



DHX MEDIA LTD.

Q1 2008

FORM 51-102F1

**Management Discussion and Analysis
of Financial Condition and Results of Operations
For the Three Months Ended September 30, 2007 and September 30, 2006
(Unaudited)**

DHX MEDIA LTD.

Form 51-102F1 Quarterly Report
September 30, 2007

MANAGEMENT DISCUSSION AND ANALYSIS

The following Management Discussion & Analysis (“MD&A”) prepared as of November 13, 2007, should be read in conjunction with the DHX Media Ltd.’s (the “Company” or “DHX”) unaudited interim consolidated financial statements and accompanying notes for the three months ended September 30, 2007 and 2006 as well as the Company’s annual MD&A and audited consolidated financial statements and accompanying notes for the years ended June 30, 2007 and 2006. The unaudited interim consolidated financial statements and accompanying notes for the three months ended September 30, 2007 and 2006 have been prepared in accordance with Canadian generally accepted accounting principles for preparation of interim financial information and have been reviewed by DHX.

The Company’s auditors, Pricewaterhouse Coopers LLP, have not reviewed the unaudited interim consolidated financial statements and accompanying notes for the three months ended September 30, 2007 and 2006.

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 \$0.100 million) and are approximate and have been rounded to the nearest 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 the Company’s Annual MD&A for the year ended June 30, 2007 and 2006 found on SEDAR at www.sedar.com.

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.

The Company produces, distributes, and exploits the rights for television and film programming. DHX’s primary focus is on children’s and youth productions because of the international sales potential and longer-term and multiple revenue streams that this genre of programming provides. Children’s 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 1,750 half-hours of programming and over 45 individual titles produced over the last ten years. The Company has twelve children’s series currently in first window broadcast on multiple major cable and broadcast networks in North America and internationally, including, *Bo on the Go!*, *Franny’s Feet*, *The Save-Ums*, 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 is now into its 15th season in the fall of 2007. The Company operates from its offices and production facilities in Halifax and Toronto, 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: production and distribution of its proprietary productions, producer and service fees from production services for third parties and equity investments, and other revenues which include rental of studios and office facilities, music and royalty revenue, 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 earned 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.

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 new media revenue.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

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

	Three Months Ended September 30,	
	2007	2006
	\$	\$
Consolidated Statements of Income and Comprehensive Income Data:		
Revenue.....	10,662,702	3,199,786
Direct production costs and amortization of film and television programs produced.....	7,355,848	2,120,522
Gross margin.....	3,306,854	1,079,264
Selling, general, and administrative.....	2,322,926	1,601,898
Income from strategic investments.....	19,500	542,952
Income before the following	914,298	20,318
Interest and other (expenses), net.....	(314,846)	(300,267)
Provision for (recovery of) income taxes.....	225,000	(78,000)
Net income (loss) and comprehensive income (loss).....	374,452	(201,949)
Basic earnings (loss) per common share.....	0.01	(0.01)
Fully diluted earnings (loss) per common share.....	0.01	(0.01)
Weighted average common shares outstanding		
Basic.....	32,801,452	32,576,452
Fully Diluted.....	35,500,907	35,237,278
	September 30,	June 30,
	2007	2007
	\$	\$
Consolidated Balance Sheet Data:		
Cash, restricted cash, and short-term investments.....	4,520,206	5,778,545
Investment in film and television programs.....	48,398,341	47,025,343
Total assets.....	103,680,708	103,005,130
Total debts.....	61,729,025	61,543,529
Shareholder equity.....	41,951,683	41,461,601

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 September 30, 2007. 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, 2007 and 2006 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 financial information in the table below for Q2 and Q3 Fiscal 2006 ended December 31, 2005 and March 31, 2006, are for periods prior to the acquisition of Decode. (see “Acquisitions” section of the June 30, 2007 MD&A for further details on the Decode acquisition). The operating results for any quarter should not be relied upon as any indication of results for any future period.

	Fiscal 2008	Fiscal 2007				Fiscal 2006		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	30-Sep	30-Jun	31-Mar	30-Dec	30-Sep	30-Jun	31-Mar	31-Dec
	\$	\$	\$	\$	\$	\$	\$	\$
			<i>Revised²</i>					
Revenue	10,662,702	10,699,693	5,366,329	6,704,811	3,199,786	9,225,120	1,889,194	3,154,716
Gross Margin ¹	3,306,854	4,180,294	2,112,998	2,361,030	1,079,264	1,643,909	277,318	690,148
EBITDA ¹	1,116,055	2,837,585	631,386	950,859	80,135	687,578	(77,697)	112,606
Net Income (Loss)	374,452	1,034,649	133,890	234,165	(201,949)	416,008	(359,743)	(402,499)
Basic Earnings (Loss) Per Share	0.01	0.03	0.00	0.01	(0.01)	0.02	(0.03)	(0.03)
Diluted Earnings (Loss) Per Share	0.01	0.03	0.00	0.01	(0.01)	0.02	(0.03)	(0.03)

¹Certain 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).

²Q3 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.

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 \$10.663 million, up from \$3.200 million for Q1 2007, an increase of 233%. The increase was generally due to increases in the Company’s production revenue category. Management was very 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 \$1.583 million in proprietary production revenues where the license periods commenced in Q1 2008. The Company also expects double digit revenue growth for the remainder of Fiscal 2008 as some of the Company’s past television deliveries with projected license periods commencing in past quarters have now been scheduled for the license periods to commence during Fiscal 2008 and will have at that time met all revenue recognition criteria.

Proprietary production revenues for Q1 2008 of \$8.777 million were up 652% over the \$1.167 million for Q1 2007. The increase included a 278% increase to \$2.977 million (Q1 2007-\$0.787 million) in proprietary production revenue for the Halifax Film division and a significant increase to \$5.800 million for Q1 2008 (Q1 2007-0.380 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 \$1.800 million during Q1 2008 versus no deliveries for Q1 2007.

For Q1 2008 the Company recognized \$8.777 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 consolidated entities for Q1 2008 was: \$3.070 million-11 half-hours of *Super Why* (PBS), \$1.216 million-13 half-hours of *Planet Sketch* Season II, \$0.892 million-10 half-hours of *Urban Vermin* Season I, \$0.572 million-14 half-hours of *Delilah & Julius* Season II, \$0.050 million of *Naturally Sadie* Season III for SRC in Canada, \$1.800 million-4 half-hours for the feature film *Shake Hands With The Devil*, \$0.739 million-6 half-hours of *Bo on the Go!* Season I, \$0.115 million-2 half-hours for the pilot *Show Us Your Shorts TV*, and \$0.100 million-1 half-hour for the documentary *The Making of Shake Hands With The Devil*. The breakdown for revenue earned for Q1 2008 from non-consolidated entities accounted for using the equity method was \$0.223 million in fees and overhead (6 half-hours) plus an additional \$0.023 million as an equity pickup for *Lunar Jim* Season II. For Q1 2007 the breakdown of \$1.167 million-13 half-hours for consolidated entities was: \$0.380 million-4 half-hours of *Naturally Sadie* Season III, \$0.655 million-8 half-hours of *POKO* Season III, \$0.080 million-1 half hour of *Bo on the Go!* Season I, and \$0.052 million for *This Hour Has 22 Minutes* Season XIV. There was no revenue earned for Q1 2007 from non-consolidated entities accounted for using the equity method.

In addition, as of Q1 2008 the Company had to date delivered \$2.735 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: \$1.235 million-13 half-hours of *The Latest Buzz* Season I, \$1.150 million-10 half-hours of *The Latest Buzz* Season II, and \$0.350 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 \$0.306 million and \$0.015 million for the feature films *Outlander* and *Slevin* respectively.

For Q1 2008 distribution revenues were up 11% to \$1.413 million from \$1.271 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 \$0.159 million (Q1 2007-\$0.245 million) while new media revenues were in line with Q1 2007 at \$0.192 million (Q1 2007-\$0.196 million). These revenue streams have remained strong and are expected to grow moderately for Fiscal 2008.

For Q1 2008 rental revenues were \$0.122 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 “Acquisitions” 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 \$3.307 million an overall 31% of revenue versus \$1.079 million or 34% of revenue for Q1 2007, an increase in absolute margin dollars of \$2.228 million. The absolute gross margin dollars for Q1 2008 were higher than Q1 2007 as there were significant increases in production revenue.

For Q1 2008 the margins for each revenue category in absolute dollars and as a margin percentage are as follows: production revenue margin \$2.271 million or 26%, distribution revenue margin of \$0.727 million or 51% (\$0.638 million or 45% when you remove \$0.089 million for the amortization of acquired libraries), music and royalty revenue margin \$0.157 million or 99%, new media revenue margin of \$0.030 million or 16%, and rental revenue margin of \$0.122 million or 100%. The production revenue stream was a significant contributor to the absolute dollar margin increase for Q1 2008.

In particular, production and distribution in terms of absolute dollars contributed \$2.271 million and \$0.727 million respectively or 91% of the total margin. Production margin at 26% was in line with Management's expectations. Distribution margin can fluctuate greatly from title-to-title and at 51% is at the high end of the range of Management's expectations. This was a result of a few key sales on older titles that have a relatively low book value resulting in higher margins for Q1 2008. Going forward Management would expect the range on distribution margin to be from 30 to 45%. Music and royalty margin at 99% 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 a low cost of goods sold going forward with margins in the 70-90% range. New media margins at 16% were in line with Management's expectations. Rental revenue at this time requires no dedicated cost of goods sold 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 Q1 2008 at 31% is in line with Management's projected margin and we would expect that future periods' gross margin will be within the 25 to 40% range.

Operating Expenses

Operating expenses for Q1 2008 were \$2.412 million compared to \$1.602 million for Q1 2007, an increase of 51%. The increase for Q1 2008 is mainly due to a 45% increase in SG&A to \$2.323 million up from \$1.602 million for Q1 2007. SG&A costs have increased as a result of the Company adding key personnel and expanding facilities as a result of increased activities and increased regulatory requirements from being public. For Q1 2008, included in Operating Expenses is \$0.089 million for amortization of acquired library versus nil for Q1 2007 (see "Amortization" section in this MD&A for further details).

Income from Strategic Investments

For Q1 2008 income from strategic investments activities relating to receipt of distributions of capital was \$0.020 million versus \$0.543 million for Q1 2007. All investments were strategic in nature and were in the same or similar businesses as the business of the Company.

EBITDA

In Q1 2008 EBITDA was \$1.116 million, a significant improvement as compared to \$0.080 million for Q1 2007. For Q1 2008 this was due to the increase in gross margin dollars of \$2.228 million, adding back an increase of non-cash stock-based compensation expense of \$0.053 million, and offset by the increase in SG&A, net of income from strategic investments of \$1.245 million, for a positive total dollar change of \$1.036 million.

Amortization

Amortization includes amortization of acquired libraries, plant, property, and equipment ("**PP&E**"), and intangible assets. For Q1 2008 amortization was \$0.348 million (Q1 2007-\$0.271 million). The breakdown for amortization was \$0.089 million, \$0.101 million, and \$0.158 million for amortization of acquired libraries, PP&E, and intangible assets respectively. For Q1 2008 the amortization of acquired libraries was \$0.089 million (Q1 2007-nil) which relates to the library acquired as part of the acquisition of Decode. For Q1 2008 amortization of PP&E was \$0.101 million (Q1 2007-\$0.113 million) due to slight changes to PP&E. For Q1 2008 amortization of intangible assets was \$0.158 million (Q1 2007-\$0.158 million) which relates to the intangible assets acquired as part of the acquisition of Decode.

Interest

Interest expense net of interest revenue for Q1 2008 was \$0.146 million versus interest expense of \$0.021 million for Q1 2007. Net interest expense consists of \$0.150 million, \$0.010 million, and \$0.012 million for interest expense on long-term debt, interest on notes payable related to the Decode acquisition, and interest and bank charges (Q1 2007-\$0.073 million, nil, and \$0.004 million) offset by interest revenue in Q1 2008 of \$0.026 million (Q1 2007-\$0.056 million).

Equity Income, Unrealized Gain on Short-term Investments and Non-Controlling Interest

For Q1 2008 the Company recorded equity income of \$0.023 million (Q1 2007-nil) for its investment in production companies, an unrealized gain from short-term investments held for trading of \$0.072 million (Q1 2007-nil), and \$0.005 million expense for non-controlling interest (Q1 2007-\$0.009 million).

Income Taxes

Income tax expense for Q1 2008 was \$0.225 million (Q1 2007-\$0.078 million income tax recovery) made up from provisions of \$0.025 million (Q1 2007-\$0.020 million expense) for large corporation taxes, \$0.353 million recovery (Q1 2007-\$0.009 million expense) for current income taxes, and future income tax expense of \$0.553 million (Q1 2007-\$0.107 million recovery).

Net Income (Loss) and Comprehensive Income (Loss)

Net Income and comprehensive income for Q1 2008 was \$0.374 million, a significant improvement compared to a net loss of \$0.202 million for Q1 2007, totalling an improvement of \$0.576 million in absolute dollars. For Q1 2008 the overall improvement of \$0.576 million was due to changes over Q1 2007 of the following amounts: a gross margin increase of \$2.228 million, offset by an increase in operating expenses, net of income from strategic investments of \$1.335 million, a \$0.014 million increase in net interest and other expenses, and further reduced by \$0.303 million change in provision for income taxes.

Results for the three months ended June 30, 2007 (“Q4 2007”) compared to the three months ended June 30, 2006 (“Q4 2006”)

Revenues

Revenues for Q4 2007 were \$10.700 million, up from \$9.225 million for Q4 2006, an increase of 16%. The increase was due to increases in the Company’s distribution and music and royalty revenue categories. Management was pleased with the growth in revenue given that Q4 2007 was only the fourth full quarter of integrating the Decode activities into the results of the Company.

Proprietary production revenues for Q4 2007 of \$5.281 million were down 37% over the \$8.441 million for Q4 2006. The decline included a 78% decrease to \$1.860 million (Q4 2006-\$8.441 million) in proprietary production revenue for the Halifax Film division and the inclusion of \$3.421 million for Q4 2007 (Q4 2006-nil, as this was prior to the acquisition) for the Decode division. The decline in the Halifax Film division related entirely to no deliveries of feature films during Q4 2007 versus \$6.295 million in deliveries for Q4 2006.

For Q4 2007 the Company delivered \$5.281 million-40 half-hours of proprietary television programs where the license periods have commenced. The breakdown for consolidated entities for Q4 2007 was: \$1.593 million-5 half-hours of *Super Why* Season I, \$0.767 million-2 half-hours of *Chop Socky Chooks* Season I, \$0.981 million-11 half-hours of *Urban Vermin* Season I, \$0.080 million for *Naturally Sadie* Season III for SRC in Canada, \$0.127 million for *The Truth About*, \$0.957 million-12 half-hours of *Bo on the Go!* Season I, and \$0.380 million-2 half-hours of *This Hour Has 22 Minutes* Season XIV. The breakdown for revenue earned for Q4 2007 from non-consolidated entities accounted for using the equity method was \$0.098 million and \$0.298 million-8 half-hours in fees and overhead plus an additional \$0.347 million and \$0.014 million as an equity pickup for *Lunar Jim* Seasons I and II respectively. The breakdown of \$8.441 million-21 half-hours for consolidated entities for Q4 2006 was: \$0.369 million-2 half-hours of *This Hour Has 22 Minutes* Season XIII, \$1.358 million-6 half-hours of *North South* Season I, \$0.409 million-5 half-hours of *POKO* Season III, and \$3.887 million-4 half-hours of *It’s A Boy Girl Thing*. The breakdown for revenue earned for Q4 2006 from non-consolidated entities accounted for using the equity method was \$0.010 million in fees and overhead plus an additional \$0.294 million as an equity loss for *Lunar Jim* Season I.

In addition, during Q4 2007 the Company delivered \$2.832 million-35.5 half-hours of proprietary television programs, however the license periods had not yet commenced by June 30, 2007, and therefore the revenue recognition criteria have not been met to recognize in Q4 2007. The additional proprietary television programs were: \$0.584 million-7 half-hours of *Delilah & Julius* Season II, \$1.235 million-13 half-hours of *The Latest Buzz* Season I, \$0.230 million-2 half-hours of *The Latest Buzz* Season II, \$0.608 million-6.5 half-hours of *Planet Sketch* Season II, and \$0.175 million-7 half-hours of *Super Why* (CBC). These license periods are scheduled to commence throughout Fiscal 2008 and early 2009 and will be recognized in the corresponding quarters, when the license periods have commenced and all revenue recognition criteria have been met.

For Q4 2007 distribution revenues were up significantly to \$5.093 million from \$0.636 million for Q4 2006. For Q4 2007 the Company was successful in placing a multitude of titles from its current production slate and its library in multiple territories throughout the world and the license period commenced for a number of previously delivered programs. Some of the more significant sales were on the following titles: *Angela Anaconda* Seasons I to III, *Delilah & Julius* Season I, *Franny’s Feet* Seasons I and II, *Naturally Sadie* Seasons I to III, *Girlstuff-Boystuff* Seasons I and II, *POKO* Seasons I to III, and *Planet Sketch* Season I.

For Q4 2007 music and royalty and new media revenues were up to \$0.168 million (Q4 2006-\$0.057 million) and dropped to \$0.042 million (Q4 2006-\$0.212 million) respectively. These revenue streams have remained strong and are expected to grow moderately for Fiscal 2008.

For Q4 2007 rental revenues were \$0.116 million (Q4 2006-nil) from the rental of studio and office facilities to third parties as a result of the Company's purchase of Electropolis (See "Acquisitions" 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 Q4 2007 was \$4.180 million an overall 39% of revenue versus \$1.644 million or 18% of revenue for Q4 2006, an increase of 119% or \$2.536 million in absolute margin dollars. The gross margin for Q4 2007 was higher than Q4 2006 as there were significant increases in two revenue categories: distribution and music and royalties as a result of the fourth full quarter's activities for Decode for Q4 2007 over 43 days activity for Q4 2006 and other organic growth. These revenue streams for Q4 2007 have much higher margins than the Company's historic production revenues when comparing to Q4 2006.

Overall gross margin for Q4 2007 at 39% was higher than Management's projected margin and we would expect that future periods' gross margin will be more in the line with a 25 to 35% range.

EBITDA

In Q4 2007 EBITDA was positive at \$2.838 million, a significant improvement as compared to \$0.688 million for Q4 2006. For Q4 2007 this was due to the increase in gross margin dollars of \$2.536 million, offset by the increase in SG&A, net of income from strategic investments of \$0.374 million, and offset by non-cash stock-based compensation expense of \$0.011 million, for a positive total dollar change of \$2.151 million.

Net Income (Loss)

Net Income for Q4 2007 was \$1.035 million, a significant improvement compared to a net income of \$0.416 million for Q4 2006, totalling an improvement of \$0.619 million in absolute dollars. For Q4 2007 the overall improvement of \$0.619 million was due to changes over Q4 2006 of the following amounts: a gross margin increase of \$2.536 million, offset by an increase in operating expenses, net of income from strategic investments of \$1.094 million, a \$0.144 million increase in net interest and other expenses, and further reduced by \$0.679 million change in provision for income taxes.

Results for the three months ended March 31, 2007 ("Q3 2007") compared to the three months ended March 31, 2006 ("Q3 2006")

Revenues

Revenues for Q3 2007 were \$5.366 million, up from \$1.889 million for Q3 2006, an increase of 184%. The increase is due to increases in the Company's production, distribution, music and royalties, and new media revenue categories. Management was pleased with the growth in revenue given that Q3 2007 was only the third quarter of integrating the Decode activities into the results of the Company.

Proprietary production revenues for Q3 2007 of \$3.526 million were up 73% over the \$2.038 million for Q3 2006. The increase for Q3 2007 is consistent with the Company's strategic goal to increase production revenue generated from home grown productions both in absolute dollars and as a percentage of the total production revenues earned. The growth included a 30% increase to \$2.659 million (Q3 2006-\$2.038 million) in proprietary production revenue for the Halifax Film division and the inclusion of \$0.867 million for Q3 2007 (Q3 2006-nil, as this was prior to the acquisition) for the Decode division.

For Q3 2007 the Company delivered \$3.526 million-27 half-hours of proprietary television programs where the license periods have commenced. The breakdown for consolidated entities for Q3 2007 was: \$0.867 million-7 half-hours of *Chop Socky Chooks* Season I, \$0.558 million-7 half-hours of *Bo on the Go!* Season I, and \$1.952 million-9 half-hours of *This Hour Has 22 Minutes* Season XIV. The breakdown for revenue earned for Q3 2007 from non-consolidated entities accounted for using the equity method was \$0.149 million-4 half-hours in fees and overhead for *Lunar Jim* Season II. The breakdown for consolidated entities of \$1.510 million-9 half-hours for Q3 2006 was \$1.510 million-9 half-hours of *This Hour Has 22 Minutes* Season XIII. The breakdown for revenue earned for Q3 2006 from non-consolidated entities accounted for using the equity method was \$0.528 million-8 half-hours in fees and overhead for *Lunar Jim* Season I.

In addition, during Q3 2007 the Company delivered \$0.608 million-6.5 half-hours of *Planet Sketch* Season II, however the license period had not yet commenced by March 31, 2007, and therefore the revenue recognition criteria has not been met to recognize in Q3 2007. This license period is scheduled to commence in Fiscal 2008 and will be recognized in the corresponding quarter when the license period has commenced and all revenue recognition criteria have been met.

For Q3 2007 distribution revenues were up significantly to \$1.343 million from no amounts for Q3 2006. For Q3 2007 the Company was successful in placing a multitude of titles from its current production slate and its library in multiple territories throughout the world.

For Q3 2007 music and royalty and new media revenues were up to \$0.327 million (Q3 2006-nil) and \$0.058 million (Q3 2006-nil) respectively. These revenue streams have increased as Q3 2007 includes these revenue streams for the Decode division whereas Q3 2006 did not include the activities of Decode.

For Q3 2007 rental revenues were \$0.112 million (Q3 2006-nil) from the rental of studio and office facilities to third parties as a result of the Company's purchase of Electropolis (See "Acquisitions" 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 Q3 2007 was \$2.113 million an overall 39% of revenue versus \$0.277 million or 15% of revenue for Q3 2006, an increase of 169% or \$1.835 million in absolute margin dollars. The gross margin for Q3 2007 was higher than Q3 2006 as there were significant increases in the following four revenue categories: production, distribution, music and royalties, and new media as a result of the third full quarter's activities for Decode for Q3 2007 over no amounts for Q3 2006 and other organic growth. These revenue streams for Q3 2007 have much higher margins than the Company's historic production revenues when compared to Q3 2006.

EBITDA

In Q3 2007 EBITDA was positive at \$0.631 million, a significant improvement as compared to a loss of \$0.078 million for Q3 2006. For Q3 2007 this was due to the increase in gross margin dollars of \$1.836 million and was offset by the increase in SG&A, net of income from strategic investments of \$1.207 million and adding back of non-cash stock-based compensation expense of \$0.080 million for a positive total dollar change of \$0.709 million.

Net Income

Net Income for Q3 2007 was \$0.134 million, a significant improvement compared to a net loss of \$0.360 million for Q3 2006, totalling an improvement of \$0.494 million in absolute dollars. For Q3 2007 the overall improvement of \$0.494 million was due to changes over Q3 2006 of the following amounts: a gross margin increase of \$1.835 million, offset by an increase in operating expenses, net of income from strategic investments of \$1.253 million, offset by a \$0.032 million improvement in net interest and other expenses, and further reduced by \$0.056 million change in provision for income taxes.

Results for the three months ended December 31, 2006 ("Q2 2007") compared to the three months ended December 31, 2005 ("Q2 2006")

Revenues

Revenues for Q2 2007 were \$6.705 million, up from \$3.155 million for Q2 2006, an increase of 113%. The increase is due to increases in the Company's production, distribution, music and royalties, and new media revenue categories. Management was pleased with the growth in revenue given that Q2 2007 was only the second quarter of integrating the Decode activities into the results of the Company.

Proprietary production revenues for Q2 2007 of \$3.478 million were up 50% over the \$2.326 million for Q2 2006. The increase for Q2 2007 was consistent with the Company's strategic goal to increase production revenue generated from home grown productions both in absolute dollars and as a percentage of the total production revenues earned. For Q2 2007 the Company earned from consolidated entities and delivered \$3.478 million-46 half-hours of proprietary television programs (\$0.260 million-26 half-hours of *Naturally Sadie* Season II to SRC in Canada, \$0.855 million-9 half-hours of *Naturally Sadie* Season III, \$0.245 million-1 half-hour for the pilot of *The Truth About*, and \$2.118 million-10 half-hours of *This Hour Has 22 Minutes* Season XIV) versus the delivery of \$2.326 million-14 half-hours (\$0.698 million-7 half-hours of *POKO* Season II and \$1.628 million-7 half-hours of *This Hour Has 22 Minutes* Season XIII) for Q2 2006.

Production service revenues for Q2 2007 were \$0.780 million, down 4% from Q2 2006 of \$0.816 million. The breakdown for net production service revenues was \$0.780 million from the delivery of production services related to the feature film titled *Outlander* (Q2 2006-\$0.705 million and \$0.111 million of production service revenues for delivery of services on *Slevin* and *Ambition* respectively).

For Q2 2007 distribution revenues were up significantly to \$2.049 million from \$0.013 million for Q2 2006. For Q2 2007 the Company was successful in placing a multitude of titles from its current production slate and its library in multiple territories throughout the world.

For Q2 2007 music and royalty and new media revenues were up to \$0.136 million (Q2 2006-nil) and \$0.139 million (Q2 2006-nil) respectively. These revenue streams increased as Q2 2007 includes these revenue streams for the Decode division whereas Q2 2006 did not include the activities of Decode.

For Q2 2007 rental revenues were \$0.123 million (Q2 2006-nil) from the rental of studio and office facilities to third parties as a result of the Company's purchase of Electropolis (See "Acquisitions" 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 Q2 2007 was \$2.361 million, an overall 35% of revenue versus \$0.690 million or 22% of revenue for Q2 2006, an increase of 61% or \$1.671 million in absolute margin dollars. The gross margin for Q2 2007 was higher than Q2 2006 as there were significant increases in the following four revenue categories: production, distribution, music and royalties, and new media as a result of the second full quarter's activities for Decode for Q2 2007 over no amounts for Q2 2006 and other organic growth. These revenue streams have higher margins than the Company's historic production revenues when comparing Q2 2007 to Q2 2006. In Q2 2007 the margins for each revenue category in absolute dollars and as a percentage of revenue earned for each category are as follows: production revenue margin of \$1.078 million or 25%, distribution revenue of \$1.004 million or 49%, music and royalty revenue margin of \$0.122 million or 90%, new media revenue margin of \$0.035 million or 25%, and rental revenue margin of \$0.123 million or 100%.

EBITDA

In Q2 2007 EBITDA was positive at \$0.951 million, as compared to \$0.113 million for Q2 2006, an improvement of 742%. For Q2 2007 this was due to the increase in gross margin dollars of \$1.671 million, was offset by the increase in SG&A, net of income from strategic investments of \$0.938 million, and adding back of non-cash stock-based compensation expense of \$0.105 million for a positive total dollar change of \$0.838 million.

Net Income (Loss)

Net Income for Q2 2007 was \$0.234 million, an improvement of 158% from a net loss of \$0.402 million for Q2 2006. For Q2 2007 the overall improvement of \$0.636 million was due to changes over Q2 2006 of the following amounts: a gross margin increase of \$1.671 million, offset by an increase in operating expenses, net of income from strategic investments of \$1.184 million, helped by a \$0.156 million improvement in net interest and other expenses, and further offset by \$0.007 million change in provision for income taxes.

Liquidity and Capital Resources

	September 30, 2007 \$	June 30, 2007 \$
(Amounts in Thousands, Except Balance Sheet Ratios)		
Key Balance Sheet Amounts and Ratios:		
Cash, restricted cash ⁽¹⁾ and short-term investment.....	4,520	5,779
Long-term assets	36,899	33,798
Working capital.....	11,850	13,995
Long-term liabilities.....	6,797	6,331
Working capital ratio ⁽²⁾	1.22	1.25
Cash Inflows and (Outflows) by Activity:		
Operating activities.....	(801)	(20,682)
Investing activities.....	767	932
Financing activities.....	(1,301)	17,073
Net cash inflows (outflows).....	<u>(1,335)</u>	<u>(2,677)</u>

(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 September 30, 2007 was \$2.099 million compared to \$3.434 million as of June 30, 2007. For September 30, 2007 the cash balance decreased \$1.909 million when comparing the cash balance to September 30, 2006.

For September 30, 2007 cash flows from operating activities were a use of cash of \$0.801 million. Cash flows from operating activities resulted from net income of \$0.374 million and adding back non-cash items of amortization of film and television programs, acquired library, PP&E, intangible assets, stock-based compensation, interest on promissory notes, interest accreted on other long-term liabilities, non-controlling interest, and future income tax of \$7.305 million, \$0.089 million, \$0.101 million, \$0.158 million, \$0.113 million, \$0.003 million, \$0.089 million, \$0.005 million, and \$0.553 million respectively. Cash flows were reduced by credits not involving cash of \$0.072 million for unrealized gain on short-term investments, \$0.023 million for equity income, \$8.767 million for investments in film and television programs, and \$0.729 million net change in non-cash working capital balances related to operations.

For September 30, 2007 cash flows from financing activities were a use of cash of \$1.301 million. Cash flows from financing activities resulted from uses of cash of \$0.001 million, \$1.107 million, \$0.073 million, and \$0.120 million respectively from adjustments to issuance costs, repayments of interim financing, repayments of long-term debt, and repayments of other long-term liabilities.

For September 30, 2007 cash flows generated from investing activities were of \$0.767 million. Cash flows used in investing activities were \$0.058 million for PP&E acquisitions offset by \$0.825 million cash received from investees.

Working Capital

Working capital (“**Working Capital**”) represents the Company’s current assets less current liabilities. Decreases of Working Capital of \$2.205 million as at September 30, 2007 over June 30, 2007 were predominantly driven by increases in accounts payable and the current portion of other long-term liabilities, a decrease in the current portion of investment in film and television, and were offset by increases in accounts receivable and prepaid expenses, and decreases in deferred revenue and interim production financing. The working capital ratio remained strong at 1.22 for September 30, 2007.

Based on the Company’s current revenue expectations for Fiscal 2008, which are based on contracted and expected production and distribution revenue, the Company believes cash generated from operations and the Company’s previously announced offering (See-“Subsequent Events” section of this MD&A for further details) will be sufficient to satisfy Working Capital needs for at least the next twelve months. Management believes the current Working Capital surplus totalling \$11.850 million, is sufficient to execute its current business plan. It is the Company’s intention to use the proceeds of its October 25, 2007 Offering for general corporate purposes and to complete one or more of the strategic acquisitions it is currently exploring.

Contractual Obligations

As of September 30, 2007

Payments Due by Period

	Total	Fiscal 2008	Fiscal 2009- 2011	Fiscal 2012- 2013	After Fiscal 2013
	\$	\$	\$	\$	\$
<i>Purchase Obligations</i>					
Rights purchase for POKO ⁽¹⁾	463,368	463,368	-	-	-
Acquisition of library license rights ⁽²⁾	1,551,295	840,000	711,295	-	-
Feature film settlement ⁽³⁾	250,000	-	250,000	-	-
Note payable ⁽⁴⁾	400,000	400,000	-	-	-
Long-term debt payments (principal and interest) ⁽⁵⁾	4,538,792	324,656	943,108	859,612	2,411,416
Total Contractual Obligations	7,203,455	2,028,024	1,904,403	859,612	2,411,416

- (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 September 30, 2007 was \$463,368.
- (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 September 30, 2007 was \$1,801,295.
- (3) Pursuant to a settlement on a feature film, the Company agreed to pay \$75,000 by the earlier of July 31, 2008 or date of receipt of Provincial Tax Credits relating to the film and \$175,000 by October 31, 2008.
- (4) As consideration for the acquisition of Decode, the Company has a \$400,000 promissory note payable December 31, 2007 bearing interest at 10%.
- (5) Long-term debt, bearing interest at Business Development Bank of Canada's floating base rate plus 0.5%, maturing in May 2021. Amounts repayable in monthly payments of principal of \$19,900 plus interest and monthly principal installments of \$4,386, non-interest bearing.

Outlook

Coming off Q1 2008 the Company's balance sheet remains strong and Management believes the Company is in a solid position for the remainder of Fiscal 2008. Management continues to focus on its core values and using its strengths to take advantage of present opportunities and to create further value for shareholders. With the proceeds of the Company's October 25, 2007 Offering in hand, Management remains focused on increasing shareholder value through further organic growth and acquisitions. The Company anticipates using the proceeds of the October 25, 2007 Offering to move forward on the acquisition front in Fiscal 2008 and expects to be in a position to report on this in the coming quarters.

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, increasing profitability metrics, expanding the Company's presence in international markets, leveraging the Company's experience to focus on children, youth, and family content and merchandising, and undertaking further potential synergistic acquisitions. In this regard, for Fiscal 2008, the Company remains focused on organic growth and growth through acquisitions and is currently exploring a number of opportunities to expand production and distribution revenue streams and further expand its revenue platform.

On August 10, 2007, the Company announced a deal relating to the acquisition of Distribution Rights (See "Acquisitions" section of this MD&A for details) to license the first twelve seasons of *This Hour Has 22 Minutes*, representing 258 half-hours of the distribution rights package, to The Comedy Network in Canada which exhibits DHX's ability to exploit these rights across multiple platforms by leveraging its existing distribution capabilities. The Company is expecting revenues on this licensing deal for Fiscal 2008 of \$0.420 million and Fiscal 2009 of \$1.000 million.

For the remainder of the first half of 2008 the Company is expecting, somewhat based on contracted sales delivered and awaiting their licensing periods to commence (See "Critical Accounting Policies-Revenue Recognition" section of this MD&A for further details), further distribution revenue penetration on a number of additional titles in the current slate and from the library representing expected double-digit growth, perhaps in the range of 10-30% over the distribution totals for the first half of Fiscal 2007. For Fiscal 2008 other revenues, including music and royalty and new media revenues, are expected to have moderate growth.

For Fiscal 2008 the Company has over 200 half-hours of contracted proprietary programs (plus 50-100 half-hours of additional potential proprietary programs currently in negotiation with various broadcasters), made up of over 15 different episodic television series, which are scheduled for delivery and for the license periods to commence. Having recognized 61 half-hours of proprietary programs as production revenues in Q1 2008, the Company is well on its way to its projected number of half-hours. For the first half of 2008, the Company also expects double-digit production revenue growth, perhaps in the 10-40% range, as some of the Company's Q3 and Q4 2007 television deliveries are simply awaiting their license periods to commence. For Q2 2008, the Company has over 50 half-hours of contracted proprietary programs which are scheduled for delivery and for the license periods to commence. The Company's historic average production revenue value (once the license period has

commenced) per half-hour of television programs is approximately \$0.100-\$0.175 million and Management expects the average production revenue value per half-hour actually delivered with the license periods commenced for Fiscal 2008 to be in this range.

Further synergies from the acquisition of Decode are demonstrated through healthier gross margins as shown by the strong margin for Q1 2008 of 31%. For Fiscal 2008, gross margin is expected to be in the 25-40% range. For Fiscal 2008, Management expects the integration of Decode to continue to result in further synergies and revenue growth in all categories.

In the last half of Fiscal 2008, 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., for the Company's preschool property *Franny's Feet* and Alliance Atlantis on another preschool property *Lunar Jim*. The Company is also focused on leveraging other existing proprietary properties for additional M&L revenues.

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

During Fiscal 2007, the following acquisitions occurred:

- (a) On July 1, 2006 (the Effective Date), the Company completed a business acquisition and acquired all of the issued and outstanding shares of Electropolis Studios Incorporated ("**Electropolis**") for cash consideration of \$0.032 million.

The acquisition of Electropolis allows the Company to vertically integrate and recapture some office and facility rental expenses and also offers new net rental revenue streams for third party productions. For Q1 2008 and Fiscal 2007 the Company has recorded \$0.122 million and \$0.351 million for rental revenue.
- (b) On December 22, 2006, the Company completed the acquisition of the license for the worldwide distribution rights to 520 half-hours of television programming ("**Distribution Rights**") for \$2.200 million. As of September 30, 2007, the company has paid cash of \$0.620 million and is scheduled to pay the remainder through nine quarterly payments of \$0.120 million ending March 31, 2009 and one lump sum payment of \$0.500 million due March 31, 2009.
- (c) On February 8, 2007, the Company acquired all of the issued and outstanding shares of Mighty Jungle Productions Inc. and Mighty Jungle 2 Productions Inc., both television production companies, for cash consideration of \$0.150 million. This acquisition fits nicely with the Company's overall strategy to retain ownership of as many of the underlying rights to its programs as possible.

Subsequent Events

- (a) On November 13, 2007, the Company completed an offering with a syndicate of underwriters led by GMP Securities L.P. and including Canaccord Capital Corporation, TD Securities Inc. and Paradigm Capital Inc. (collectively "the Underwriters") to purchase on a bought deal basis 9,700,000 units ("Units") from the Corporation at a price of C\$1.80 per Unit for aggregate gross proceeds of C\$17,460,000 (the "Offering"). Each Unit consists of one common share in the capital of the Corporation and one-half of one common share purchase warrant. Each whole warrant entitles the holder thereof to purchase one common share of the Corporation until the date that is 36 months after the closing date at a price of C\$2.10 per common share.

On November 14, 2007, the Underwriters partially exercised their over-allotment option granted under the Offering, pursuant to which the Company on the same date issued 115,000 common shares and 72,750 common share purchase warrants for gross proceeds of \$212,368.

- (b) The Company entered into a 50-month lease for a new production facility in Halifax, Nova Scotia, replacing the Company's lease at 5091 Terminal Road in Halifax, Nova Scotia, which terminates on November 26, 2007. The Company assumed possession of its new facility on October 31, 2007.
- (c) Pursuant to a term sheet dated effective October 30, 2007, the Company paid \$100,000 to obtain the option to acquire, for \$2 million in cash, a 16.77% equity interest in a Canadian private company that specializes in the production of interactive games for children 3 to 12 years of age and produces a number of games featuring television characters well known to children. This company has invested in the online market and recently launched its first series of secure online children's game and video on-demand channels. The company commercializes these subscription-based services in collaboration with major partners in the media and entertainment industry, mostly internet service providers and television broadcasters.

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, 2007 and 2006 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 2 to the Financial Statements for the years ended June 30, 2007 and 2006 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 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.

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 investment income line on the statement of earnings an amount of \$0.023 million for Q1 2008 (Q1 2007-nil).

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 three months ended September 30, 2007, the Company recorded no amounts for impairment of goodwill (Q1 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.

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 and Recent Accounting Pronouncements

Financial Instruments, Comprehensive Income, and Hedges

In January 2005, the CICA issued Handbook Sections 3855, "Financial Instruments — Recognition and Measurement", 1530, "Comprehensive Income", 3251, "Equity", and 3865, "Hedges". 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 for Q1 2008.

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.

Section 3865 provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline 13 "Hedging Relationships", and the hedging guidance in Section 1650 "Foreign Currency Translation" by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

Variability in Variable Interest Entities

In September 2006, the Emerging issues Committee of the CICA issued EIC 163, "Determining the Variability to be Considered in Applying AcG-15". EIC 163 provides additional clarification on how to analyze and consolidate VIEs. Effective

July 1, 2007, the Company adopted EIC 163 on a prospective basis. The adoption of this standard did not have an impact on the Company's consolidated financial statements.

Capital Disclosures

In December 2006, 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 will adopt this new standard effective July 1, 2008.

Financial Instruments — Disclosures and Presentation

In December 2006, 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 will adopt these new standards effective July 1, 2008.

Credit Risk

Accounts receivable from the Canadian federal government and other government agencies in connection with production financing represents 63% of total accounts receivable at September 30, 2007 (September 30, 2006-71%). 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 its long-term debt bear interest at floating rates. Management believes this exposure to be minimal. As an example, as of September 30, 2007, even a 1% rate increase would only result in an annualized increase of approximately \$0.200 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. These specific and general risks are as follows: risks related to the nature of the entertainment industry, risks related to television and film industries, risks related to doing business internationally, loss of Canadian status, competition, limited ability to exploit filmed and television content library, protecting and defending against intellectual property claims, fluctuating results of operations, raising additional capital, concentration risk, reliance on key personnel, market share price fluctuations, risks associated with acquisitions and joint ventures, potential for budget overruns and other production risks, management estimates in revenues and earnings, stoppage of incentive programs, financial risks resulting from the Company's capital requirements, government incentive program, change in regulatory environment, litigation, technological change, labour relations, and exchange rates. *For further details see "Risk Factors" contained in the Company's Annual MD&A for the year ended June 30, 2007 and 2006 on www.sedar.com.*

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 September 30, 2007, 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 September 30, 2007. Based on this evaluation, Management has concluded that the Company’s disclosure controls and procedures 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 approved a Code of Business Conduct and Ethics and it has been distributed to all directors, officers and employees of the Company as of the date of this MD&A.

Changes in ICFR

There were no changes in the Company’s ICFR that occurred during the three months ended September 30, 2007 that have materially affected, or are reasonably likely to materially affect, the entity’s ICFR.

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**” means earnings (loss) before interest, taxes, depreciation, amortization, and stock-based compensation expense. Amortization includes amortization of property, plant, and equipment, acquired libraries, and intangible assets. 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 is not an earnings measure recognized by GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, EBITDA may not be comparable to similar measures presented by other issuers. Management believes EBITDA to be a meaningful indicator 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 is presented below.

Reconciliation of Historical Results to EBITDA

EBITDA is not a recognized earnings measure under GAAP and does not have standardized meanings prescribed by GAAP. Therefore EBITDA may not be comparable to similar measures presented by other companies or issuers. Investors are cautioned that 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 Gross Margin, based on the historical unaudited financial statements of the Company for the three month periods ended September 30, 2007 and 2006, June 30, 2007 and 2006, March 31, 2007 and 2006, and December 31, 2006 and 2005, included elsewhere in this MD&A. For further description see "Use of Non-GAAP Financial Measures" elsewhere in this MD&A.

	Q1-08 \$	Q4-07 \$	Q3-07 \$	Q2-07 \$
Income (loss) before income taxes for the period	599,452	1,607,649	199,890	263,165
Interest and amortization of deferred financing fees	171,514	455,758	-	-
Interest and other expense (income)	(97,419)	(265,910)	36,247	46,523
Equity loss, loss on abandoned investment, and non-controlling interest	5,167	278,402	5,179	16,886
Equity income.....	(23,264)	(360,513)	-	-
Amortization	347,978	658,124	296,717	467,686
Development expenses.....	-	337,563	14,296	51,653
Stock-based compensation expense ¹	112,627	126,512	79,057	104,946
EBITDA².....	1,116,055	2,837,585	631,386	950,859
Selling, general and administrative, net of stock-based compensation expense.....	2,210,299	1,615,681	1,977,171	1,835,449
Income from strategic investments	(19,500)	(272,972)	(495,559)	(425,278)
Gross Margin²	3,306,854	4,180,294	2,112,998	2,361,030
	Q1-07 \$	Q4-06 \$	Q3-06 \$	Q2-06 \$
Income (loss) before income taxes for the period	(279,949)	310,401	(349,743)	(380,892)
Interest and amortization of deferred financing fees	-	141,709	256,986	239,626
Interest and other expense (income)	20,942	(101,826)	(6,942)	(66,339)
Equity loss, loss on abandoned investment, and non-controlling interest	8,733	76,846	19,462	318,494
Equity income.....	-	-	-	-
Amortization	270,592	123,711	2,540	1,717
Development expenses.....	-	-	-	-
Stock-based compensation expense ¹	59,817	136,737	-	-
EBITDA².....	80,135	687,578	(77,697)	112,606
Selling, general and administrative, net of stock-based compensation expense.....	1,542,081	1,143,561	355,015	577,542
Income from strategic investments	(542,952)	(187,230)	-	-
Gross Margin²	1,079,264	1,643,909	277,318	690,148

¹Effective 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.

²Certain 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).



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**Supplemental Information
For the Three months ended September 30, 2007**

1. Summary of securities issued and options and warrants granted during the three months ended September 30, 2007

a. Summary of securities issued

Common Shares	Number of Common Shares	Value \$
Balance at September 30, 2007 and June 30, 2007	32,801,452	40,778,665

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
Options cancelled during period	(100,000)	\$1.58
Balance at September 30, 2007	2,216,547	\$2.13

Put Options	Number of Put Options	Weighted-average exercise price
Gained in connection with issuance of common shares of a subsidiary ¹	425,420	Nil
Balance at September 30, 2007	425,420	Nil

¹ Each convert on a one-to-one basis to common shares of the Company (see note 13(h) of the consolidated financial statements for further details).

Balance at September 30, 2007	425,420	Nil
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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

32,801,452 common shares at a recorded value of \$40,778,665;
100,000,000 preferred variable voting shares at a recorded value of \$100.

iii. Description of options and warrants

See Note 13 of the unaudited interim consolidated financial statements for the three months ended September 30, 2007.

2. Directors and officers as at September 30, 2007

Directors

Sir Graham Day	Lead Director
Michael Donovan	Chairman, Board of Directors
J. William Ritchie	Director
Donald Wright	Director
Joe Medjuck	Director
Charles Bishop	Director
Steven DeNure	Director
Neil Court	Director

Officers

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