Management was especially pleased with the growth in distribution revenue and views it as validation of its strategy to focus in the genre of Children's and Family content through organic growth and its acquisition of Studio B.

Proprietary production revenues for Q4 2008 of $6.00 million were up 14% over the $5.28 million for Q4 2007. The increase included a 38% decrease to $1.15 million (Q4 2007-$1.86 million) in proprietary production revenue for the Halifax Film division as a scheduling change resulted in a slight delay in delivering the remaining 12 half-hours of *The Guard* Season I (now scheduled for delivery in Q1 & Q2 2009), a 41% increase to $4.82 million for Q4 2008 (Q4 2007-$3.42 million) for the Decode division, and the inclusion of $0.03 million (Q4 2007-nil) for the Studio B division.

For Q4 2008 the Company recognized $6.00 million-38.5 half-hours of proprietary film and television program production revenue, generally in line with the 40 half-hours for Q4 2007, where the programs have been delivered and the license periods have commenced.

The breakdown for deliveries and dollar value subtotals for divisions for consolidated and non-consolidated entities for Q4 2008 and Q4 2007 was as follows:

		Q4 2008		Q4 2007	
Title	Season or Type	$ Million	Half-hours	$ Million	Half-hours
Consolidated Entities					
Decode:					
Chop Socky Chooks	I		8.0		2.0
Clang Invasion	I		7.0		-
Delilah & Julius	II		N/A [1]		-
Naturally Sadie	III		-		N/A
Super Why (CBC)	I		-		5.0
Super Why (PBS)	I		10.0		-
Urban Vermin	I		-		11.0
Subtotals		$ 4.82	25.0	$ 3.42	18.0
Studio B:					
Being Ian	III		N/A [1]		-
Subtotals		0.03	-	-	-
Halifax Film:					
Animal Mechanicals	I		6.0		-
Animal Mechanicals	II		1.5		-
Bo on the Go!	I		-		12.0
Bo on the Go!	II		6.0		-
The Guard	I		N/A [1]		-
This Hour Has 22 Minutes	XIV		-		2.0
The Truth About	Pilot		-		N/A
Subtotals		1.11	13.5	1.46	14.0
Total Consolidated Entities		5.96	38.5	4.88	32.0
Non-consolidated Entities Accounted for Using the Equity Method					
Lunar Jim	I		-		N/A
Lunar Jim	II		N/A [1]		8.0
Subtotals		0.04	-	0.40	8.0
Total All Entities		$ 6.00	38.5	$ 5.28	40.0

[1]*N/A – Not applicable as deliveries of half-hours have already been counted when title delivered in the first instance.*

In addition, in Q4 2008 the Company delivered $0.46 million-4 half-hours of *Latest Buzz* Season II where the license period had not yet commenced by June 30, 2008, and therefore the revenue recognition criteria have not been met to recognize in Q4 2008. This license period is scheduled to commence in Fiscal 2009 and will be recognized in the corresponding quarter, when the license period has commenced and all revenue recognition criteria have been met.

For Q4 2008 the Company earned $0.70 million for producer and service fee revenues ($0.47 million for *Martha Speaks* Season I, $0.08 million for *Side Show Christmas* Season I, and $0.15 million for *Peanuts* Season I) whereas for Q4 2007 the Company did not record any producer and service fees revenue.

For Q4 2008 distribution revenues were up 20% to $6.12 million from $5.09 million for Q4 2007. For Q4 2008 the Company recognized revenue on several contracts throughout its existing library and delivered episodes of newer titles. Some of the more significant sales were on the following titles: *Franny's Feet* Seasons I and II, *Naturally Sadie* Seasons I to III, *Urban Vermin* Season I, *Bo on the Go!* Season I, and *Planet Sketch* Season II.

For Q4 2008 music and royalty revenues (including royalties earned from Bulldog franchisees) increased 135% to $0.40 million (Q4 2007-$0.17 million) while new media revenues increased in Q4 2008 to $0.28 million (Q4 2007-$0.04 million). These revenue streams have remained predictable and are in line with Management's expectations.

For Q4 2008 rental revenues were $0.15 million (Q4 2007-$0.12 million) from the rental of studio and office facilities to third parties as a result of the Company's Electropolis subsidiary and from rental of currently unused office space in the Company's headquarters in Halifax, Nova Scotia.

Gross Margin

Gross margin for Q4 2008 was $4.68 million an increase in absolute dollars of 12% compared to $4.18 million for Q4 2007. The overall margin at 34% of revenue was a decline in percentage compared to 39% of revenue for Q4 2007 as the Company has delivered a mix of production and service revenues with lower margins as compared to Q4 2007. The absolute gross margin dollars for Q4 2008 were higher than Q4 2007 as there were significant increases in production revenue.

For Q4 2008 the margins for each revenue category in absolute dollars and as a margin percentage are as follows: production revenue margin of $0.15 million or 2%, net producer and service fee revenue margin of $0.51 million or 74%, distribution revenue margin of $3.47 million or 57% ($3.28 million or 54% when $0.18 million for the amortization of acquired libraries is removed), music and royalty revenue margin of $0.37 million or 93%, new media revenue margin of $0.03 million or 11%, and rental revenue margin of $0.15 million or 100%. The production, distribution, and production service fee revenue streams were all significant contributors to the absolute dollar margin increase for Q4 2008.

The production margin revenue of $0.15 million was lower than Q4 2007 as a result of $1.2 million of additional amortization related to SHWTD for Q4 2008 (see discussion on "Impairment of certain investments in film and television programs" section of this MD&A). With this excluded, the adjusted production margin would be 20%, which would be in line with Management's expectations.

In particular, distribution in terms of absolute dollars contributed $3.47 million or 73% of the total margin. Distribution margin can fluctuate greatly from title-to-title and at 57% exceeds Management's expectations. Going forward Management would expect the range on distribution margin to be from 35 to 50%. Music and royalty margin at 93% was in line with Management's expectations and is generally already on a net basis as the Company's license arrangements call for the deducting of third party commissions and expenses prior to the receipt of the royalty stream to the Company. Therefore, Management would expect this revenue stream to have low costs going forward with margins in the 70-90% range. Producer and service fee margin can vary depending on the type of service project awarded and at 74% was at the high end of the range and is partially as a result of accounting for some of these productions using the equity method, but in line with Management's expectations.

Overall gross margin for Q4 2008 at 34% is in line with Management's expectations and given the additional amortization of $1.2 million booked in Q4 2008 on SHWTD, Management was pleased with the results and we would expect that future periods' gross margin will be within the 25 to 40% range.

Operating Expenses

Operating expenses for Q4 2008 were $7.47 million compared to $2.46 million for Q4 2007, an increase of 203%. The increase for Q4 2008 is mainly due to a 136% increase in SG&A to $4.10 million up from $1.74 million for Q4 2007 and a $2.78 million impairment recorded on certain investments in film and television programs (see "Impairment of Certain Investments in Film and Television Programs" section of this MD&A). SG&A costs have increased as a result of the Company's growth and continuing to add key personnel and expanding facilities as a result of increased activities and increased regulatory requirements from being public, plus the addition of Studio B and Bulldog. For Q4 2008, included in Operating Expenses is $0.18 million for amortization of acquired library versus $0.38 million for Q4 2007 (see "Amortization" section in this MD&A for further details).

Impairment of Certain Investments in Film and Television Programs

Refer to "Impairment of Certain Investments in Film and Television Programs" section of this MD&A found under the discussion for Fiscal 2008.

Income (Loss) from Strategic Investments

For Q4 2008 loss from strategic investments activities relating to distributions of capital of $0.01 million and an unrealized loss from short-term investments held for trading of $0.05 million, versus $0.05 million for distributions of capital and $0.22 million related to realized capital gains for Q4 2007. All investments were strategic in nature and were in the same or similar businesses as the business of the Company.

***Adjusted EBITDA* & EBITDA**

In Q4 2008 Adjusted EBITDA was $1.05 million (for Q4 2008 the Adjusted EBITDA calculation includes the adding back of the impairment of $2.78 million as in Management's view this is an exceptional item), a 63% decrease as compared to an EBITDA of $2.84 million (including $0.27 million income from strategic investments) for Q4 2007. For Q4 2008 this was due to the increase in gross margin dollars of $0.50 million, adding back an increase of non-cash stock-based compensation expense of $0.39 million, and offset by the increase in SG&A, net of income from strategic investments of $2.68 million, for a total dollar change of $1.79 million.

Amortization

Amortization includes amortization of acquired libraries, property, plant, and equipment ("**PP&E**"), and intangible assets. For Q4 2008 amortization was $0.80 million (Q4 2007-$0.66 million). The breakdown for amortization was $0.19 million, $0.22 million, and $0.39 million for amortization of acquired libraries, PP&E, and intangible assets respectively. For Q4 2008 the amortization of acquired libraries was $0.19 million (Q4 2007-$0.38 million) which relates to the library titles that have a 20 year amortization policy, have minimal ongoing cash costs associated with selling, and are viewed as long-term assets. For Q4 2008 amortization of PP&E was $0.22 million (Q4 2007-$0.12 million) due to slight changes to PP&E. For Q4 2008 amortization of intangible assets was $0.39 million (Q4 2007-$0.16 million) which relates to the intangible assets acquired as part of the acquisitions of Decode, Studio B, and Bulldog.

Interest

Interest was a net interest expense for Q4 2008 of $0.14 million versus net interest expense of $0.19 million for Q4 2007. Interest expense consists of $0.07 million, nil, and $0.05 million for interest expense on long-term debt, interest accreted from other long-term liabilities, and interest and bank charges (Q4 2007-$0.07 million, $0.07 million, and $0.09 million) and offset by interest revenue of $0.03 million but adding back $0.05 million of revenue reclassified to production revenue totalling a net interest revenue decrease in Q4 2008 of $0.02 million (Q4 2007-$0.04 million offset of interest revenue).

Equity Income, Costs Associated with Abandoned Acquisition, and Non-Controlling Interest

For Q4 2008 the Company recorded an equity income of $0.01 million (Q4 2007-$0.36 million) for its investment in production companies, no amounts for costs associated with abandoned acquisition (Q4 2007-$0.27 million), and income for non-controlling interest of $0.38 million (Q4 2007-$0.01 million expense).

Income Taxes

Income tax recovery for Q4 2008 was $0.78 million (Q4 2007-$0.57 million income tax expense) made up of $0.04 million recovery (Q4 2007-$0.07 million expense) for large corporation taxes, $0.51 million expense (Q4 2007-$0.40 million recovery) for current income taxes, and future income tax recovery of $1.25 million (Q4 2007-$0.90 million expense).

Net Income (Loss) and Comprehensive Income (Loss)

Net income (loss) and comprehensive income (loss) for Q4 2008 was a loss of $2.42 million, compared to a net income of $1.03 million for Q4 2007, or a change of $3.45 million in absolute dollars. Net income (loss) and comprehensive income (loss) adjusted for the after-tax effect of the impairment would have resulted in adjusted income of $0.36 million which compared with Q4 2007 would represent an adjusted decrease of 65%. For Q4 2008 the overall decrease of 3.45 million was due to changes over Q4 2007 of the following amounts: a gross margin increase of $0.50 million, offset by an increase in operating expenses, net of income from strategic investments of $5.32 million, and increased by a $0.02 million change in net interest and other expenses and a $1.35 million change in provision for income taxes.

Results for the three months ended March 31, 2008 ("Q3 2008") compared to the three months ended March 31, 2007 ("Q3 2007")

Revenues

Adjusted Revenues for Q3 2008 were $18.83 million (Q3 revenues originally reported were $20.39 million and have been adjusted in the fourth quarter for the reversal of production service revenues and a reversal of production service costs both in the amount of $1.56 million therefore and had no impact on gross margin or net income), up from $5.37 million for Q3 2007, an increase of 251%. The increase was generally due to increases in the Company's production, distribution, and production service fee revenue categories. The Company benefited somewhat from previous fiscal 2007 deliveries in the amount of $1.24 million in proprietary production revenues where the license periods commenced in Q3 2008.

Proprietary production revenues for Q3 2008 of $13.36 million were up 279% over the $3.53 million for Q3 2007. The increase included a 193% increase to $7.80 million (Q3 2007-$2.66 million) in proprietary production revenue for the Halifax Film division, a 397% increase to $4.31 million for Q3 2008 (Q3 2007-$0.87 million) for the Decode division, the inclusion of $1.25 million (Q3 2007-nil) for the Studio B division.

For Q3 2008 the Company recognized $13.36 million-78.5 half-hours of proprietary film and television program production revenue, an increase of 191% over the 27 half-hours for Q3 2007, where the programs have been delivered and the license periods have commenced.

The breakdown for deliveries and dollar value subtotals for divisions for consolidated and non-consolidated entities for Q3 2008 and Q3 2007 was as follows:

		Q3 2008		Q3 2007	
Title	Season or Type	$ Million	Half-hours	$ Million	Half-hours
Consolidated Entities					
Decode:					
Chop Socky Chooks	I		-		7.0
Delilah & Julius	II		5.0		-
Latest Buzz	I		13.0		-
Super Why (CBC)	I		N/A [1]		-
Super Why (PBS)	I		10.0		-
Subtotals		$ 4.31	28.0	$ 0.87	7.0
Studio B:					
Being Ian	IV		6.0		-
Class of the Titans	II		6.0		-
Ricky Sprocket - Showbiz Boy (Teletoon-French)	I		2.0		-
Subtotals		1.25	14.0	-	-
Halifax Film:					
Animal Mechanicals	I		4.0		-
Bo on the Go!	I		-		7.0
The Guard	I		12.0		-
The Mighty Jungle	II		8.5		-
This Hour Has 22 Minutes	XIV		-		9.0
This Hour Has 22 Minutes	XV		12.0		-
Subtotals		7.80	36.5	2.51	16.0
Total Consolidated Entities		13.36	78.5	3.38	23.0
Non-consolidated Entities Accounted for Using the Equity Method					
Lunar Jim	II	-	-	0.15	4.0
Total All Entities		$ 13.36	78.5	$ 3.53	27.0

[1]*N/A – Not applicable as deliveries of half-hours have already been counted when title delivered in the first instance.*

In addition, in Q3 2008 the Company delivered $0.18 million-1 half-hour of *Chop Socky Chooks* Season I and $0.03 million-1 half-hour of *Super Why (CBC)* Season I, where the license periods had not yet commenced by March 31, 2008, and therefore the revenue recognition criteria have not been met to recognize in Q3 2008. This license period is scheduled to commence in Fiscal 2009 and will be recognized in the corresponding quarter, when the license period has commenced and all revenue recognition criteria have been met.

For Q3 2008 the Company earned $0.72 (Q3 revenues originally reported were $2.28 million and have been adjusted in the fourth quarter for the reversal of production service revenues and a reversal of production service costs both in the amount of $1.56 million and therefore had no impact on gross margin or net income) million for producer and service fee revenues ($0.39 million for *George of the Jungle* Season I, $0.07 million for *Martha Speaks* Season I, $0.03 million for *Side Show Christmas* Season I, $0.01 million for *Peanuts* Season I, and $0.22 million for *Pucca* Season II) whereas for Q3 2007 the Company did not record any producer and service fees revenue.

For Q3 2008 distribution revenues were up 230% to $4.43 million from $1.34 million for Q3 2007. For Q3 2008 the Company recognized revenue on several contracts throughout its existing library and delivered episodes of newer titles. Some of the more significant sales were on the following titles: *Franny's Feet* Seasons I and II, *Naturally Sadie* Seasons I to III, *Urban Vermin* Season I, and *Planet Sketch* Season II.

For Q3 2008 music and royalty revenues (including new for Q3 2008 royalties earned from Bulldog franchisees) declined 38% to $0.20 million (Q3 2007-$0.33 million) while new media revenues were generally in line with Q3 2007 at $0.07 million (Q3 2007-$0.06 million). These revenue streams have remained predictable and are in line with Management's expectations.

For Q3 2008 rental revenues were $0.05 million (Q3 2007-$0.11 million) from the rental of studio and office facilities to third parties as a result of the Company's Electropolis subsidiary and from rental of currently unused office space in the Company's headquarters in Halifax, Nova Scotia.

Gross Margin

Gross margin for Q3 2008 was $5.84 million an overall 31% of revenue versus $2.11 million or 39% of revenue for Q3 2007, an increase in absolute margin dollars of $3.73 million. The absolute gross margin dollars for Q3 2008 were higher than Q3 2007 as there were significant increases in production revenue.

In particular, production, service, and distribution in terms of absolute dollars contributed $3.16 million, $0.68 million, and $1.79 million respectively or 96% of the total margin. Production margin at 24% was in line with Management's expectations. Producer and service fee margin at 93% was at the high end of the range and is partially as a result of accounting for some of these productions using the equity method, but in line with Management's expectations. Distribution margin can fluctuate greatly from title-to-title and at 40% is in line with Management's expectations. Music and royalty margin at 86% was in line with Management's expectations.

Overall gross margin for Q3 2008 at 31% is in line with Management's projected margin.

EBITDA

In Q3 2008 EBITDA was $2.67 million (including $0.01 million from loss from strategic investments), a 324% in total increase as compared to $0.63 million (including $0.50 million from income from strategic investments) for Q3 2007.

Net Income and Comprehensive Income

Net Income and comprehensive income for Q3 2008 was $0.876 million, an improvement compared to a net income of $0.134 million for Q3 2007 of $0.742 million in absolute dollars.

Results for the three months ended December 31, 2007 ("Q2 2008") compared to the three months ended December 31, 2006 ("Q2 2007")

Revenues

Adjusted revenues for Q2 2008 were $9.31 million (Q2 revenues originally reported were $9.83 million and have been adjusted in the fourth quarter for the reversal of production service revenues and a reversal of production service costs both in the amount of $0.52 million and therefore had no impact on gross margin or net income), up from $6.71 million for Q2 2007, an increase of 39%. The increase was generally due to increases in the Company's production revenue category. The Company benefited somewhat from previous fiscal 2007 deliveries in the amount of $0.35 million in proprietary production revenues where the license periods commenced in Q2 2008.

Proprietary production revenues for Q2 2008 of $6.28 million were up 80% over the $3.48 million for Q2 2007. The increase included a 30% increase to $3.06 million (Q2 2007-$2.36 million) in proprietary production revenue for the Halifax Film

division, a 135% increase to $2.62 million for Q2 2008 (Q2 2007-$1.12 million) for the Decode division, and the inclusion of $0.60 million (Q2 2007-nil) for the Studio B division.

For Q2 2008 the Company recognized $6.28 million-55.5 half-hours of proprietary film and television program production revenue, an increase of 21% over the 46 half-hours for Q2 2007, where the programs have been delivered and the license periods have commenced.

The breakdown for deliveries and dollar value subtotals for divisions for consolidated and non-consolidated entities for Q2 2008 and Q2 2007 was as follows:

		Q2 2008		Q2 2007	
Title	Season or Type	$ Million	Half-hours	$ Million	Half-hours
Consolidated Entities					
Decode:					
Delilah & Julius	II		7.0		-
Naturally Sadie	II		-		26.0
Naturally Sadie	III		-		9.0
Super Why (CBC)	I		N/A [1]		-
Super Why (PBS)	I		5.0		-
Urban Vermin	I		5.0		-
Subtotals		$ 2.62	17.0	$ 1.12	35.0
Studio B:					
Being Ian	IV		2.0		-
Class of the Titans	II		4.0		-
Ricky Sprocket - Showbiz Boy (Teletoon-French)	I		6.0		-
Subtotals		0.60	12.0	-	-
Halifax Film:					
The Guard	I		2.0		-
The Mighty Jungle	I		3.0		-
The Mighty Jungle	II		4.5		-
This Hour Has 22 Minutes	XIV		-		10.0
This Hour Has 22 Minutes	XV		9.0		-
The Truth About	Pilot		-		1.0
Subtotals		2.98	18.5	2.36	11.0
Total Consolidated Entities		6.20	47.5	3.48	46.0
Non-consolidated Entities Accounted for Using the Equity Method					
Lunar Jim	II	0.08	8.0	-	-
Total All Entities		$ 6.28	55.5	$ 3.48	46.0

[1]N/A – Not applicable as deliveries of half-hours have already been counted when title delivered in the first instance.

The Company recorded for Q2 2008 an additional $0.01 million as an equity pickup for *Lunar Jim* Season II. There was no equity pickup for Q2 2007.

In addition, in Q2 2008 the Company delivered $1.38 million-12 half-hours of *The Latest Buzz* Season II, where the license periods had not yet commenced by December 31, 2007, and therefore the revenue recognition criteria have not been met to recognize in Q2 2008. This license period is scheduled to commence in Fiscal 2009 and will be recognized in the corresponding quarter, when the license period has commenced and all revenue recognition criteria have been met.

For Q2 2008 the Company earned $0.29 million (Q2 revenues originally reported were $0.71 million and have been adjusted in the fourth quarter for the reversal of production service revenues and a reversal of production service costs both in the amount of $0.42 million and therefore had no impact on gross margin or net income) for producer and service fee revenues ($0.01 million for *George of the Jungle* Season I, $0.11 million for *Martha Speaks* Season I, and $0.17 million for *Pucca* Season II) whereas for Q2 2007 the Company recorded producer and service fees revenue of $0.78 million for the feature film *Outlander*.

For Q2 2008 distribution revenues were up 21% to $2.47 million from $2.05 million for Q2 2007. For Q2 2008 the Company recognized revenue on several contracts throughout its existing library and delivered episodes of newer titles. Some of the more significant sales were on the following titles: *Franny's Feet* Seasons I and II, *Naturally Sadie* Seasons I to III, *Urban Vermin* Season I, and *Planet Sketch* Season II.

For Q2 2008 music and royalty revenues dropped slightly to $0.09 million (Q2 2007-$0.14 million) while new media revenues were in line with Q2 2007 at $0.11 million (Q2 2007-$0.14 million).

For Q2 2008 rental revenues were $0.06 million (Q2 2007-$0.12 million) from the rental of studio and office facilities to third parties as a result of the Company's Electropolis subsidiary and from rental of currently unused office space in the Company's headquarters in Halifax, Nova Scotia.

Gross Margin

Gross margin for Q2 2008 was $3.47 million an overall 37% of revenue versus $2.36 million or 35% of revenue for Q2 2007, an increase in absolute margin dollars of $1.11 million. The absolute gross margin dollars for Q2 2008 were higher than Q2 2007 as there were significant increases in production revenue.

In particular, production, service, and distribution in terms of absolute dollars contributed $2.11 million, $0.29 million, and $0.91 million respectively or 95% of the total margin. Production margin at 33% was in line with Management's expectations. Producer and service fee margin at 99% was at the high end of the range and is partially as a result of accounting for some of these productions using the equity method, but in line with Management's expectations. Distribution margin can fluctuate greatly from title-to-title and at 37% is in line with Management's expectations. Music and royalty margin at 100% was in line with Management's expectations. New media margins at 10% were in line with Management's expectations.

EBITDA

In Q2 2008 EBITDA was $1.01 million (including $0.10 million from Loss from Strategic Investments), a 6% in total increase as compared to $0.95 million (including $0.43 million from Income from Strategic Investments) for Q2 2007.

Net Income and Comprehensive Income

Net Income and comprehensive income for Q2 2008 was $0.14 million, a decrease compared to a net income of $0.23 million for Q2 2007 of $0.10 million in absolute dollars.

Results for the three months ended September 30, 2007 ("Q1 2008") compared to the three months ended September 30, 2006 ("Q1 2007")

Revenues

Revenues for Q1 2008 were $10.66 million, up from $3.20 million for Q1 2007, an increase of 233%. The increase was generally due to increases in the Company's production revenue category. Management was pleased with the growth in revenue given that Q1 is typically a slower quarter for the Company (See "Seasonality" section of this MD&A for further details). The Company benefited somewhat from previous fiscal 2007 deliveries in the amount of $1.58 million in proprietary production revenues where the license periods commenced in Q1 2008.

Proprietary production revenues for Q1 2008 of $8.78 million were up 652% over the $1.17 million for Q1 2007. The increase included a 278% increase to $2.98 million (Q1 2007-$0.79 million) in proprietary production revenue for the Halifax Film division and a significant increase to $5.80 million for Q1 2008 (Q1 2007-0.38 million) for the Decode division. The increase in the Halifax Film division related partially to the delivery of the feature film *Shake Hands With The Devil,* in the amount of $1.80 million during Q1 2008 versus no deliveries for Q1 2007.

For Q1 2008 the Company recognized $8.78 million-61 half-hours of proprietary film and television program production revenue, an increase of 369% over the 13 half-hours for Q1 2007, where the programs have been delivered and the license periods have commenced.

The breakdown for deliveries and dollar value subtotals for divisions for consolidated and non-consolidated entities for Q1 2008 and Q1 2007 was as follows:

		Q1 2008		Q1 2007	
Title	Season or Type	$ Million	Half-hours	$ Million	Half-hours
Consolidated Entities					
Decode:					
Delilah & Julius	II		14.0		-
Naturally Sadie (SRC)	III		N/A [1]		4.0
Planet Sketch	II		13.0		-
Super Why (PBS)	I		11.0		-
Urban Vermin	I		10.0		-
Subtotals		$ 5.80	48.0	$ 0.38	4.0
Halifax Film:					
Bo on the Go!	I		6.0		1.0
The Making of Shake Hands with the Devil	Documentary		1.0		-
POKO	III		-		8.0
Shake Hands with the Devil	Feature Film		4.0		-
Show Us Your Shorts TV	Pilot		2.0		-
This Hour Has 22 Minutes	XIV		-		N/A
Subtotals		2.76	13.0	0.79	9.0
Total Consolidated Entities		8.56	61.0	1.17	13.0
Non-consolidated Entities Accounted for Using the Equity Method					
Lunar Jim	II	0.22	N/A [1]	-	-
Total All Entities		$ 8.78	61.0	$ 1.17	13.0

[1] *N/A – Not applicable as deliveries of half-hours have already been counted when title delivered in the first instance.*

The Company recorded for Q1 2008 an additional $0.02 million as an equity pickup for *Lunar Jim* Season II. There was no equity pickup recorded for Q1 2007.

In addition, as of Q1 2008 the Company had delivered $2.84 million-37 half-hours of proprietary television programs, where the license periods had not yet commenced by September 30, 2007, and therefore the revenue recognition criteria have not been met to recognize in Q1 2008. The additional proprietary television programs were: $1.24 million-13 half-hours of *The Latest Buzz* Season I, $1.15 million-10 half-hours of *The Latest Buzz* Season II, $0.10 million of *The Making of Shake Hands with the Devil* Documentary, and $0.35 million-14 half-hours of *Super Why* (CBC). These license periods are scheduled to commence throughout Fiscal 2008 and 2009 and will be recognized in the corresponding quarters, when the license periods have commenced and all revenue recognition criteria have been met.

For Q1 2008 the Company earned no amounts for net producer and service fee revenues whereas for Q1 2007 the Company recorded net producer and service fees revenue of $0.31 million and $0.02 million for the feature films *Outlander* and *Slevin* respectively.

For Q1 2008 distribution revenues were up 11% to $1.41 million from $1.27 million for Q1 2007. For Q1 2008 the Company recognized revenue on several contracts throughout its existing library and delivered episodes of newer titles. Some of the more significant sales were on the following titles: *Franny's Feet* Seasons I and II, *Naturally Sadie* Seasons I to III, *Urban Vermin* Season I, and *Planet Sketch* Season II.

For Q1 2008 music and royalty revenues dropped slightly to $0.16 million (Q1 2007-$0.25 million) while new media revenues were in line with Q1 2007 at $0.19 million (Q1 2007-$0.20 million).

For Q1 2008 rental revenues were $0.12 million (Q1 2007-nil) from the rental of studio and office facilities to third parties as a result of the Company's purchase of Electropolis (See "Acquisition and Long-term Investment" section of this MD&A for further details) and from rental of currently unused office space in the Company's headquarters in Halifax, Nova Scotia.

Gross Margin

Gross margin for Q1 2008 was $3.31 million an overall 31% of revenue versus $1.08 million or 34% of revenue for Q1 2007, an increase in absolute margin dollars of $2.23 million. The absolute gross margin dollars for Q1 2008 were higher than Q1 2007 as there were significant increases in production revenue.

Overall gross margin for Q1 2008 at 31% is in line with Management's projected margin.

EBITDA

In Q1 2008 EBITDA was $1.19 million (including $0.09 million income from strategic investments), a significant improvement as compared to $0.08 million for Q1 2007.

Net Income (Loss) and Comprehensive Income (Loss)

Net Income and comprehensive income for Q1 2008 was $0.37 million, a significant improvement compared to a net loss of $0.20 million for Q1 2007, totalling an improvement of $0.57 million in absolute dollars.

Liquidity and Capital Resources

	June 30 2008 $	**June 30, 2007 $**
	(Amounts in Thousands, Except Balance Sheet Ratios)	
Key Balance Sheet Amounts and Ratios:		
Cash, restricted cash [1] and short-term investment……………….	**9,609**	5,779
Long-term assets …………………………………………….……	**47,091**	33,798
Working capital……………………………………………….……	**16,810**	13,995
Long-term liabilities……………………………………………….	**5,708**	6,331
Working capital ratio [2]………………………………………….	**1.21**	1.25
Cash Inflows and (Outflows) by Activity:		
Operating activities……………………………………………….	**(5,256)**	(20,682)
Investing activities………………………………………………..	**(9,030)**	932
Financing activities……………………………………………….	**19,717**	17,073
Net cash inflows (outflows)……………………………………….	**5,431**	(2,677)

(1) Restricted cash is the balance of cash on hand in Media Fund (Atlantic) Ltd. The use of this cash is restricted to specified uses related to the production and development of film and television programs.
(2) Working capital ratio is current assets divided by current liabilities.

Changes in Cash

Cash at June 30, 2008 was $8.86 million compared to $3.43 million as of June 30, 2007. For Fiscal 2008 the cash balance increased $5.43 million when comparing the cash balance to Fiscal 2007.

For Fiscal 2008 cash flows from operating activities were a use of cash of $5.26 million. Cash flows from operating activities resulted from net loss of $1.03 million and adding back non-cash items of amortization of film and television programs, acquired library, PP&E, intangible assets, impairment in value of certain investments in film and television programs, loss on disposal of short-term investments, unrealized loss on short-term investments, stock-based compensation, interest on promissory notes, interest accreted on other long-term liabilities, and future income tax expense of $34.84 million, $1.12 million, $0.72 million, $1.08 million, $2.78 million, $0.07 million, $0.04 million, $0.90 million, $0.01 million, $0.12 million, and $0.01 million respectively. Cash flows were reduced by credits not involving cash of $37.55 million for investments in film and television programs, $0.04 million for equity income, $0.37 million for non-controlling interest, and $7.96 million net change in non-cash working capital balances related to operations.

For Fiscal 2008 cash flows generated from financing activities were $19.72 million. Cash flows from financing activities resulted primarily from cash generated from issuances of common shares net of issue costs of $15.94 million, new borrowings from interim financing of $3.61 million, and proceeds from bank indebtedness of $1.87 million. This was offset by uses of cash of $0.63 million, $0.40 million, and $0.67 million respectively from repayment of long-term debt and obligations under capital leases, repayment of note payable, and repayment of other long-term liabilities.

For June 30, 2008 cash flows from investing activities were a use of cash of $9.03 million. Cash flows used in investing activities were $0.50 million for PP&E acquisitions, $8.17 million for business acquisitions, $2.07 million for a long-term investment, and $0.18 million for acquisitions of short-term investments. Cash flows generated in investing activities were proceeds from disposal of short-term investments of $1.74 million and net cash advances from investees of $0.15 million.

Working Capital

Working capital ("**Working Capital**") represents the Company's current assets less current liabilities. Working Capital increased by $2.82 million as at June 30, 2008 over June 30, 2007. The working capital ratio remained strong at 1.21 for June 30, 2008.

Based on the Company's current revenue expectations for Fiscal 2009, which are based on contracted and expected production and distribution revenue, the Company believes cash generated from operations and existing resources will be sufficient to satisfy Working Capital needs for at least the next twelve months. Management believes the current Working Capital surplus totalling $16.81 million is sufficient to execute its current business plan.

In Q2 2008, the Company also secured a revolving credit facility ("RBC Revolving Credit Facility") with the Royal Bank of Canada with a maximum authorized amount of $70.0 million including bank indebtedness and interim production financing (notes 12 and 13 to the consolidated financial statements for the year ended June 30, 2008) to assist with financing operations. Within the RBC Revolving Credit Facility is a revolving production credit facility with a maximum of $66.5 million for interim production financing. Substantially all of the Company's assets and certain of its subsidiaries have been pledged as security for borrowing under the RBC Revolving Credit Facility.

Post the Studio B acquisition, given the RBC debt assumed, one interpretation is that the Company is getting close or is perhaps over the maximum authorized amount. As such the Company obtained a waiver from RBC and is working closely with them with a goal to achieve an expanded long-term facility.

Contractual Obligations

As of June 30, 2008

Payments Due by Period	**Total**	**Fiscal 2009**	**Fiscal 2010-2011**	**Fiscal 2012-2013**	**After Fiscal 2014**
	$	$	$	$	$
Purchase Obligations					
Rights purchase for POKO [1]	46,700	46,700	-	-	-
Acquisition of library license rights [2]	1,100,000	1,100,000	-	-	-
Feature film settlement[3]	175,000	175,000	-	-	-
Capital Lease for Equipment [4]	230,818	126,197	104,621	-	-
Long-term debt payments (principal and interest) [5]	4,552,111	813,973	942,136	824,631	1,971,371
Total Contractual Obligations	6,104,629	2,261,870	1,046,757	824,631	1,971,371

(1) Pursuant to an agreement whereby the Company acquired the right to develop, produce, distribute, and otherwise exploit future seasons of the television series titled "*POKO*". The amount remaining as at June 30, 2008 was $46,700.

(2) Pursuant to an agreement whereby the Company acquired the distribution rights ("**Distribution Rights**") to 520 half-hours of television programming. The amount remaining as of June 30, 2008 was $1,100,000.

(3) Pursuant to a settlement on a feature film, the Company agreed to pay $175,000 by October 31, 2008.

(4) Pursuant to a capital lease for video editing and other office equipment, the obligations bear interest at 6.7% and 8.4% and mature from August 2008 to June 2010.

(5) See note 14 to the audited consolidated financial statements for year ended June 30, 2008 for details.

Outlook

The Company's Fiscal 2008 year end balance sheet remains strong and Management believes the Company is in a solid position for Fiscal 2009. Management continues to focus on its core strategy of continuing to develop, produce, and distribute the best possible quality Children's and Family programs with a goal of getting a "hit" show which would have the effect of increasing revenue and transforming the Company. We continue to use our strengths, selectively, in comedy and drama to take advantage of present opportunities and to create further value for shareholders.

In particular, the Company believes it is well on its way to carrying forward its contemplated strategic initiatives, including revenue growth in production and distribution for all of its divisions, increasing profitability metrics, expanding the Company's presence in international markets, leveraging the Company's experience to focus on Children's and Family content and M&L, and undertaking further potential synergistic acquisitions. In this regard, for Fiscal 2009, the Company remains focused on organic growth and growth through acquisitions and is currently exploring a number of opportunities to expand its revenue platform.

With the momentum of 2008 and on the strength of revenue growth to $34.41 million and $14.43 million for production and distribution, Management believes the Company is operating from a position of strength. Management is pleased to report that it is expecting growth for Fiscal 2009 in deliveries of 10-20% over 2008 totals. For Fiscal 2009, the Company has over 250 half-hours of contracted proprietary programs (plus 50-75 half hours potential proprietary programs currently under negotiation with various broadcasters) which are scheduled for delivery and for the license periods to commence. As has historically been the case, this will be more heavily weighted to the last half of our fiscal year, which is expected to represent approximately 100 scheduled deliveries for the first half and approximately 150 scheduled deliveries for the second half of 2009 (see "Seasonality" section of this MD&A). The Company's 2008 average production revenue value (once the license period has commenced) per half-hour of television programs was $0.15 million and historically has been $0.10-0.15 million and Management expects this to approximate 2009 levels.

Distribution revenues are lumpy as seen historically and specifically looking at 2008 as an indicator. Overall, Management is expecting to continue the progress it has seen in 2008 into 2009 and is targeting growth to be more normalized but still represent 10-20% growth over 2008 levels. The Company expects this to be driven by its recent increased production levels which has added new product to the library now available for international sales plus the further integration of Studio B's proprietary titles.

For 2009, given the Studio B acquisition, the Company is expecting between $2.00-$4.00 million of animated production service work based on expected service contracts or current contracts in progress with margins consistent with 2008 levels.

In 2009, Management will continue to focus on broadening revenue streams, specifically into leveraging our brands through M&L, music and royalties, and other ancillary revenues. In Fiscal 2009, the Company anticipates further revenue growth, specifically in the category of music and royalty revenues, as it embarks upon its M&L relationships with PLAYSKOOL, a division of Hasbro Inc. set to launch toys for spring 2009 (delayed from last reported Christmas 2008 launch date), for the Company's preschool property *Franny's Feet*. The Company is also focused on leveraging other existing proprietary properties for additional M&L revenues. Management sees this as the best opportunity for further growth and to realize its goal of getting a "hit" and as such, for 2009, will focus on ways to further leverage new M&L opportunities. M&L revenues for Fiscal 2009 are expected to be in the range of $0.5 million to $2.0 million. For 2009 other new media and rental revenue are expected to be consistent with 2008 levels.

Further synergies from the recent acquisition of Studio B are demonstrated through strong gross margins as shown by the 33% margin for 2008. For Fiscal 2009, gross margin is expected to be in the 25-35% range.

For Fiscal 2009, Management is expecting a modest 5% increase in SG&A and most amortization levels over 2008, except amortization of intangibles will increase by 20-30%. For Fiscal 2009, interest income (expense), income from strategic investments, and non-controlling interest are expected to be in line with 2008 levels.

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 are generally highest in the third and fourth fiscal quarters, driven by contracted deliveries with the primary broadcasters. Although with the Company's recent diversification of its revenue mix, particularly in the strengthening of the distribution revenue stream, some of the quarterly lumpiness is improving slightly and becoming more predictable. Distribution revenues are contract and demand driven and can fluctuate significantly from period-to-period.

Acquisitions and Long-term Investment

During Fiscal 2008, the following acquisitions/investment occurred:

(a) 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 cash consideration of CAD $2.07 million, including capitalized investment costs. The Company has a right of first offer to acquire any additional shares issued from treasury or shares sold by other shareholders.

Tribal Nova is an established, on-line game developer and operator of gaming and video-on-demand (VOD) broadband channels for children 3 to 12. The partnership will provide another platform over which DHX Media can exploit its content library. Tribal Nova offers broadcasters the ability to create new revenue streams from its subscription service gaming and VOD platforms. This has already resulted in Tribal Nova distributing the Company's digital and interactive assets in their online environment through a subscription model and future co-production opportunities.

(b) On December 4, 2007, the Company acquired all of the outstanding shares in Studio B, a privately-owned producer of primarily proprietary and service contracts for children's programming for an initial cash payment of CAD $8 million against a total purchase price of 4.5 times the average EBITDA of Studio B's years ending October 31, 2007 ("Fiscal 2007") and October 31, 2008 ("Fiscal 2008"), up to a maximum amount of CAD $20 million, and with transaction costs of $36,125. Any further potential consideration payable by DHX Media 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.

DHX will benefit from several new broadcaster relationships, expanded production capabilities and a greater supply of children's programming from which it can generate future distribution revenues. Furthermore, the television series created by Studio B will contribute to DHX's stated strategy of growing a significant library of children's content from which revenues can be generated over multiple platforms. DHX also benefits from Studio B's proven track record of delivering service animation production to established long-term customers.

(c) On March 20, 2008, the Company acquired all of the outstanding shares in Bulldog, for the consideration of a cash payment of $625,000, transaction costs of $6,787, 99,333 common shares of the Company valued at $149,993, and an Earnout Amount payable in cash and common shares of the company with a maximum potential payout of $1,950,000 which is payable subject to Bulldog Interactive meeting certain financial targets.

Bulldog is a master franchiser for children's interactive entertainment centres with 8 locations throughout Canada and one coming soon to Boca Raton, Florida, aimed at combating the problem of childhood obesity. Bulldog earns revenues through royalties from franchisees, fees on franchise set up including equipment purchases, and other revenue sharing opportunities such as the potential for M&L revenue. The acquisition of Bulldog provides the Company with a research and development platform to roll out new shows/games, cross promotional opportunities (DVD's and merchandise), exposure to the fastest growing children's entertainment platforms, and an opportunity to provide children with a fun, safe, and healthy environment while providing a low cost alternative to them buying the interactive technology outright.

Capital Stock Issuances During Fiscal 2008 and 2007

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 November 13 and 14, 2007, the Company issued a combined 9,815,000 units ("Unit or Units") from the treasury at a price of $1.80 per Unit for aggregate gross proceeds of $17,667,000 (the "Offering") plus an additional $5,368 for separately issued warrants. 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 $2.10 per common share, expiring on November 13, 2010.

On December 18, 2006, the Company issued 225,000 common shares at $1.41 per share for the gross amount of $317,250. The 225,000 common shares were issued to two directors and a former shareholder of Decode as partial payment for a note payable owing to them in connection with the purchase of their interest in Decode.

Off Balance Sheet Transactions

For Fiscal 2008 the Company had no material off balance sheet transactions.

Subsequent Events

On July 21, 2008, the Company acquired imX Communications Inc. and its library of 20 feature films and 26 half-hours of television drama, documentary and animation entertainment. The total consideration paid for the acquisition is $755,000, consisting of $655,000 in cash and 67,552 common shares of the Company.

Critical Accounting Policies and Estimates

The preparation of the financial statements in conformity with Canadian GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting period. Management of the Company regularly reviews its estimates and assumptions based on historical experience and various other assumptions that it believes would result in reasonable estimates given the circumstances. Actual results could differ from those estimates under different assumptions. The following is a discussion of accounting policies that require significant Management judgments and estimates. For a discussion of all of the Company's accounting policies, including the items outlined below, refer to note 1 of the audited consolidated financial statements for the years ended June 30, 2008 and 2007 on www.sedar.com.

Revenue Recognition

Production and Distribution Revenue

The Company recognizes revenues from the licensing of film and television programs when: a) the Company has persuasive evidence of a contractual arrangement; b) the production has been completed; c) the contractual delivery arrangements have been satisfied; d) the licensing period has commenced; e) the fee is fixed or determinable; and f) collectibility of proceeds is reasonably assured.

Cash payments received or advances currently due pursuant to a broadcast license or distribution arrangement are recorded as deferred revenue until all of the foregoing conditions of revenue recognition have been met.

Producer and Service Fee Revenue

Revenues from production services for third parties are recognized on a percentage-of-completion basis. Associated production costs are charged against earnings as the revenue is recognized. Percentage-of-completion is based upon the proportion of costs incurred in the current period to total expected costs. A provision is made for the entire amount of future estimated losses, if any, on production-in-progress.

Variable Interest Entities

The Company follows Accounting Guideline 15 – Consolidation of Variable Interest Entities ("**AcG 15**"). AcG 15 provides criteria for the identification of Variable Interest Entities (**"VIEs"**) and further criteria for determining what entity, if any should consolidate them. AcG 15 defines a VIE as an entity that either does not have sufficient equity at risk to finance its activities without subordinated financial support or where the equity investors lack the characteristic of a controlling financial interest. VIEs are subject to consolidation by a company if that company is deemed the primary beneficiary of the VIE. The primary beneficiary is the party that is either exposed to a majority of the expected losses from the VIEs' activities or is entitled to receive a majority of the VIEs' residual returns or both (For a more detailed discussion of VIEs see note 3 to the Financial Statements for the years ended June 30, 2008 and 2007 on www.sedar.com).

Investment in Film and Television Programs

Investment in film and television programs represents the unamortized costs of film and television programs which have been produced by the Company or for which the Company has acquired distribution rights. Investment in film and television programs also includes acquired film and television libraries. Costs of acquiring and producing film and television programs are capitalized, net of federal and provincial program contributions earned, and amortized using the individual film forecast method, whereby capitalized costs are amortized and ultimate participation costs are accrued in the proportion that current revenue bears to Management's estimate of ultimate revenue expected to be recognized from the exploitation, exhibition, or licensing of the film or television program. For film and television programs produced by the Company, capitalized costs include all direct production and financing costs incurred during production that are expected to benefit future periods. Financing costs are capitalized to the costs of a film or television program until the film or television program is complete. Capitalized production costs do not include administrative and general expenses, the cost of overall deals, or charges for losses on properties sold or abandoned. For episodic television series, until estimates of secondary market revenue can be established, capitalized costs for each episode produced are limited to the amount of revenue contracted for each episode. Costs in excess of this limitation are expensed as incurred on an episode-by-episode basis. Production financing provided by third parties that acquire substantive equity participation is recorded as a reduction of the cost of the production. Film and television programs in progress represent the accumulated costs of productions, which have not been completed by the Company. For films other than episodic television series and acquired libraries, ultimate revenue includes estimates over a period not to exceed ten years following the date of initial release. For episodic television series, ultimate revenue includes estimates of revenue over a period not to exceed ten years from the date of delivery of the first episode or, if still in production, five years from the date of delivery of the most recent episode, if later. For acquired film and television libraries previously released, ultimate revenue includes estimates of revenue over a period not to exceed twenty years from the date of acquisition.

Revenue estimates are prepared on a title-by-title basis and are reviewed periodically based on current market conditions. For film, revenue estimates include net theatrical receipts, sale of videocassettes and DVDs, licensing of television broadcast rights and licensing of other ancillary film rights to third parties. For television programs, revenue estimates include licensed rights to broadcast television programs in development and rights to renew licenses for episodic television programs in subsequent seasons. Ultimate revenue includes estimates of secondary market revenue for produced episodes only when the Company can demonstrate through its experience or industry norms that the number of episodes already produced, plus those for which a firm commitment exists and the Company expects to deliver, can be licensed successfully in the secondary market.

Estimates of future revenue involve measurement uncertainty and it is therefore possible that reductions in the carrying value of investment in film and television programs may be required as a consequence of changes in Management's future revenue estimates.

The valuation of investment in film and television programs is reviewed on a title-by-title basis when an event or change in circumstances indicates that the fair value of a film or television program is less than its unamortized cost. The fair value of the film or television program is determined using Management's estimates of future revenues and costs under a discounted cash flow approach. A write-down is recorded equivalent to the amount by which the unamortized costs exceed the estimated fair value of the film or television program.

Stock-based Compensation

The Company follows the Canadian Institute of Chartered Accountants Handbook Section 3870 ("**CICA 3870**"), "Stock-based Compensation and Other Stock-based Payments". Under the amended standards of this Section, the fair value of all stock options granted to employees and consultants are recorded in operations or production costs, as applicable over their vesting periods.

The fair value of options is determined using the Black Scholes option pricing model that takes into account, as of the grant date, the exercise price, the expected life of the option, the current price of the underlying stock and its expected volatility, expected dividends on the stock, and the risk-free interest rate over the expected life of the option. The resulting fair value of the options is expensed on a straight-line basis over their vesting periods. Cash consideration received from employees when options are exercised and the value of options accumulated in contributed surplus is credited to share capital. Stock-based Compensation also includes awards of common shares to certain employees of the Company related to the achievement of certain financial benchmarks.

Investment in Production Companies

The valuation of equity accounted investments is regularly reviewed by Management to ensure that any decline in market value that is considered other than temporary has been reflected in the related carrying value of the investment. In making that assessment, several factors are considered, including the amount by which the market value exceeds carrying value and investees' expected future cash flows and earnings. The Company recorded in the equity income line on the statement of income (loss) and

comprehensive income (loss) an amount of $0.05 million and $0.01 million for Fiscal 2008 and Q4 2008 respectively (Fiscal 2007-$0.36 million and Q4 2007-$0.36 million).

In the normal course of business, the Company enters into production arrangements with third party production, distribution companies and broadcasters related to the production of television series or feature films. The wholly-owned production companies in which these production activities are undertaken, are VIEs as they do not have sufficient equity at risk to finance their activities. The Company has variable interests in certain entities but in certain companies, it is not exposed to the majority of the expected losses and, therefore, does not consolidate these companies. The Company accounts for these entities using the equity method (note 9).

Goodwill

The Company implements the recommendations of the Canadian Institute of Chartered Accounts (''CICA'') Handbook Section 3062, "Goodwill and Other Intangible Assets". Based on this standard, goodwill of the Company is tested for impairment annually on June 30, or more frequently if impairment indicators arise, to determine if an impairment loss should be recognized. Impairment indicators include the existence of significant restructuring plans, the existence of significant adverse changes in the business climate, and the existence of significant write downs of assets. During the year ended June 30, 2008, the Company recorded no amounts for impairment of goodwill (year ended June 30, 2007-nil).

Provisions

Balance sheet provisions for amounts receivable and legal issues all require estimates and assumptions by Management that could be significant.

In certain instances, the provision for amounts receivable is based on specifically identified accounts where Management believes that collection is doubtful. These accounts are identified based on customer knowledge and past experience. In other instances, the provision for amounts receivable is based on an allowance for Federal and Provincial government tax credits receivable and is based on historic collection, excluding accounts that have been specifically provided for. Historically, Management's estimate of the required provision has been adequate. Provisions for legal issues are based on Management's best estimate of the probable outcome and resolution of legal matters.

The Company has also booked provisions against investment in film and television programs. These provisions include specific balances where Management believes the likelihood of ultimate revenues is remote and general allowances. Historically, Management's estimate of the required provision has been adequate (see "Impairment of Certain Investments in Film and Television Programs" section of this MD&A).

Future Tax Assets and Liability

Management's assessment of the Company's ability to realize future income tax assets is performed on a legal entity basis and is based on existing tax laws and estimates of future taxable income. Where, in the opinion of Management, the value of future income tax assets exceeds the estimate of amounts expected to be realized, a valuation allowance is recorded to reduce the future income tax asset. If the Company's assessment changes in the future, the valuation allowance will increase or decrease accordingly, resulting in corresponding decreases or increases in income, respectively, in that period. The valuation allowance is in no way indicative of the availability of income tax losses or other timing differences to offset future profits earned. Rather, the valuation allowance reduces the future income tax asset to Management's estimate of the future tax asset that will be realized as a reduction of cash income taxes paid in the future.

The above estimates are revised accordingly as new or different circumstances arise. While Management believes the balance sheet provisions are adequate, using different assumptions or estimates could have a significant impact on the Company's results of operations, prospects, or financial condition.

Accounting Policy Changes

Financial Instruments and Comprehensive Income

In January 2005, the CICA issued Handbook Sections 3855, ''Financial Instruments — Recognition and Measurement'', 1530, ''Comprehensive Income'', 3251, and ''Equity''. These new standards are effective for interim and annual financial statements relating to fiscal years commencing on or after October 1, 2006 on a prospective basis. The Company adopted these new standards effective July 1, 2007.

Section 3855 prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be presented. This Section requires that:

- All financial assets be measured at fair value on initial recognition and certain financial assets to be measured at fair value subsequent to initial recognition;

- All financial liabilities be measured at fair value if they are classified as held for trading purposes. Other financial liabilities are measured at amortized cost using the effective interest method; and
- All derivative financial instruments be measured at fair value on the balance sheet, even when they are part of an effective hedging relationship.

Section 1530 introduces a new requirement to temporarily present certain gains and losses from changes in fair value outside net income. It includes unrealized gains and losses, such as changes in the currency translation adjustment relating to self-sustaining foreign operations, unrealized gains or losses on available-for-sale investments, and the effective portion of gains or losses on derivatives designated as cash flow hedges or hedges of the net investment in self-sustaining foreign operations.

Section 3251 describes the changes in how to report and disclose equity and changes in equity as a result of the new requirements of Section 1530.

Future Accounting Changes

Capital Disclosures

The CICA issued Handbook Section 1535, ''Capital Disclosures''. This Section establishes standards for disclosing information about an entity's objectives, policies, and processes for managing capital. This standard is effective for interim and annual financial statements relating to fiscal years commencing on or after October 1, 2007 on a prospective basis. The Company has adopted this new standard effective July 1, 2008.

Financial Instruments — Disclosures and Presentation

The CICA issued Handbook Sections 3862, ''Financial Instruments — Disclosures'' and 3863, ''Financial Instruments — Presentation''. These standards enhance existing disclosures in previously issued Section 3861 ''Financial Instruments — Disclosures and Presentation''. Section 3862 places greater emphasis on disclosures about risks related to recognized and unrecognized financial instruments and how those risks are managed. Section 3863 carries forward the same presentation standards as Section 3861. These new standards are effective for interim and annual financial statements relating to fiscal years commencing on or after October 1, 2007 on a prospective basis. The Company has adopted these new standards effective July 1, 2008.

Goodwill and Intangible Assets

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

Risks

Credit Risk

Amounts receivable from the Canadian federal government and other government agencies in connection with production financing represents 70% of total accounts receivable at June 30, 2008 (June 30, 2007-73%). 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. An allowance for doubtful accounts, specifically an allowance on Federal and Provincial tax credits receivable, has been recorded based on the Company's collection history.

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. Management believes this exposure to be minimal. As an example, as of June 30, 2008, a 1% rate increase would result in an annualized increase of approximately $0.20-0.40 million in interest expense.

Risk Assessment

The following are the specific and general risks that could affect the Company that each reader should carefully consider. Additional risks and uncertainties not presently known to the Company or that the Company does not currently anticipate will be

material, may impair the Company's business operations and its operating results and as a result could materially impact its business, results of operations, prospects, and financial condition.

Risks Related to the Nature of the Entertainment Industry

The entertainment industry involves a substantial degree of risk. Acceptance of entertainment programming represents a response not only to the production's artistic components, but also the quality and acceptance of other competing programs released into the marketplace at or near the same time, the availability of alternative forms of entertainment and leisure time activities, general economic conditions, public tastes generally and other intangible factors, all of which could change rapidly or without notice and cannot be predicted with certainty. There is a risk that some or all of the Company's programming will not be purchased or accepted by the public generally, resulting in a portion of costs not being recouped or anticipated profits not being realized. There can be no assurance that revenue from existing or future programming will replace loss of revenue associated with the cancellation or unsuccessful commercialization of any particular production.

Risks Related to Television and Film Industries

Because the performance of television and film programs in ancillary markets, such as home video and pay and free television, is often directly related to reviews from critics and/or television ratings, poor reviews from critics or television ratings may negatively affect future revenue. The Company's results of operations will depend, in part, on the experience and judgment of its Management to select and develop new investment and production opportunities. The Company cannot make assurances that the Company's films and television programs will obtain favourable reviews or ratings, that its films will perform well in ancillary markets or that broadcasters will license the rights to broadcast any of our film and television programs in development or renew licenses to broadcast film and television programs in our library. The failure to achieve any of the foregoing could have a material adverse effect on the Company's business, results of operations or financial condition.

Licensed distributors' decisions regarding the timing of release and promotional support of the Company's films, television programs and related products are important in determining the success of these films, programs, and related products. The Company does not control the timing and manner in which our licensed distributors distribute our films, television programs, or related products. Any decision by those distributors not to distribute or promote one of the Company's films, television programs, or related products or to promote competitors' films, programs, or related products to a greater extent than they promote the Company's could have a material adverse effect on the Company's business, results of operations, or financial condition.

Risks Related to Doing Business Internationally

The Company distributes films and television productions outside Canada through third party licensees and derives revenues from these sources. As a result, the Company's business is subject to certain risks inherent in international business, many of which are beyond its control. These risks include: changes in local regulatory requirements, including restrictions on content; changes in the laws and policies affecting trade, investment and taxes (including laws and policies relating to the repatriation of funds and to withholding taxes); differing degrees of protection for intellectual property; instability of foreign economies and governments; cultural barriers; wars and acts of terrorism; and the spread of avian flu or other widespread health hazard.

Loss of Canadian Status

The Company could lose its ability to exploit Canadian government tax credits and incentives described above if it ceases to be "Canadian" as defined under the *Investment Canada Act*. In particular, the Company would not qualify as a Canadian if Canadian nationals cease to beneficially own shares of the Company having more than 50% of the combined voting power of its outstanding shares. In Canada and under international treaties, under applicable regulations, a program will qualify as a Canadian-content production if, among other things: (i) it is produced by Canadians with the involvement of Canadians in principal functions; and (ii) a substantial portion of the budget is spent on Canadian elements. As well, substantially all of the Company's programs are contractually required by broadcasters to be certified as "Canadian". In the event a production does not qualify for certification as Canadian, the Company would be in default under any government incentive and broadcast licenses for that production. In the event of such default, the broadcaster could refuse acceptance of the Company's productions.

Competition

Substantially all of the Company's revenues are derived from the production and distribution of television and film programs. The business of producing and distributing television and film programs is highly competitive. The Company faces intense competition with other producers and distributors, many of whom are substantially larger and have greater financial, technical, and marketing resources than the Company. The Company competes with other television and film production companies for ideas and storylines created by third parties as well as for actors, directors, and other personnel required for a production. The Company may not be successful in any of these efforts which may adversely affect business, results of operations, or financial condition.

The Company intends to increase its penetration of the prime-time television network market. The Company competes for time slots with a variety of companies which produce televised programming. The number of network prime-time slots remains limited (a "slot" being a broadcast time period for a program), even though the total number of outlets for television programming has increased over the last decade. Competition created by the emergence of new broadcasters has generally caused the market shares of the major networks to decrease. Even so, the license fees paid by the major networks remain the most lucrative. As a result, there continues to be intense competition for the time slots offered by those networks. There can be no assurance that the Company will be able to increase its penetration of the prime-time network market or obtain favourable stats, the failure to do so may have a negative impact on the Company's business.

Limited Ability to Exploit Filmed and Television Content Library

The Company depends on a limited number of titles for the majority of the revenues generated by its film and television content library. In addition, many of the titles in its library are not presently distributed and generate substantially no revenue. If the Company cannot acquire new products and rights to popular titles through production, distribution agreements, acquisitions, mergers, joint ventures, or other strategic alliances, it could have a material adverse effect on its business, results of operations or financial condition.

Protecting and Defending Against Intellectual Property Claims

The Company's ability to compete depends, in part, upon successful protection of its intellectual property. Furthermore, the Company's revenues are dependent on the unrestricted ownership of its rights to television and film productions. Any successful claims to the ownership of these intangible assets could hinder the Company's ability to exploit these rights. The Company does not have the financial resources to protect its rights to the same extent as its competitors. The Company attempts to protect proprietary and intellectual property rights to its productions through available copyright and trademark laws in a number of jurisdictions and licensing and distribution arrangements with reputable international companies in specific territories and media for limited durations. Despite these precautions, existing copyright and trademark laws afford only limited practical protection in certain countries in which the Company may distribute its products and in other jurisdictions no assurance can be given that challenges will not be made to the Company's copyright and trade-marks. In addition, technological advances and conversion of motion pictures into digital format have made it easier to create, transmit, and share unauthorized copies of motion pictures, DVDs, and television shows. Users may be able to download and distribute unauthorized or "pirated" copies of copyrighted material over the Internet. As long as pirated content is available to download digitally, some consumers may choose to digitally download material illegally. As a result, it may be possible for unauthorized third parties to copy and distribute the Company's productions or certain portions or applications of its intended productions, which could have a material adverse effect on its business, results of operations, or financial condition.

Litigation may also be necessary in the future to enforce the Company's intellectual property rights, to protect its trade secrets, or to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement or invalidity. Any such litigation could result in substantial costs and the diversion of resources and could have a material adverse effect on the Company's business, results of operations, or financial condition. The Company cannot provide assurances that infringement or invalidity claims will not materially adversely affect its business, results of operations, or financial condition. Regardless of the validity or the success of the assertion of these claims, the Company could incur significant costs and diversion of resources in enforcing its intellectual property rights or in defending against such claims, which could have a material adverse effect on the Company's business, results of operations, or financial condition.

Fluctuating Results of Operations

Results of operations for any period are significantly dependent on the number and timing of television programs and films delivered or made available to various media. Consequently, the Company's results of 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. Although traditions are changing, due in part to increased competition from new channels, industry practice is that broadcasters make most of their annual programming commitments between February and June in order that new programs can be ready for telecast at the start of the broadcast season in September, or as mid-season replacements in January. Because of this annual production cycle, the Company's revenues are not earned on an even basis throughout the year. Results from operations fluctuate materially from quarter to quarter and the results for any one quarter are not necessarily indicative of results for future quarters.

Raising Additional Capital

The Company is likely to require capital in the future, as to meet additional working capital requirements or capital expenditures or to take advantage of investment or acquisition opportunities. Accordingly, it may need to raise additional capital in the future. The Company's ability to obtain additional financing will be subject to a number of factors including market conditions and its operating performance. These factors may make the timing, amount, terms and conditions of additional

financing unattractive or unavailable for the Company. If the Company raises additional funds by issuing equity securities, the relative equity ownership of its existing investors could be diluted or new investors could obtain terms more favourable than previous investors. If the Company raises additional funds through debt financing it could incur significant borrowing costs. If the Company is unable to raise additional funds when needed, or on terms acceptable to the Company, its ability to operate and grow its business could be impeded.

Concentration Risk

Revenue may originate from disproportionately few productions and broadcasters. The value of the Common Shares may be substantially adversely affected should the Company lose the revenue generated by any such production or broadcaster.

Reliance on Key Personnel

The Company is substantially dependent upon the services of certain key personnel, particularly Michael Donovan and Charles Bishop, Steven DeNure, and Neil Court. The loss of the services of any one or more of such individuals could have a material adverse effect on the business, results of operations or financial condition of the Company. The Company maintains key man life insurance in respect of each of Michael Donovan, Charles Bishop, Steven DeNure and Neil Court pursuant to which the Company will receive $8.0 million, $3.5 million, $4.0 million and $4.0 million, respectively, upon the death of the relevant individual. Each of Mr. Donovan and Mr. Bishop, Mr. DeNure and Mr. Court is under contract to the Company until 2009.

Market Share Price Fluctuation

The market price of the Company's Common Shares may be subject to significant fluctuation in response to numerous factors, including variations in its annual or quarterly financial results or those of its competitors, changes by financial research analysts in their recommendations or estimates of the Company's earnings, conditions in the economy in general or in the broadcasting, film or television sectors in particular, unfavourable publicity or changes in applicable laws and regulations, exercise of the Company's outstanding options and/or warrants, or other factors. Moreover, from time to time, the stock markets on which the Company's Common Shares will be listed may experience significant price and volume volatility that may affect the market price of the Company's Common Shares for reasons unrelated to its economic performance. No prediction can be made as to the effect, if any, that future sales of Common Shares or the availability of Common Shares for future sale (including Common Shares issuable upon the exercise of stock options) will have on the market price of the Common Shares prevailing from time to time. Sales of substantial numbers of Common Shares, or the perception that such sales could occur, could adversely affect the prevailing price of the Company's Common Shares.

Risks Associated with Acquisitions and Joint Ventures

The Company has made or entered into, and will continue to pursue, various acquisitions, business combinations, and joint ventures intended to complement or expand its business. Any indebtedness incurred or assumed in any such transaction may or may not increase the Company's leverage relative to its earnings before interest, provisions for income taxes, amortization, minority interests, gain on dilution of investment in subsidiary and discounted operation, or EBITDA, or relative to its equity capitalization, and any equity issued may or may not be at prices dilutive to its then existing shareholders. The Company may encounter difficulties in integrating acquired assets with its operations. Furthermore, the Company may not realize the benefits it anticipated when it entered into these transactions. In addition, the negotiation of potential acquisitions, business combinations or joint ventures as well as the integration of an acquired business could require the Company to incur significant costs and cause diversion of Management's time and resources. Future acquisitions could also result in impairment of goodwill and other intangibles, development write-offs and other acquisition-related expenses.

The Company continues to pursue opportunities to expand its distribution capacity, production capacity, and product libraries. There can be no assurance that appropriate acquisitions or expansion opportunities will be identified or available; that the Company will have or be able to obtain sufficient financing or acceptable terms to fund any such acquisition or expansion; that any such acquisition or expansion will be consummated, or, if consummated, the timing thereof; or that any such acquisition or expansion can be successfully integrated into or with the Company's existing operations and business strategy and ultimately prove beneficial to the Company.

Potential for Budget Overruns and Other Production Risks

A production's costs may exceed its budget. Unforeseen events such as labour disputes, death or disability of a star performer, changes related to technology, special effects or other aspects of production, shortage of necessary equipment, damage to film negatives, master tapes and recordings, or adverse weather conditions, or other unforeseen events may cause cost overruns and delay or frustrate completion of a production. Although the Company has historically completed its productions within budget, there can be no assurance that it will continue to do so. The Company currently maintains insurance policies and when necessary, completion bonds, covering certain of these risks. There can be no assurance that any overrun resulting from any occurrence will be adequately covered or that such insurance and completion bonds will continue to be available or, if available,

on terms acceptable to the Company. The Company has never made a material claim on its insurance or called on a completion bond. In the event of budget overruns, the Company may have to seek additional financing from outside sources in order to complete production of a television program. No assurance can be given as to the availability of such financing or, if available, on terms acceptable to the Company. In addition, in the event of substantial budget overruns, there can be no assurance that such costs will be recouped, which could have a significant impact on the Company's results of operations or financial condition.

Management Estimates in Revenues and Earnings

The Company makes numerous estimates as to its revenues and matching production and direct distribution expenses on a project–by-project basis. As a result of this accounting policy, earnings can widely fluctuate if Management has not accurately forecast the revenue potential of a production.

Stoppage of Incentive Programs

There can be no assurance that the local cultural incentive programs which the Company may access in Canada and internationally from time to time, including those sponsored by various European, Australian, and Canadian governmental agencies, will not be reduced, amended, or eliminated. Any change in the policies of those countries in connection with their incentive programs may have an adverse impact on the Company's business, results of operations, or financial condition.

Financial Risks Resulting from the Company's Capital Requirements

The production, acquisition and distribution of films and television programs require a significant amount of capital. The Company cannot provide assurance that it will be able to continue to successfully implement financing arrangements or that it will not be subject to substantial financial risks relating to the production, acquisition, completion, and release of future films and television programs. If the Company increases (through internal growth or acquisition) its production slate or its production budgets, it may be required to increase overhead, make larger up-front payments to talent, and consequently bear greater financial risks. The occurrence of any of the foregoing could have a material adverse effect on the Company's business, results of operations, or financial condition.

Government Incentive Program

In addition to license fees from domestic and foreign broadcasters and financial contributions from co-producers, the Company finances a significant portion of its production budgets from federal and provincial governmental agencies and incentive programs, including the Canadian Television and Cable Production Fund, the provincial film equity investment programs, federal tax credits, and provincial tax credits. The tax credits are considered part of the Company's equity in any production for which they are used as financing. There can be no assurance that individual incentive programs available to the Company will not be reduced, amended, or eliminated or that the Company or any production will qualify for them, any of which may have an adverse effect on the Company's business, results of operations, or financial condition.

Changes in Regulatory Environment

At the present time, the film industry is subject to a regulatory environment. The Company's operations may be affected in varying degrees by future changes in the regulatory environment. Any change in the regulatory environment could have a material adverse affect on the Company's revenues and earnings.

Litigation

Governmental, legal, or arbitration proceedings may be brought or threatened against the Company in the future. Regardless of their merit, any such claims could be time consuming and expensive to evaluate and defend, divert Management's attention and focus away from the business, and subject the Company to potentially significant liabilities.

Technological Change

Technological change may have a materially adverse effect on the Company's business, results of operations, and financial condition. The emergence of new production or CGI technologies or a new digital television broadcasting standard may diminish the value of the Company's existing equipment and programs. Although the Company is committed to production technologies such as CGI and digital post-production, there can be no assurance that it will be able to incorporate other new production and post-production technologies which may become de facto industry standards. In particular, the advent of new broadcast standards, which may result in television programming being presented with greater resolution and on a wider screen than is currently the case, may diminish the evergreen value of the Company's programming library because such productions may not be able to take full advantage of such features. There can be no assurance that the Company will be successful in adapting to these changes on a timely basis.

Labour Relations

Many individuals associated with the Company's projects are members of guilds or unions which bargain collectively with producers on an industry-wide basis from time to time. While the Company has positive relationships with the guilds and unions in the industry, a strike or other form of labour protest affecting those guilds or unions could, to some extent, disrupt production schedules which could result in delays and additional expenses.

Exchange Rates

The returns to the Company from foreign exploitations of its properties are customarily paid in US currency and, as such, may be affected by fluctuations in the exchange rate of the US dollar. Currency exchange rates are determined by market factors beyond the control of the Company and may vary substantially during the course of a production period. In addition, the ability of the Company to repatriate to Canadian funds arising in connection with foreign exploitation of its properties may also be adversely affected by currency and exchange control regulations imposed by the country in which the production is exploited. At present, the Company is not aware of any existing currency or exchange control regulations in any country in which the Company currently contemplates exploiting its properties which would have an adverse effect on the Company's ability to repatriate such funds. Where appropriate, the Company will hedge its foreign exchange risk through the use of derivatives.

Any of these factors could have a material adverse effect on the Company's business, results of operations or financial condition.

Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the entity's disclosure controls and procedures to provide reasonable assurance that all relevant information is gathered and reported to them on a timely basis so that appropriate decisions can be made regarding public disclosures.

The Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures have concluded that, as at June 30, 2008, the entity's disclosure controls and procedures were effective. It should be noted that while the entity's Chief Executive Officer and Chief Financial Officer believed that the disclosure controls and procedures can provide a reasonable level of assurance, and that they are effective, they do not expect that the disclosure controls and procedures can prevent all errors and fraud. A control system, no matter how well designed or operated can provide only reasonable, not absolute assurance that the objectives of the control systems are met.

Internal Control over Financial Reporting ("ICFR")

The Company's Chief Executive Officer and Chief Financial Officer are responsible for designing ICFR or causing these controls to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance to Canadian GAAP.

Due to its inherent limitations, ICFR may not prevent or detect material misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Chief Executive Officer and Chief Financial Officer conducted an evaluation of control design on ICFR as at June 30, 2008. Based on this evaluation, Management has concluded that the Company's ICFR were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries required to be disclosed in the Company's reports filed or submitted under the Multilateral Instrument would have been known to them.

The Company's Board of Directors has implemented a Code of Business Conduct and Ethics and it has been distributed to all directors, officers and employees of the Company.

Changes in ICFR

There were no changes in the Company's ICFR that occurred during the period ended June 30, 2008 that to Management's knowledge have materially affected or are reasonably likely to materially affect the entity's ICFR. However, during the year ended June 30, 2008 the Company acquired Studio B and Bulldog. At this time there is nothing to indicate the entity's ICFR have been materially affected, or are reasonably likely to be materially affected as a result of these acquisitions. Management is in the process of evaluating the ICFR for these new subsidiaries and will report any material information concerning any changes in ICFR as soon as practical.

Use of Non-GAAP Financial Measures

In addition to the results reported in accordance with Canadian generally accepted accounting principles, determined with reference to the Handbook of the CICA ("**GAAP**"), the Company uses various non-GAAP financial measures, which are not

recognized under Canadian GAAP, as supplemental indicators of our operating performance and financial position. These non-GAAP financial measures are provided to enhance the user's understanding of our historical and current financial performance and our prospects for the future. Management believes that these measures provide useful information in that they exclude amounts that are not indicative of our core operating results and ongoing operations and provide a more consistent basis for comparison between periods. The following discussion explains the Company's use of EBITDA and Gross Margin as measures of performance.

"**EBITDA**" and "**Adjusted EBITDA**" means earnings (loss) before interest, taxes, depreciation, amortization, stock-based compensation expense, and for Q4 and Fiscal 2008 impairment of certain investments in film and television programs ("Adjusted EBITDA"). Amortization includes amortization of property, plant, and equipment, acquired libraries, and intangible assets. EBITDA and Adjusted EBITDA represents net income (loss) of the Company before amortization of property, plant, and equipment, acquired libraries, and intangible assets, interest and amortization of deferred financing fees, interest income (expense), non-controlling interest, equity income (loss), development expenses, and stock-based compensation expense. EBITDA and Adjusted EBITDA are not earnings measures recognized by GAAP and do not have a standardized meaning prescribed by GAAP. Therefore, EBITDA and adjusted EBITDA may not be comparable to similar measures presented by other issuers. Management believes EBITDA and Adjusted EBITDA to be meaningful indicators of our performance that provides useful information to investors regarding our financial condition and results of operation.

"**Gross Margin**" means revenue less direct production costs and amortization of film and television programs. Gross Margin is not an earnings measure recognized by GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, Gross Margin may not be comparable to similar measures presented by other issuers.

A reconciliation of historical results to EBITDA and Adjusted EBITDA is presented on the next page.

Reconciliation of Historical Results to EBITDA and Adjusted EBITDA

EBITDA and adjusted EBITDA are not recognized earnings measures under GAAP and do not have standardized meanings prescribed by GAAP. Therefore EBITDA and adjusted EBITDA may not be comparable to similar measures presented by other companies or issuers. Investors are cautioned that EBITDA and adjusted EBITDA should not be construed as alternatives to net income or loss determined in accordance with GAAP as an indicator of the Company's performance or to cash flows from operating, investing, and financing activities as a measure of liquidity and cash flows. The following table reconciles income (loss) before income taxes, EBITDA and Adjusted EBITDA, and Gross Margin, based on the historical unaudited financial statements of the Company for the three months ended June 30, 2008 and 2007, March 31, 2008 and 2007, December 31, 2007 and 2006, and September 30, 2007 and 2006, included elsewhere in this MD&A. For further description see "Use of Non-GAAP Financial Measures" elsewhere in this MD&A. *The financial information for Q4 2008 includes all four divisions. For Q3 2008 includes only 12 days of activity for the Bulldog division, as well as Halifax Film, Decode, and Studio B. For Q2 2008 includes only 28 days of activity for the Studio B division, as well as Halifax Film and Decode and excludes Bulldog. For Q1 2008 and prior pre-dates the acquisitions of Studio B and Bulldog (see–"Acquisitions and Long-term Investment" section of this MD&A for further details on the Studio B and Bulldog acquisitions).* **The operating results for any quarter should not be relied upon as any indication of results for any future period.**

	Year Ended June 30/08 $	Q4-08 $	Q3-08 $	Q2-08 $	Q1-08 $
Income (loss) before income taxes for the period	**(989,070)**	**(3,191,006)**	1,395,533	206,951	599,452
Interest expense and amortization of deferred financing fees	**556,203**	**117,219**	143,134	124,336	171,514
Interest income[3]	**(263,002)**	**23,502**	(118,679)	(141,861)	(25,964)
Costs on abandoned acquistion and non-controlling interest	**(375,082)**	**(378,341)**	(135)	(1,773)	5,167
Equity income	**(44,136)**	**(13,117)**	-	(7,755)	(23,264)
Amortization	**2,917,602**	**798,930**	1,095,709	674,985	347,978
Impairment in value of certain investment in film and television programs[4]	**2,781,802**	**2,781,802**	-	-	-
Development expenses	**431,994**	**396,735**	-	35,259	-
Stock-based compensation expense[1]	**904,235**	**512,365**	157,983	121,260	112,627
EBITDA and Adjusted EBITDA[2 & 4]	**5,920,546**	**1,048,089**	**2,673,545**	**1,011,402**	**1,187,510**
Selling, general and administrative, net of stock-based compensation expense	**11,322,641**	**3,591,401**	3,157,497	2,363,444	2,210,299
Loss (income) from strategic investments[3]	**59,062**	**41,355**	9,899	98,763	(90,955)
Gross Margin[2]	**17,302,249**	**4,680,845**	**5,840,941**	**3,473,609**	**3,306,854**

	Year Ended June 30/07 $	Q4-07 $	Q3-07 $	Q2-07 $	Q1-07 $
Income (loss) before income taxes for the period	**1,790,755**	**1,607,649**	199,890	263,165	(279,949)
Interest expense and amortization of deferred financing fees	**455,758**	**455,758**	-	-	-
Interest income[3]	**(162,198)**	**(265,910)**	36,247	46,523	20,942
Costs on abandoned acquistion and non-controlling interest	**309,200**	**278,402**	5,179	16,886	8,733
Equity income	**(360,513)**	**(360,513)**	-	-	-
Amortization	**1,693,119**	**658,124**	296,717	467,686	270,592
Development expenses	**403,512**	**337,563**	14,296	51,653	-
Stock-based compensation expense[1]	**370,332**	**126,512**	79,057	104,946	59,817
EBITDA and Adjusted EBITDA[2 & 4]	**4,499,965**	**2,837,585**	**631,386**	**950,859**	**80,135**
Selling, general and administrative, net of stock-based compensation expense	**6,970,382**	**1,615,681**	1,977,171	1,835,449	1,542,081
Loss (income) from strategic investments[3]	**(1,736,761)**	**(272,972)**	(495,559)	(425,278)	(542,952)
Gross Margin[2]	**9,733,586**	**4,180,294**	**2,112,998**	**2,361,030**	**1,079,264**

[1]Effective Q2 2007 and onward, the Company began adding back as part of the EBITDA calculation non-cash stock-based compensation expense and has adjusted accordingly for all prior quarters reported herein.

[2]Certain of the comparative Non-GAAP Financial Measures ("**NGFM**") are adjusted for all necessary adjustments, consisting of normal recurring adjustments and any changes in the current definition of NGFM (see "Use of Non-GAAP Financial Measures" section of this MD&A for further details).

[3]Effective Q3 2008 and onward, the Company has combined income from strategic short-term investments with unrealized loss on short-term investments that had been previously included as part of the adjustments for interest and other expense (income) and is now included in the total of the category of loss (income) from strategic investments. The Company has adjusted accordingly for all prior quarters reported.

[4]Adjusted EBITDA for Q4 2008 has been adjusted for the $2.78 million impairment of certain investments in film and television programs recorded during the quarter as management believes this to be a more meaningful indicator of fourth quarter operating performance.

DHX MEDIA LTD.

Fiscal 2008

Supplemental Information
For the year ended June 30, 2008

1. Summary of securities issued and options and warrants granted during the year ended June 30, 2008

a. Summary of securities issued

Common Shares	Number of Common Shares	Value $
Balance at June 30, 2007	**32,801,452**	**40,778,665**
Shares issued in connection with private placement in November 2007	9,815,000	15,939,560
Costs for share issuance in connection with private placement in November 2007		(1,380,974)
Share issued for the purchase of Bulldog	99,333	149,993
Balance at June 30, 2008	**42,715,785**	**55,487,244**

b. Summary of options and warrants

Options	Number of Options	Weighted-average exercise price
Balance at June 30, 2007	**1,921,547**	**$2.20**
Granted to Sir Graham Day, Director	40,000	$1.62
Granted to J. William Ritchie, Director	40,000	$1.62
Granted to Joe Medjuck, Director	40,000	$1.62
Granted to Donald Wright, Director	40,000	$1.62
Granted to Michael Donovan, Director and Officer	40,000	$1.62
Granted to Charles Bishop, Director and Officer	40,000	$1.62
Granted to Dana Landry, CFO	40,000	$1.62
Granted to Steven DeNure, Director and Officer	75,000	$1.62
Granted to Neil Court, Director and Officer	40,000	$1.62
Granted to Mark Gosine, Officer	35,000	$1.62
Granted to Employees	80,000	$1.62
Granted to Consultants	280,000	$1.52
Options cancelled during period	(275,000)	$2.17
Balance at June 30, 2008	**2,436,547**	**$2.02**

Put Options	Number of Put Options	Weighted-average exercise price
Balance at June 30, 2008	**425,420** [1]	**Nil**

[1] Each convert on a one-to-one basis to common shares of the Company (see note 16(h) of the consolidated financial statements for further details).

Warrants	Number of Warrants	Weighted-average exercise price
Balance at June 30, 2007	**435,125**	**$2.35**
Granted in connection with private placement in November 2007	4,922,750	$2.10
Granted to Brokers in connection with private placement in November 2007	738,413	$1.80
Warrants Expired	(435,125)	$2.35
Balance at June 30, 2008	**5,661,163**	**$2.06**

c. **Summary of securities as at the end of the reporting period**

i. **Authorized share capital**

Unlimited common shares without nominal or par value;

10,000,000 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;

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.

ii. **Shares outstanding and recorded value**

42,715,785 common shares at a recorded value of $55,487,244;
100,000,000 preferred variable voting shares at a recorded value of $100.

iii. **Description of options and warrants**

See note 16 of the audited consolidated financial statements for the year ended June 30, 2008.

2. Directors and officers as at June 30, 2008

Directors

Sir Graham Day (1) (2)	Lead Director of DHX, Chair of Governance Committee
Michael Donovan (1)	Chairman, Board of Directors
J. William Ritchie (2)	Director, Chair of Compensation Committee
Donald Wright (2)	Director, Chair of Audit Committee
Joe Medjuck (2)	Director
Charles Bishop (1)	Director
Steven DeNure	Director
Neil Court	Director

Officers

Michael Donovan	CEO
Dana Landry	CFO
Charles Bishop	President of Halifax Film Ltd.
Steven DeNure	President of Decode Entertainment Inc.
Neil Court	President of Decode Enterprises
David Regan	Executive VP Corporate Development
Mark Gosine	Secretary

(1) Member of the Production Financing Committee.
(2) Member of the Audit Committee, Compensation Committee, and the Nominating and Governance Committee.