Fiscal 2012

Management Discussion and Analysis

DHX MEDIA LTD.

Year Ended
June 30, 2012

MANAGEMENT DISCUSSION AND ANALYSIS

*The following Management Discussion & Analysis ("**MD&A**") prepared as of September 28, 2012, should be read in conjunction with DHX Media Ltd.'s* (the "**Company**" or "**DHX**") *audited consolidated financial statements and accompanying notes for the years ended June 30, 2012, 2011, and at July 1, 2010. The audited consolidated financial statements and accompanying notes for the years ended June 30, 2012 and 2011 have been prepared in accordance with international financial reporting standards ("**IFRS**"). In this MD&A, the term CGAAP refers to generally accepted accounting principles in Canada prior to the adoption of IFRS, and the term IFRS or GAAP refers to generally accepted accounting principles in Canada after the adoption of IFRS.*

DHX is a public company incorporated under the Canadian Business Corporations Act whose common shares are traded on the Toronto Stock Exchange ("**TSX**") admitted 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 as set out in the CICA Handbook. In 2010, the CICA Handbook was revised to incorporate IFRS, and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011, and to provide comparative figures for 2011. Accordingly, the Company commenced reporting on this basis in its unaudited interim condensed consolidated financial statements for the first quarter of 2012 (three months ended September 30, 2011).

As a result of the adoption of IFRS, certain trends in operating results presented under CGAAP may no longer be applicable under IFRS. In particular, the accounting for overall consolidation, share-based compensation, business combinations, cumulative translation adjustment, withholding taxes payable, and deferred income taxes are significantly impacted by the changeover to IFRS – refer to "Accounting Policies and Transition to IFRS" section of this MD&A for additional information.

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", "pursue", "continue", "seek", 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 and "Risk Factors" section of the Company's recently filed "Management Information Circular".

The foregoing is not an exhaustive list and other risks are detailed from time to time in other continuous disclosure filings of the Company, including, among other filings, the Company's recent "Management Information Circular" and "Final Short Form Prospectus". 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, distributor, and licensor of television and film productions. The Company was originally the result of the combination of The Halifax Film Company Limited ("**Halifax Film**") and Decode Entertainment Inc. ("**Decode**") during Fiscal 2006 and at the time of initial public offering. Since that time DHX has added Studio B Productions ("**Studio B**") on December 4, 2007, imX Communications Inc. ("**imX**") on July 20, 2008, and W!ldbrain Entertainment Inc. ("**DHX Wildbrain**") on September 14, 2010 (See "Wildbrain Acquisition" and "Acquisitions" sections of this MD&A and the 2011 Annual MD&A posted on SEDAR at www.sedar.com).

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 2,550 half-hours of programming and over 60 individual titles produced. The Company has over 15 children's series currently in first window broadcast on multiple major cable and broadcast networks in North America and internationally, including, *Yo Gabba Gabba, Waybuloo, Super Why, The Mighty Jungle, Bo on the Go!, Franny's Feet, Dirtgirlworld, How to be Indie, Animal Mechanicals, Kid vs. Kat,* and *Martha Speaks*. 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 now in its 20th season. In addition, *The Mighty Jungle* was recently awarded a 2011 Gemini Award for *Best Pre-School Program or Series*. Recently, *Rastamouse* was honoured at the Broadcast Awards 2012 in the UK and was named *Best Pre-School Programme*. The Company has four locations: "**DHX Halifax**", "**DHX Toronto**", "**DHX Vancouver**", and "**DHX Wildbrain**" (based in the Los Angeles, United States of America ("**USA**")). The Company produces content for distribution in domestic and international markets which is marketed via its DHX Toronto based sales group and licensed via its DHX Wildbrain based licensing group.

Revenue Model

The Company historically earns revenues primarily from four categories: 1) proprietary production, which includes Canadian and other rights proprietary programs, 2) distribution of its proprietary and third party acquired titles, 3) producer and service fees, which includes production services for third parties, and 4) merchandising and licensing ("**M&L**") and other revenues which includes rental of studios and office facilities, music and royalty revenue, new media revenue, and licensing revenue on titles in the DHX library, including *Yo Gabba Gabba Live!* ("**Yo Gabba Gabba Live!**") stage tour revenues. 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 if it relates to television licences and in M&L if it relates to royalties or revenues generated from non-television licenses. The Company also generates revenue from programs in which it retains Canadian and other limited participation rights and, in certain instances, from production services for productions whose copyright is owned by third parties.

Production Revenue

The Company derives proprietary production revenues, which includes other proprietary titles with Canadian and other rights, 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 note 3 of the audited consolidated financial statements for the years ended June 30, 2012 and 2011 for details on revenue recognition).

Distribution Revenue

The Company is able to retain or obtain the ownership rights to its proprietary, other proprietary titles, and third party acquired titles, 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, home entertainment, and digital platforms) for specified periods of time. Distribution revenue also includes theatrical and other revenues generated on its feature films and movies of the week ("**MOW's**").

Producer and Service Fee Revenue

Producer and service fee revenue includes revenue accounted for using the percentage of completion method for revenues for service and corporate overhead fees earned for producing television shows and MOW's.

M&L and Other Revenue

M&L and other revenue includes rental of studios, equipment, and office facilities, music and royalty revenues, new media revenue, and licensing revenues for *Yo Gabba Gabba* and *Yo Gabba Gabba Live!* and, new for Fiscal 2012, *Rastamouse*.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The summary consolidated financial information set out below for the years ended June 30, 2012, 2011, and 2010 has been prepared in accordance with IFRS, with the exception of Fiscal 2010 which is reported on a CGAAP basis (prior to the adoption of IFRS), and is derived from the Company's audited consolidated financial statements and accompanying notes for the years ended June 30, 2012 and 2011, and can be found at www.sedar.com or DHX's website atwww.dhxmedia.com. Accordingly, the financial information for Fiscal 2010 may not be comparable to subsequent years. **Each reader should read the following information in conjunction with those statements and the related notes.**

	Fiscal 2012	**Fiscal 2011**	**Fiscal 2010**
	($000) (except per share data)	**($000) (except per share data)**	**($000) (except per share data)**
Consolidated Statements of Income and Comprehensive Income Data:[1]	**IFRS**	**IFRS**	**CGAAP**
Revenues	**72,647**	55,409	40,471
Direct production costs and amortization of film and television produced	**(47,928)**	(33,137)	(24,062)
Gross margin[2]	**24,719**	22,272	16,409
Selling, general, and administrative	**(16,077)**	(15,930)	(12,984)
Impairment in value of investment in film and television programs	**(515)**	(450)	(557)
Share of gain (loss) of associates	**(146)**	(333)	(40)
Amortization, finance and other expenses, net	**(4,001)**	(3,929)	(4,132)
Provision for (recovery of) income taxes	**(933)**	(314)	491
Net income (loss)	**3,047**	1,316	(813)
Cumulative translation adjustment	**602**	(476)	-
Realized loss on available for sale investments, net of tax	**80**	-	-
Change in fair value of available-for-sale investments, net of tax	**7**	7	-
Comprehensive income (loss)	**3,736**	847	(813)
Basic earnings (loss) per common share	**0.05**	0.02	(0.02)
Diluted earnings (loss) per common share	**0.05**	0.02	(0.02)
Weighted average common shares outstanding (expressed in thousands)			
Basic	**57,836**	61,622	48,580
Diluted	**58,160**	61,944	48,580
Consolidated Balance Sheet Data:			
Cash and short-term investments	**22,489**	25,585	22,018
Investment in film and television programs	**44,163**	39,184	29,892
Total assets	**134,961**	148,022	133,304
Total liabilities	**56,061**	67,175	53,125
Shareholders' equity	**78,900**	80,847	80,179

[1]The financial information for the year ended June 30, 2012 in the table includes full quarterly results for DHX Halifax, DHX Toronto, DHX Vancouver, and DHX Wildbrain. The financial information for the years ended June 30, 2011 in the table includes full results for DHX Halifax, DHX Toronto, DHX Vancouver, but only 289 days activity for DHX Wildbrain (see–"Wildbrain Acquisition" section of this MD&A). The financial information for the year ended June 30, 2010 in the table includes full results for DHX Halifax, DHX Toronto, and DHX Vancouver, but no activity for DHX Wildbrain.

[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).

Results for the year ended June 30, 2012 (“Fiscal 2012”) compared to the year ended June 30, 2011 (“Fiscal 2011”)

Revenues

Revenues for Fiscal 2012 were $72.65 million, up 31% from $55.41 million for Fiscal 2011. The increase in Fiscal 2012 was due to significant increases in M&L, producer and service fee, and new media revenues.

Proprietary production revenues: Proprietary production revenues for Fiscal 2012 were $12.60 million, a 22% decrease compared to $16.10 million for Fiscal 2011. The overall decrease was made up of a 34% decrease to $8.01 million (Fiscal 2011-$12.10 million) for Children’s and Family, a 91% decrease to $0.17 million for Fiscal 2012 (Fiscal 2011-$1.94 million) for Drama and MOW’s (“**Drama**”), and a 115% increase to $4.42 million for comedy productions (“**Comedy**”) (Fiscal 2011-$2.06 million).

For Fiscal 2012, the Company added 131.0 half-hours to the library. The breakdown for Fiscal 2012 is 86.0 half-hours - $12.60 million of proprietary film and television program production revenue versus the 138.0 half-hours - $16.10 million for Fiscal 2011, where the programs have been delivered and the license periods have commenced for consolidated entities and 45.0 half-hours in intellectual property (“**IP**”) rights for third party produced titles (36.5 half-hours in Fiscal 2011). Fiscal 2012 proprietary deliveries were in line with scheduled deliveries and Management’s expectations.

As part of the maturation of DHX, specifically the experience gained by our in house international television distribution team along with the licensing expertise within DHX Wildbrain, we continue to strategically target third party produced titles for IP rights. As noted above, for Fiscal 2012 the Company added 45.0 half-hours to the library (26 half-hours for *Ha Ha Hairies*, 6.0 half-hours for *How to be Indie* and 13.0 half-hours for the UK breakout property *Rastamouse*). For Fiscal 2011, the Company added 36.5 half-hours to the library (3.5 half-hours for *Grandpa in my Pocket*, 20.0 half-hours for *How to be Indie*, and 13.0 half-hours for *Rastamouse*).

The breakdown for content library deliveries (including proprietary deliveries and deliveries on IP rights for third party produced titles) and dollar value subtotals for locations for Fiscal 2012 and Fiscal 2011 was as follows:

		Fiscal 2012		Fiscal 2011	
Title	**Season or Type**	**$ Million**	**Half-hours**	**$ Million**	**Half-hours**
Children's and Family:					
Proprietary					
Animal Mechanicals	III		-		9.0
Kid vs. Kat	II		-		26.0
Monster Math Squad	I		15.0		-
Pirates	I		-		N/A [1]
Pirates	II		N/A [1]		14.0
Super Why (CBC)	II		12.0		3.0
That's So Weird!	II		-		13.0
That's So Weird!	III		13.0		-
Yo Gabba Gabba	IV		13.0		-
Subtotals		$ 6.44	53.0	$ 8.27	65.0
Other Proprietary Titles with Canadian and Other Rights					
Martha Speaks (TVO)	IV		10.0		N/A [1]
Waybuloo (RDF Rights)	III		N/A [1]		50.0
Subtotals		$ 1.57	10.0	$ 3.83	50.0
Third Party Produced Titles with IP Rights					
Grandpa in my Pocket			-		3.5
Ha Ha Hairies			26.0		-
How to Be Indie			6.0		20.0
Rastamouse			13.0		13.0
Subtotals			45.0		36.5
Total Children's and Family		**$ 8.01**	**108.0**	**$ 12.10**	**151.5**
Drama:					
Proprietary					
American Refugees	Demo		1.0		-
Befriend & Betray	Pilot		-		4.0
Subtotals		$ 0.05	1.0	$ 0.68	4.0
Other Proprietary Titles with Canadian and Other Rights					
Ice Road Terror	MOW		N/A [1]		3.0
Killer Mountain	MOW		N/A [1]		3.0
Subtotals		$ 0.12	-	$ 1.26	6.0
Total Drama		**$ 0.17**	**1.0**	**$ 1.94**	**10.0**
Comedy:					
Proprietary					
This Hour Has 22 Minutes	XVIII		-		13.0
This Hour Has 22 Minutes	XIX		22.0		-
Total Comedy		**$ 4.42**	**22.0**	**$ 2.06**	**13.0**
Total Proprietary		$ 10.91	76.0	$ 11.01	82.0
Total Other Proprietary Titles with Canadian and Other Rights		$ 1.69	10.0	$ 5.09	56.0
Total Third Party Produced Titles with IP Rights		$ -	45.0	$ -	36.5
		$ 12.60	**131.0**	**$ 16.10**	**174.5**

[1]*N/A – Not applicable as deliveries of half-hours have either already been counted when title delivered in the first instance or in the case of the shows using percentage of completion method, are not yet delivered.*

Producer and service fee revenues: For Fiscal 2012, the Company earned $31.28 million for producer and service fee revenues, an increase of 102% versus the $15.48 million for Fiscal 2011. DHX Vancouver earned $12.39 million, an increase of 74% (Fiscal 2011-$7.14 million), and DHX Wildbrain earned $18.89 million for Fiscal 2012, an increase of 126% (Fiscal 2011-$8.34 million). For Fiscal 2012, the breakdown for major projects over $0.10 million for DHX Vancouver was $5.11 million for *My Little Pony* Seasons 1-3, $0.13 million for *Sarah Solves It* Pilot, $2.10 million for *Little Pet Shop* Season I, and $5.05 million for *Pound Puppies* Seasons 1-3. For Fiscal 2012, the breakdown for major projects over $0.10 million for DHX Wildbrain was $3.01 million for *Monster High* Seasons 5-6 and 13, $4.28 million for *The Ricky Gervais Show* Seasons 2-3, $3.61 million for *Oki's Oasis* Pilot and Season I, $0.57 million for *Team Smithereen* Pilot, and $7.34 million for *How to Train Your Dragon* Season 1.

Distribution revenues: For Fiscal 2012, distribution revenues were down 14% to $6.91 million from $8.02 million for Fiscal 2011, generally due to timing of license periods for existing contracts on hand. The Company achieved the low end of its range for its Fiscal 2012 target for distribution revenue. For Fiscal 2012, 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: *Poko* Seasons 1-3, *Animal Mechanicals* Seasons 1-4, *Save Ums!* Seasons 1-2, *Super Why!* Seasons 1-2, *Kid vs. Kat* Seasons 1-2, *Bo on the Go!* Seasons 1-3, *Radio Free Roscoe* Seasons 1-2, *Martha Speaks* Seasons 1-2, *Franny's Feet* Seasons 1-3, *Naturally* Sadie Seasons 1-3, *Latest Buzz* Seasons 1-3, *Pirates* Seasons 1-2, *How to be Indie* Seasons 1-2, *Ha Ha Hairies* Season 1, and *Rastamouse* Season 1.

M&L and music royalty revenues: Management was very pleased that for Fiscal 2012, M&L, music, and royalty revenues increased 24% to $15.80 million (Fiscal 2011-$12.73 million). Traditional DHX music, M&L, and royalty revenues were up 54% to $2.47 million for Fiscal 2012 (Fiscal 2011-$1.60 million). Final gross *Yo Gabba Gabba* revenues were $8.41 million for the calendar 2011 tour for *Yo Gabba Gabba Live!,* up 4% versus the Fiscal 2011, calendar 2010 tour, of $8.06 million, and $4.64 million for other *Yo Gabba Gabba!* M&L, up 51% over Fiscal 2011 of $3.07 million. Management also reported its first *Rastamouse* M&L revenues for Fiscal 2012 in the UK for the Christmas 2011 season of $0.26 million (Fiscal 2011-nil).

New Media Revenues: For Fiscal 2012, new media revenues increased 119% to $5.77 million (Fiscal 2011-$2.64 million) including $4.54 million, up 85%, for UMIGO (you make it go) (Fiscal 2011-$2.45 million) and $1.23 million, up 547%, (Fiscal 2011-$0.19 million) for other new media projects.

Rental revenues: For Fiscal 2012, rental revenues were $0.29 million, down 34% from Fiscal 2011 of $0.44 million, as a result of lower rental revenues of studio and office facilities to third parties for the Company's Toronto, Ontario office.

Gross Margin

Gross margin for Fiscal 2012 was $24.72 million, an increase in absolute dollars of 11% compared to $22.27 million for Fiscal 2011. The overall margin at 34% of revenue for Fiscal 2012 was at the low end, but in line with Management's Fiscal 2012 expectations. Specifically, Fiscal 2012 gross margin percentage was lower than Fiscal 2011 (40% of revenue) as a result of production revenue mix and the higher weighting of producer fees and service revenues delivered in the Fiscal 2012 as compared to other higher margin revenue streams. Further, it was brought down somewhat due to the adoption of IFRS, specifically the changes to consolidation, as certain production and service revenues are fully consolidated and shown gross under IFRS that were previously shown as net revenue amounts using the equity method. The resulting effect is an increase to revenue and direct production costs, but no net increase to gross margin dollars. Therefore, when the gross margin is calculated it results in the same gross margin dollar amount but a lower gross margin percentage.

For Fiscal 2012, the margins for each revenue category in absolute dollars and as a margin percentage were as follows: production revenue margin of $4.34 million or 34%, net producer and service fee revenue margin of $7.02 million or 22%, distribution revenue margin of $3.38 million or 49% ($2.76 million or 40% when $0.62 million for the amortization of acquired libraries is removed), new media margin at $1.40 million or 24%, and rental revenue margin of $0.29 million or 100%. For Fiscal 2012, M&L, music, and royalty revenue margin was $8.29 million or 52%. The breakdown for music, M&L, and royalty margin was $1.35 million (Fiscal 2011-$1.57 million), down 14%, for traditional DHX music and royalty and $6.78 million, up 57% (Fiscal 2011-$4.31 million), for *Yo Gabba Gabba* including *Yo Gabba Gabba Live!* Tour and $0.16 million for *Rastamouse* M&L in the UK (Fiscal 2011-nil).

In particular, production, producer and service fee revenue, distribution, and M&L on *Yo Gabba Gabba* in terms of absolute dollars contributed $4.34 million, $7.02 million, $3.38 million and $6.78 million, respectively or 87% of the total margin. Production margin at 34% was in line with Management's expectations. Producer and service fee margins can vary greatly and at 22% is at the midpoint of Management's expectations. Distribution margin can fluctuate greatly from title-to-title and at 49% is in line at the midpoint of Management's expectations.

Operating Expenses (Income)

SG&A

SG&A costs for Fiscal 2012 were up slightly (1%) at $16.08 million compared to $15.93 million for Fiscal 2011. Specifically, SG&A costs (excluding DHX Wildbrain) were $11.14 million (Fiscal 2011-$12.13 million) and SG&A costs for DHX Wildbrain for Fiscal 2012 were $4.94 million (Fiscal 2011-$3.80 million, however, was for only 289 days activity). Management was pleased with SG&A costs for Fiscal 2012 (excluding DHX Wildbrain) at $11.14 million as these were down 8% (ahead of Management's expectations of a 5% reduction) as compared to Fiscal 2011.

Amortization

For Fiscal 2012, amortization was up 15% to $3.16 million (Fiscal 2011-$2.74 million). For Fiscal 2012, the amortization of acquired libraries was up 2% to $0.62 million (Fiscal 2011-$0.61 million) which relates to the library titles that have a maximum 20 year life for amortization purposes, have minimal ongoing cash costs associated with selling, and are viewed as long-term assets. For Fiscal 2012, amortization of PP&E was up 44% to $1.70 million (Fiscal 2011-$1.18 million) specifically due to new equipment put in use during Q4 2011 at DHX Wildbrain. For Fiscal 2012, amortization of intangible assets was down 12% to $0.84 million (Fiscal 2011-$0.95 million) which relates to the intangible assets acquired as part of the acquisitions of Decode (now DHX Toronto), Studio B (now DHX Vancouver), and DHX Wildbrain.

Development Expenses and Other

During Fiscal 2012 development expenses were $0.39 million (Fiscal 2011-$0.55 million). For Fiscal 2012, other expense was $0.06 million for a write off of a UK value added tax account deemed not recoverable (Fiscal 2011-nil) and $0.32 million for acquisition costs expensed in accordance with IFRS and litigation costs relating to normal course legal matters (Fiscal 2011-$0.64 million).

Impairment in Value of Investment in Film and Television Programs

During Fiscal 2012, the Company recorded an impairment in value of investments in film and television programs of $0.52 million (Fiscal 2011-$0.45 million).

Share of Loss of Associates (Formerly Equity Income (Loss))

For Fiscal 2012, the Company recorded its share of loss of associates of $0.15 million for its investment in Tribal Nova (Fiscal 2011-$0.33 million loss). For Fiscal 2012, the $0.15 million loss was made up of $0.26 million in amortization of Tribal Nova intangibles offset by $0.11 million of income for the Company's share of Tribal Nova.

Realized Loss on Disposals of Short-term Investment and Property, Plant, and Equipment

For Fiscal 2012, the Company recorded a loss on disposal of short-term investment of $0.08 million and a $0.14 million loss (2011-nil and nil) on disposal of plant, property, and equipment.

Finance Income and Expenses (Formerly Interest Income (Expense) and Foreign Exchange Gain (Loss))

For Fiscal 2012, the Company recorded net finance income of $0.15 million versus no net finance income/expense for Fiscal 2011. Fiscal 2012 net finance income consists of $0.12 million for finance costs on long-term debt and capital leases and $0.08 million for finance and bank charges (Fiscal 2011-$0.22 million and $0.01 million, respectively), offset by finance income of $0.22 million (Fiscal 2011-$0.18 million) and foreign exchange gain of $0.13 million (Fiscal 2011-$0.05 million foreign exchange gain). The foreign exchange gain was due to fluctuations of the Canadian dollar against the USD, GBP, and Euro since June 30, 2011 and the breakdown for Fiscal 2012 was as follows: $0.22 million for realized foreign exchange gain (Fiscal 2011-$0.17 million foreign exchange loss) on revenue and expense items translated at average rates for the period and $0.09 million in non-cash unrealized foreign exchange loss (Fiscal 2011-$0.22 million unrealized foreign exchange gain) for balance sheet translations at the exchange rates in effect at each balance sheet date.

EBITDA

For Fiscal 2012, EBITDA was $9.13 million, up $2.30 million or 34% over $6.83 million for Fiscal 2011. For Fiscal 2012, this increase was due to the increase in gross margin dollars of $2.45 million, offset by an increase in operating expenses of $0.15 million.

Income Taxes

Income tax expense for Fiscal 2012 was $0.93 million (Fiscal 2011-$0.31 million) made up of $0.15 million expense (Fiscal 2011-$0.98 million expense) for current income taxes and deferred income tax expense of $0.78 million (Fiscal 2011-$0.67 million recovery).

Net Income and Comprehensive Income

Net income for Fiscal 2012 was $3.05 million, compared to $1.32 million for Fiscal 2011, or an increase of $1.73 million in absolute dollars or 131%. For Fiscal 2012, the overall change of $1.73 million was due to changes over Fiscal 2011 of the following amounts: a gross margin increase of $2.45 million and a $0.15 million increase in net finance income, offset by an increase in other expenses (income) of $0.25 million and a $0.62 million increase for income taxes.

Comprehensive income for Fiscal 2012 was $3.74 million, compared to $0.85 million for Fiscal 2011, or an increase of $2.89 million in absolute dollars, made up of an increase in cumulative translation adjustment of $1.08 million, a realized loss on available-for-sale investments of $0.08 million, and an increase in net income of $1.73 million .

SELECTED CONSOLIDATED QUARTERLY FINANCIAL INFORMATION

The following table sets out selected consolidated financial information (prepared in accordance with IFRS) for each of the last eight quarters with the last one being the most recent quarter ended June 30, 2012. 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, 2012 and 2011 as filed on www.sedar.com or DHX's website at www.dhxmedia.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 an indication of results for any future period.***

	Fiscal 2012[1]				**Fiscal 2011[1]**			
(All numbers are in thousands except per share data)	**Q4 30-Jun $ IFRS**	**Q3 31-Mar $ IFRS**	**Q2 31-Dec $ IFRS**	**Q1 30-Sep $ IFRS**	**Q4 30-Jun $ IFRS**	**Q3 31-Mar $ IFRS**	**Q2 31-Dec $ IFRS**	**Q1 30-Sep $ IFRS**
Revenue	14,409	16,619	24,675	16,944	11,518	12,283	19,381	12,227
Gross Margin[2]	5,818	6,116	7,685	5,100	4,740	5,512	7,103	4,917
EBITDA and Adjusted EBITDA[2 & 3]	1,715	2,117	3,640	1,662	812	1,465	2,918	1,636
Net Income (Loss)	348	546	1,835	318	(204)	237	854	429
Comprehensive Income (Loss)	770	230	1,538	1,198	(424)	427	371	473
Basic Earnings Per Common Share[4]	0.01	0.01	0.03	0.01	0.00	0.00	0.01	0.01
Diluted Earnings Per Common Share[4]	0.01	0.01	0.03	0.01	0.00	0.00	0.01	0.01

[1]Q1-Q4 2012 and Q2-Q4 2011 include full quarterly results for: DHX Halifax, DHX Toronto, DHX Vancouver, and DHX Wildbrain. Q1 2011 includes full quarterly results for: DHX Halifax, DHX Toronto, and DHX Vancouver, but only 16 days of DHX Wildbrain.

[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]The Adjusted EBITDA figures shown above were adjusted for the impairment in value of certain investments in film and television programs, share of loss associates, development expenses, and other one-time charges including non-cash share-based compensation expense, as management believes the adjusted figures to be a more meaningful indicator of operating performance (see "Reconciliation of Historical Results to EBITDA and Adjusted EBITDA" of this MD&A).

[4]Note that for Q4 2012 basic and diluted earnings per common share is $0.01, however, due to rounding, the calculation for Fiscal 2012 basic and diluted earnings per common share is $0.05 (please see note 24 of the audited consolidated financial statements for the years ended June 30, 2012 and 2011 for further details).

Results for the three months ended June 30, 2012 ("Q4 2012") compared to the three months ended June 30, 2011 ("Q4 2011")

Revenues

Revenues for Q4 2012 were $14.41 million, up 25% from $11.52 million for Q4 2011. The increase in Q4 2012 was due to significant increases in M&L and music royalties, producer and service fee, and new media revenues.

Proprietary production revenues: Proprietary production revenues for Q4 2012 were $1.23 million, a decrease of 58% compared to $2.90 million for Q4 2011. The overall decrease was made up of a 62% decrease to $0.82 million (Q4 2011-$2.14 million) in Children's and Family, a 99% decrease to $0.01 million for Q4 2012 (Q4 2011-$0.76 million) for Drama, and an increase to $0.40 million for Comedy (Q4 2011-nil).

For Q4 2012, the Company added 28 half-hours to the library. The breakdown for Q4 2012 is 12.0 half-hours - $1.23 million of proprietary film and television program production revenue versus the 30.0 half-hours for Q4 2011, where the programs have been delivered and the license periods have commenced for consolidated entities and 16.0 half-hours in intellectual property ("**IP**") rights for third party produced titles (10.0 half-hours in Q4 2011). Q4 2012 proprietary deliveries were in line with scheduled deliveries and Management's expectations.

As part of the maturation of DHX, specifically the experience gained by our in house international television distribution team along with the licensing within DHX Wildbrain acquisition, we continue to strategically target third party produced titles for IP rights. As noted above, for Q4 2012, the Company added 16.0 half-hour to the library for *Ha Ha Hairies*. For Q4 2011, the Company added 10.0 half-hours for *How to be Indie*.

The breakdown for content library deliveries (including proprietary deliveries and deliveries on IP rights for third party produced titles) and dollar value subtotals for locations for Q4 2012 and Q4 2011 was as follows:

Title	Season or Type	Q4 2012 $ Million	Q4 2012 Half-hours	Q4 2011 $ Million	Q4 2011 Half-hours
Children's and Family:					
Proprietary					
Animal Mechanicals	III		-		N/A [1]
Monster Math Squad	I		7.0		-
Pirates	I		-		-
Pirates	II		-		1.0
Super Why (CBC)	II		-		3.0
Yo Gabba Gabba	IV		4.0		-
Subtotals		$ 0.63	11.0	$ 1.37	4.0
Other Proprietary Titles with Canadian and Other Rights					
Martha Speaks (TVO)	IV		N/A [1]		N/A [1]
Waybuloo (RDF Rights)	III		-		20.0
Subtotals		$ 0.19	-	$ 0.77	20.0
Third Party Produced Titles with IP Rights					
Ha Ha Hairies			16.0		-
How to Be Indie			-		10.0
Subtotals			16.0		10.0
Total Children's and Family		**$ 0.82**	**27.0**	**$ 2.14**	**34.0**
Drama:					
Proprietary					
Befriend & Betray	Pilot		-		-
Subtotals		$ -	-	$ -	-
Other Proprietary Titles with Canadian and Other Rights					
Ice Road Terror	MOW		N/A [1]		3.0
Killer Mountain	MOW		-		3.0
Subtotals		$ 0.01	-	$ 0.76	6.0
Total Drama		**$ 0.01**	**-**	**$ 0.76**	**6.0**
Comedy:					
Proprietary					
This Hour Has 22 Minutes	XIX		1.0		-
Total Comedy		**$ 0.40**	**1.0**	**$ -**	**-**
Total Proprietary		$ 1.03	12.0	$ 1.37	4.0
Total Other Proprietary Titles with Canadian and Other Rights		$ 0.20	-	$ 1.53	26.0
Total Third Party Produced Titles with IP Rights		$ -	16.0	$ -	10.0
		$ 1.23	**28.0**	**$ 2.90**	**40.0**

[1] *N/A – Not applicable as deliveries of half-hours have either already been counted when title delivered in the first instance or in the case of the shows using percentage of completion method, are not yet delivered.*

Producer and service fee revenues: For Q4 2012, the Company earned $6.71 million for producer and service fee revenues, an increase of 67% versus the $4.02 million for Q4 2011, which marks the 4th consecutive quarter of growth in this category when compared to the same quarter for Fiscal 2011. DHX Vancouver earned $3.19 million, an increase of 61% (Q4 2011-$1.98 million), and DHX Wildbrain earned $3.52 million, an increase of 73%, for Q4 2012 (Q4 2011-$2.04 million). For Q4 2012, the breakdown for major projects over $0.10 million for DHX Vancouver was $1.63 million for *My Little Pony* Seasons 2-4, $0.91 million for *Little Pet Shop* Season I, and $0.65 million for *Pound Puppies* Seasons 1-3. For Q4 2012, the breakdown for major projects over $0.10 million for DHX Wildbrain was $0.60 million for *Monster High* Season 13, $1.45 million for *Oki's Oasis* Season 1, and $1.39 million for *How to Train Your Dragon* Season 1 which, as previously disclosed, wraps up the Company's involvement in this series.

Distribution revenues: Management was encouraged that for Q4 2012 (the third consecutive quarter, albeit slightly), distribution revenues were up 2% to $1.86 million from $1.83 million for Q4 2011, as we continue to see positive trends and rebounding in sales activities coming out of recent industry trade shows. For Q4 2012, 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: *Poko* Seasons 1-3, *Animal Mechanicals* Seasons 1-4, *Save Ums!* Seasons 1-2, *Super Why!* Season 1-2, *Kid vs. Kat* Seasons 1-2, *Bo on the Go!* Seasons 1-3, *Radio Free Roscoe* Seasons 1-2, *Martha Speaks* Seasons 1-2, *Franny's Feet* Seasons 1-3, *Naturally* Sadie Seasons 1-3, *Latest Buzz* Seasons 1-3, *Pirates* Seasons 1-2, *How to be Indie* Seasons 1-2, *Ha Ha Hairies* Season 1, and *Rastamouse* Season 1.

M&L and music royalty revenues: Management was very pleased that for Q4 2012, M&L, music, and royalty revenues increased 46% to $2.74 million (Q4 2011-$1.88 million). Traditional DHX music, M&L, and royalty revenues was up 80% to $0.54 million for Q4 2012 as compared to Q4 2011 of $0.30 million. Final gross *Yo Gabba Gabba Live!* tour figures resulted in revenues of $1.15 million for Q4 2012 (Calendar 2011 tour) versus Q4 2011 (Calendar 2010 tour) of $0.34 million and $1.04 million for other *Yo Gabba Gabba* M&L, down 16% from $1.24 million for Q4 2011, based mainly on timing of reporting on certain licensee contracts.

New Media Revenues: For Q4 2012, new media revenues increased 131% to $1.80 million (Q4 2011-$0.78 million) including a 59% increase to $1.21 million for UMIGO (you make it go) as compared to Q4 2011 of $0.76 million and a significant increase to $0.59 million (Q4 2011-$0.02 million) for other new media projects.

Rental revenues: For Q4 2012, rental revenues were $0.07 million, down 36% from Q4 2011 of $0.11 million, as a result of lower rental revenues of studio and office facilities to third parties of the Company's Toronto, Ontario office.

Gross Margin

Gross margin for Q4 2012 was $5.83 million, an increase in absolute dollars of 23% compared to $4.73 million for Q4 2011. The overall margin rebounded for Q4 2012 and at 40% of revenue was at the very high end of Management's expectations, driven by a strong quarter for M&L and a Q4 2012 reversal of *That's So Weird* Season 3 production costs.

For Q4 2012, the margins for each revenue category in absolute dollars and as a margin percentage were as follows: production revenue margin of $1.30 million or 106% (52%, when reduced by a $0.66 million positive adjustment for a pickup on *That's So Weird* Season 3), net producer and service fee revenue margin of $1.85 million or 28%, distribution revenue margin of $0.63 million or 34% ($0.62 million or 33% when $0.01 million for the amortization of acquired libraries is removed), new media margin at $0.08 million, and rental revenue margin of $0.07 million. For Q4 2012, M&L, music, and royalty revenue margin was $1.90 million or 69%. The breakdown for M&L, music, and royalty margin was $0.23 million, down 21% (Q4 2011-$0.29 million), for traditional DHX music and royalty and $1.67 million, up 25% (Q4 2011-$1.34 million), for *Yo Gabba Gabba* including *Yo Gabba Gabba Live!* Tour.

In particular, production, producer and service fee revenue, distribution, and M&L on *Yo Gabba Gabba* in terms of absolute dollars contributed $1.30 million, $1.85 million, $0.63 million and $1.67 million, respectively or 93% of the total margin. Production margin (adjusted by the $0.66 million pickup noted above) at 52%, based on product delivery mix, was above the high end of Management's expectations. Producer and service fee margins can vary greatly and at 28% is at the high end of Management's expectations. Distribution margin can fluctuate greatly from title-to-title and at 34% is at the low end of Management's expectations.

Operating Expenses (Income)

SG&A

SG&A costs for Q4 2012 were up 2% at $4.21 million compared to $4.11 million for Q4 2011. Specifically, SG&A costs (excluding DHX Wildbrain) were $2.70 million, down 11% compared to Q4 2011 of $3.02 million and SG&A costs for DHX Wildbrain for Q4 2012 were up 39% to $1.51 million (Q4 2011-$1.09 million) based on increased sales and marketing activities for M&L.

Amortization

For Q4 2012, amortization was down 21% to $0.59 million (Q4 2011-$0.75 million). For Q4 2012, the amortization of acquired libraries was down 95% to $0.01 million (Q4 2011-$0.16 million) which relates to the library titles that have a maximum 20 year life for amortization purposes, have minimal ongoing cash costs associated with selling, and are viewed as long-term assets. For Q4 2012, amortization of PP&E was up 3%, generally in line, to $0.37 million (Q4 2011-$0.36 million). For Q4 2012, amortization of intangible assets was down 9% to $0.21 million (Q4 2011-0.23 million) which relates to the intangible assets acquired as part of the acquisitions of DHX Toronto, DHX Vancouver, and DHX Wildbrain.

Development Expenses and Other

During Q4 2012, development expenses were $0.19 million (Q4 2011-$0.33 million). During Q4 2012, other expenses were $0.14 million for acquisition costs expensed in accordance with IFRS and litigation costs relating to normal course legal matters (Q4 2011 - $0.01 million).

Impairment in Value of Investment in Film and Television Programs

During Q4 2012, the Company recorded an impairment in value of investments in film and television programs of $0.38 million (Q4 2011 - nil).

Share of Loss of Associates (Formerly Equity Income (Loss))

For Q4 2012, the Company recorded its share of loss of associates of $0.07 million for its investment in Tribal Nova (Q4 2011-$0.07 million loss). For Q4 2012, the $0.07 million loss was made up of $0.07 million in amortization of Tribal Nova intangibles and no income or loss pickup for the Company's share of Tribal Nova.

Realized Loss on Disposals of Short-term Investment and Property, Plant, and Equipment

For Q4 2012, the Company recorded a realized loss on sale of short-term investment of $0.08 million (2011-nil) and a $0.14 million loss on disposal of plant, property, and equipment.

Finance Income and Expenses (Formerly Interest Income (Expense) and Foreign Exchange Gain (Loss))

For Q4 2012, the Company recorded net finance income of $0.13 million versus $0.08 million net finance expense for Q4 2011. Q4 2012 net finance expense consists of $0.05 million for finance costs on long-term debt, capital leases and $0.02 million reversal for finance and bank charges (Q4 2011-$0.08 million, and $0.04 million reversal, respectively), offset by foreign exchange gain of $0.12 million (Q4 2011-$0.11 million foreign exchange loss) and finance income of $0.05 million (Q4 2011-$0.07 million).

EBITDA

For Q4 2012, EBITDA was $1.71 million, up $0.90 million or 111% over $0.81 million for Q4 2011. For Q4 2012, this increase was due to the increase in gross margin dollars of $1.08 million, offset by an increase in SG&A and other expenses of $0.11 million and a $0.07 million increase in stock-based compensation expense.

Income Taxes

Income tax for Q4 2012 was a recovery of $0.20 million (Q4 2011-$0.42 million recovery) made up of $1.15 million recovery (Q4 2011-$0.23 million recovery) for current income tax, and deferred income tax expense of $0.95 million (Q4 2011-$0.19 million recovery).

Net Income and Comprehensive Income

Net income for Q4 2012 was $0.35 million, compared to $0.20 million loss for Q4 2011, or an increase of $0.55 million in absolute dollars or 275%. For Q4 2012, the overall change of $0.55 million was due to changes over Q4 2011 of the following amounts: a gross margin increase of $1.08 million and a $0.07 million decrease in net finance and other expenses, offset by an increase in other expenses (income) of $0.39 million, and a $0.21 million increase in the provision for income taxes.

Comprehensive income for Q4 2012 was $0.77 million, compared to $0.42 million loss for Q4 2011, or an increase of $1.19 million in absolute dollars, made up of an increase in cumulative translation adjustments of $0.59 million, an increase in net income of $0.55 million, and a realized loss on available for sale investments of $0.08 million, offset by an decrease in fair value of available-for-sale investments of $0.03 million.

Liquidity and Capital Resources	**Fiscal 2012 $ IFRS**	**Fiscal 2011 $ IFRS**
	(Amounts in Thousands, Except Balance Sheet Ratios)	
Key Balance Sheet Amounts and Ratios:		
Cash and short-term investments	**22,489**	25,585
Long-term assets	**24,905**	27,481
Working capital	**59,600**	57,510
Long-term and other liabilities	**5,605**	4,144
Working capital ratio [(1)]	**2.18**	1.91
Cash Inflows (Outflows) by Activity:		
Operating activities	**14,254**	15,379
Investing activities	**1,771**	(9,939)
Financing activities	**(16,419)**	(3,119)
Effect of foreign exchange rate changes on cash	**35**	(72)
Net cash inflows (outflows)	**(359)**	2,249
Adjusted Operating Activities[2]	**4,027**	7,987

(1) Working capital ratio is current assets divided by current liabilities (see the audited consolidated financial statements for the years ended June 30, 2012 and 2011 for new IFRS accumulation of current assets and current liabilities).

(2) For the year ended June 30, 2012 Adjusted Operating Activities were an inflow of $4,027 (year ended June 30, 2011 – $7,987) calculated as cash inflows from operating activities of $14,254 (2011-$15,379) adjusted by repayments of interim condensed production financing of ($10,227) (2011-($7,392)). See “Use of Non-GAAP Financial Measures” section of this MD&A for a definition of Adjusted Operating Activities.

Changes in Cash

Cash at June 30, 2012 was $19.17 million, as compared to $19.53 million at June 30, 2011 respectively. For Fiscal 2012 the cash balance decreased $0.36 million when comparing it to the cash balance as at June 30, 2011.

For Fiscal 2012 cash flows generated from operating activities were $14.25 million. Cash flows from operating activities resulted from net income of $3.05 million and adding back non-cash items of amortization of film and television programs, acquired library, PP&E, intangible assets, unrealized foreign exchange loss, realized loss on sale of short-term investment, share of loss of associates, impairment in value of investments in film and television programs, share-based compensation, deferred income taxes expense, and net change in non-cash working capital balances related to operations of $9.97 million, $0.62 million, $1.70 million, $0.84 million, $0.06 million, $0.08 million, $0.15 million, $0.51 million, $0.49 million, $0.78 million, and $12.08 million respectively. Cash flows used in operating activities were $16.08 million for net investments in film and television.

For Fiscal 2012 cash flows from financing activities were a use of cash of $16.42 million. Cash flows used in financing activities resulted primarily from common shares repurchased and cancelled of $6.19 million, repayment of bank indebtedness of $2.53 million, a repayment of interim production financing of $10.23 million, and repayments of long-term debt and obligations under capital leases of $1.48 million. Cash flows provided by financing activities were proceeds from issuance of common shares related to employee share purchase plan of $0.01 million and $4.00 million from proceeds from long-term debt.

For Fiscal 2012 cash flows from investing activities were $1.77 million. Cash flows used in investing activities were $7.18 million for the acquisition of short-term investments and $1.20 million for PP&E acquisitions. Cash flows generated in investing activities were $10.01 million from proceeds on rollover of short-term investments and $0.14 million for loss on disposal of property, plant, and equipment.

Working Capital

Working capital (“**Working Capital**”) represents the Company’s current assets less current liabilities. Working Capital improved by $2.09 million as at June 30, 2012 versus June 30, 2011.

Management was pleased with cash flow generated by Operating Activities of $14.25 million for Fiscal 2012 (2011- $15.38 million). Adjusted Operating Activities was an inflow of cash of $4.03 million for Fiscal 2012 (2011-$7.99 million) as shown in

Liquidity and Capital Resources Chart in this MD&A and defined in "Use of Non-GAAP Financial Measures" section of this MD&A. Along with EBITDA, cash flow from Operating Activities and Adjusted Operating Activities are the key metrics for Management in assessing operational performance.

Based on the Company's current revenue expectations for Fiscal 2013, which are based on contracted and expected production, distribution, and other 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 $59.60 million is sufficient to execute its current business plan.

Royal Bank Revolving Master Credit Facility

As of June 30, 2012, the maximum amount of all the borrowing with the Royal Bank of Canada ("**RBC**") was $55.0 million ("**Existing RBC Master Agreement**"). The Existing RBC Master Agreement matures November 30, 2012. As part of the Existing RBC Master Agreement, bank indebtedness of $2.66 million was outstanding at June 30, 2012 (June 30, 2011 - $5.20 million) (the "**RBC Revolving Operating Credit Facility**"). The maximum amount of the RBC Revolving Operating Credit Facility for general working capital purposes is $3.51 million.

The Existing RBC Master Agreement, includes a term facility with a maximum amount of $10.0 million ("**RBC Acquisition Facility**") upon which $3.33 million was drawn at June 30, 2012 (June 30, 2011 - nil) to fund acquisitions as defined in the RBC Master Agreement. A general security agreement over all property of the Company has been pledged as security for the RBC Revolving Operating Credit and Acquisition Facility. The RBC Revolving Operating Facility bears interest at RBC prime plus 1.25%. The RBC Acquisition Facility bears interest at RBC prime plus 2.50%. The availability of the RBC Revolving Operating Credit and Acquisition Facility are subject to the Company maintaining interest and consolidated indebtedness coverage ratios and certain other covenants.

Also, as part of the Existing RBC Master Agreement, the Company has a revolving production credit facility ("**The RBC Revolving Production Credit Facility**") with the Royal Bank with a maximum authorized amount of $40.28 million as of June 30, 2012, against which only $13.70 million was drawn (June 30, 2011 - $17.45 million). The RBC Revolving Production Credit Facility matures at various dates up to December 2013. Please see note 14 of the audited consolidated financial statements for the years ended June 30, 2012 and 2011 for further details.

New Royal Bank Capital Markets Credit Facility

Concurrently with the closing of the Cookie Jar acquisition ("**Cookie Jar Acquisition**") (see Subsequent Events section of this MD&A for further details), DHX will be entering into a new credit facility with Royal Bank Capital Markets that will replace the existing indebtedness of DHX and Cookie Jar, other than production-specific financing obtained by DHX and Cookie Jar's subsidiaries (the "**Proposed RBC Master Agreement**"). The Proposed RBC Master Agreement consists of two senior secured credit facilities (the "**Credit Facilities**") in an aggregate principal amount of up to $80 million (provided that, as described below, the amount of the Credit Facilities may be reduced if the Offering (see Subsequent Events section of this MD&A for further details) is completed), including a term loan credit facility in the aggregate amount of up to $60 million (the "**Term Facility**") and a revolving loan credit facility in the aggregate amount of up to $20 million (the "**Revolving Facility**"). The Term Facility will be used to repay certain indebtedness of DHX and its subsidiaries, including certain indebtedness of Cookie Jar assumed as part of the Cookie Jar Acquisition, and to pay fees and expenses incurred in connection with the Cookie Jar Acquisition. The Revolving Facility will be available for working capital and general corporate purposes. The Credit Facilities will be syndicated.

DHX and certain of its subsidiaries as guarantors will each provide a first priority security interest in respect of all of the capital stock of the subsidiaries of DHX and the guarantors and all present and after-acquired real and personal property of DHX and the guarantors in favour of the lender as security for the Credit Facilities. The Term Facility will mature four years from the closing date of the Credit Facilities and is subject to annual amortization payments (as a percentage of the initial amount of the Term Facility) of (i) 7% in 2013, (ii) 8% in 2014, (iii) 12% in 2015 and (iv) 13 % in 2016, all payable in equal quarterly instalments in each case with the balance payable in full on the maturity date. The Revolving Facility is payable in full on the maturity date of the Term Facility. If the Offering (see Subsequent Events section of this MD&A for further details) is completed, the principal amount of the Term Facility will be reduced to $50 million, and the aggregate amount available under the Credit Facilities will be reduced to $70 million.

Capital Management

The Company's objectives when managing capital are to provide an adequate return to shareholders, safeguard its assets, maintain a competitive cost structure and continue as a going concern in order to pursue the development, production, distribution, and licensing of its film and television properties.

To facilitate the management of its capital structure, the Company prepares annual expenditure operating budgets that are updated as necessary depending on various factors, including industry conditions and operating cash flow. The annual and updated budgets are reviewed by the board of directors.

The Company monitors capital using a number of financial ratios, specifically for the RBC Master Credit Facility, including but not limited to:

- Funded Debt Ratio, defined as funded debt (the total of all obligations for borrowed money which bear interest or imputed interest (not including interim production financing), all capital lease obligations, and any contingent liabilities) (“**Funded Debt**”) to consolidated EBITDA; and
- The Fixed Charge Ratio, defined as adjusted consolidated EBITDA (consolidated EBITDA less cash income taxes and unfunded capital expenditures) to fixed charges (consolidated interest expense, scheduled principal payments on Funded Debt, and Company distributions).

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

	Measure targets	**June 30, 2012**	**June 30, 2011**
Funded Debt Ratio	< 3.0x	0.93x	1.3x
Fixed Charge Ratio	> 1.25x	4.50x	6.22x

The Company has been in compliance with these and all previous ratios since the inception of the RBC Master Credit Facility.

Contractual Obligations

As of June 30, 2012

Payments Due by Period (All amounts are in thousands)	**Total**	**Fiscal 2013**	**Fiscal 2014-2015**	**Fiscal 2016-2017**	**After Fiscal 2018**
	$	$	$	$	$
Bank indebtedness [1]	2,665	2,665	-	-	-
Capital lease for equipment [2]	555	410	145	-	-
Long-term debt payments (principal and interest) [3]	5,798	1,786	2,667	547	798
Operating leases [4]	5,128	1,479	1,634	1,126	889
Total Contractual Obligations	14,146	6,340	4,446	1,673	1,687

(1) RBC Revolving Operating Credit Facility with a maximum amount of $3.51 million bearing implied interest at bank prime plus 1.25%. See note 14 to the audited consolidated financial statements for the year ended June 30, 2012 for details.
(2) Pursuant to capital leases for video editing, leaseholds, and other office and production equipment, the obligations bear implied interest ranging from 4.0% to 9.8% and mature from February 2013 to March 2014. Principal balances are included in note 14 to the audited consolidated financial statements for the year ended June 30, 2012.
(3) See note 14 to the audited consolidated financial statements for the year ended June 30, 2012 for details.
(4) Pursuant to operating leases. See note 22 to the audited consolidated financial statements for the year ended June 30, 2012 for details.

Outlook

The Company’s June 30, 2012 balance sheet remains strong with over $22.5 million in cash and short-term investments on hand, against approximately $1.7 million of bank indebtedness. Management continues to focus on its core strengths of developing, producing, distributing, and licensing the best possible quality Children’s and Family programs with goals of increasing cash flows from operations and profitability through existing production and distribution streams and emerging music and M&L opportunities, specifically its new initiatives in licensing relating to *Yo Gabba Gabba* and *Rastamouse*. The Company is committed to growing its content library by its previously stated goal of 5-10% organically and through acquisitions of third party titles.

The following outlook is prepared on a DHX standalone basis and does not include any expected results from the Cookie Jar Acquisition. Once the Cookie Jar Acquisition closes, the Company will update its outlook to include Cookie Jar results. This update is planned to be included after the closing of the Cookie Jar Acquisition as part of the Company’s Q1 2013 MD&A expected to be released in mid-November 2012.

For Fiscal 2013, DHX's target for the category of production revenue (proprietary and producer and service fee) is $45.0-$58.0 million with a combined target gross margin of 20%-35% (Fiscal 2012-26% combined margin). The Company's revised preferred target mix of production revenue is 50/50 proprietary to service. For the year ended June 30, 2012, this mix was 30/70. The Company's proprietary pipeline is building, and Management is encouraged by the progress made on several fronts and expects to announce new commissions and existing series renewals over the coming quarters. Although the Company is making significant progress on its pipeline, the typical length of the development cycle is significant, especially for Children's and Family television, sometimes taking 2-3 years, and as such it will most likely take 18-24 months to fully achieve this preferred 50/50 proprietary to service target mix. Management remains optimistic for Fiscal 2013 and 2014, based on its existing pipeline of more than 250 half-hours of proprietary content either currently in production, ordered (or about to be ordered), or in late stage development. This pipeline represents several years' worth of proprietary content that is expected to be recognized into revenues as delivered.

In addition, consistent with the Company's strategy to grow its content library, for Fiscal 2013, the Company expects to add 25-50 half-hours (note: currently 39 half-hours contracted to be added over the next year with offers out on 33 additional half-hours) for third party produced titles where the Company has significant IP rights. These include, among other titles, the hit series *Rastamouse, She-Zow,* and *Grandpa in my Pocket*.

For Fiscal 2013, Management is targeting distribution revenues to generally be in line with Fiscal 2012 in the range of $7.0-$8.0 million. As noted above, the Company will continue to seek third party titles to add to proprietary inventory levels.

For Fiscal 2013, the Company is targeting $1.25-$2.0 million in the category of traditional DHX music and royalty revenue, a range of $12-$14 million for licensing on *Yo Gabba Gabba* including *Yo Gabba Gabba Live!* and $1.0-$2.0 million for licensing revenue on other and emerging properties, including *Rastamouse*. For Fiscal 2013, new media revenue is targeted in the range of $4.0-$6.0 million including the property UMIGO and other revenues including rentals are expected to be in the range of $0.4-$0.8 million.

For 2013, Management expects overall gross margin to range from 33-38% range. For Fiscal 2013, Management continues to target additional SG&A reductions of 5% as compared to Fiscal 2012 SG&A. (Note this does not include the $8.0 million announced as part of the expected synergies to be achieved within 12 months of closing the Cookie Jar Acquisition (see Subsequent Events section of this MD&A for further details)).

For Fiscal 2013, amortization of acquired library and development expense when considered together and amortization of PP&E and intangibles also considered together, are expected to be in the ranges of $1.5-$2.0 million and $2.0-$2.5 million respectively. For Fiscal 2013, stock-based compensation, finance income, and other expense are expected to be in the following ranges respectively: $0.5-$0.75 million, $0.1-$0.3 million, and $0.5-$1.0 million.

Subsequent Events

Cookie Jar Acquisition

On August 20, 2012, the Company entered into a definitive agreement to acquire the business Cookie Jar Entertainment ("**Cookie Jar**"). The consideration for the Cookie Jar Acquisition is made up of a combination of approximately 36 million shares, $5.0 million cash, and the assumption of $66.0 million of debt.

The Cookie Jar Acquisition will significantly strengthen DHX's industry position in television production and distribution, interactive content and entertainment licensing. Cookie Jar is one of the industry's leaders in the creation, production and marketing of animated and live-action programming. Its library of nearly 6,000 half-hour episodes of television features some of the world's most recognizable children's series including *Richard Scarry's Busytown Mysteries*, *Caillou*, *The Doodlebops*, *Inspector Gadget* and *Johnny Test*. Cookie Jar programmes Cookie Jar TV, the weekend morning block on CBS. Cookie Jar Entertainment's *Jaroo.com* is a leading web video destination for kids with the largest independent selection of full-length children's TV series and movies online. Copyright Promotions Licensing Group Limited ("**CPLG**"), Cookie Jar's full-service international licensing agency, represents numerous entertainment, sport and design brands such as *Strawberry Shortcake*, *Richard Scarry*, *St. Andrews Links* and *Scan2Go*.

DHX expects that the combination of DHX and Cookie Jar libraries, and expertise in licensing and distribution that both companies have developed, will provide significant advantages to the combined company for the benefit of DHX's business and Shareholders. These advantages include:

- significantly strengthened capabilities in the rapidly growing digital segment;
- broadened relationships with distributors including Amazon, Comcast, DISH, Hulu, Netflix, Samsung, Telmex and Vivendi;

- creation of substantial scale with the addition of Cookie Jar's approximately $57.5 million in revenue (unaudited, in accordance with International Financial Reporting Standards, for the year ended August 31, 2011);
- greater diversification of revenue streams across operating segments with a greater proportion of revenue derived from higher margin segments;
- combination of two portfolios of globally recognized brands that can be seen in approximately 160 countries;
- increase to content library of children's programming by a factor of more than three times, from approximately 2,550 to approximately 8,550 half-hour episodes;
- expanded global merchandising opportunities and licensing capabilities for DHX's owned properties as well as third-party brand management and licensing opportunities;
- ability to programme Cookie Jar TV on the CBS network in the United States on Saturday mornings;
- significant cost synergies, currently estimated to be $8 million annually, leading to greater fixed cost coverage and margins;
- improved market position and negotiating strength; and
- increased market capitalization may increase potential investor audience and potential for improved liquidity in shares.

Offering

On September 12, 2012, The Company has reached an agreement with a syndicate of underwriters led by Canaccord Genuity Corp. (the "**Underwriters**") to purchase, on a bought deal basis, 11,820,000 Subscription Receipts of at a price of $1.50 per Subscription Receipt (the "**Offering**"). In addition, DHX has granted to the Underwriters an over allotment option exercisable at any time up to 30 days after closing of the Offering to acquire up to an additional 1,182,000 Subscription Receipts of the Company. In the event that the over allotment option is exercised in full, the aggregate gross proceeds of the Offering will be $19,503,000. The net proceeds from the Offering (after deducting the underwriters' fees and Offering expenses) will be used to reduce indebtedness resulting from DHX's previously announced acquisition of the business of Cookie Jar Entertainment Inc. (the Cookie Jar Acquisition) and for general corporate and working capital purposes.

Wildbrain Acquisition

On September 14, 2010, the Company acquired all the outstanding shares in W!ldbrain Entertainment Inc. ("**DHX Wildbrain**"), a privately owned company, based in Los Angeles California, for $8.45 million. DHX Wildbrain operates an animation studio in Los Angeles and is the co-owner of acclaimed children's television series and live touring show *Yo Gabba Gabba!*. Further consideration is payable in USD as an earn out payment calculated as 50% of cash receipts from the *Yo Gabba Gabba!* property over $10.50-11.50 million (the ultimate threshold amount within the range of $10.50-11.50 million of cash receipts will be determined based on a minimum of $10.00 million in cash receipts plus, once achieved, $0.50 million per year in operating expenses) for a period of 36 months from closing (see note 6 of the audited consolidated financial statements for the years ended June 30, 2012 and 2011 for further details).

Normal Course Issuer Bid

During Q4 2012 and Fiscal 2012, as part of the Company's previously announced normal course issuer bid, no shares and 1,369,500 common shares were repurchased and cancelled for nil and $1.11 million respectively (year ended June 30, 2011 – 51,000 common shares for $0.04 million).

Substantial Issuer Bid

On December 30, 2011, as part of the Company's previously announced substantial course issuer bid, 7,142,857 common shares were repurchased and cancelled for $5.12 million cash including $0.12 million in costs (year-ended June 30, 2011 – nil).

Seasonality

Results of operations for any period are dependent on the number and timing of film and television programs delivered, which cannot be predicted with certainty. Consequently, the Company's results from operations may fluctuate materially from period-to-period and the results of any one period are not necessarily indicative of results for future periods. Cash flows may also fluctuate and are not necessarily closely correlated with revenue recognition. During the initial broadcast of the rights the

Company is somewhat reliant on the broadcaster's budget and financing cycles and at times the license period gets delayed and commences at a later date than originally projected.

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

Critical Accounting Estimates

The preparation of the financial statements in conformity with IFRS requires Management to make estimates, judgements, and assumptions that Management believes are reasonable based upon the information available. These estimates, judgements, and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year or period. Actual results can differ from those estimates (refer to page 2 of this MD&A for more information regarding forward-looking information). The following is a discussion of accounting policies that require significant Management judgements and estimates. For a discussion of all of the Company's accounting policies, including the items outlined below, refer to note 3 of the audited consolidated financial statements for the years ended June 30, 2012 and 2011 on www.sedar.com or DHX's website at www.dhxmedia.com. The following updates are provided for those areas that contain critical accounting estimates utilized in the preparation of DHX's audited consolidated financial statements that have changed as a result of DHX adopting IFRS on July 1, 2011.

- ***Share-based compensation***

  Share-based compensation expense is determined based on the estimated grant date fair value of stock option awards using the Black-Sholes option pricing model, which takes into account the exercise prices, the current price of the underlying stock, the expected life of the option, the expected volatility of the stock, and the expected forfeitures of options granted.

- ***Income taxes and deferred income taxes***

  Deferred tax assets and liabilities require Management's judgement in determining the amounts to be recognized. In particular, judgement is used when assessing the extent to which deferred tax assets should be recognized with respect to the timing of deferred taxable income.

  The current income tax provision for the year is determined according to complex tax laws and regulations. Where the effect of these laws and regulations is unclear, estimates are used in determining the provision for current income taxes which are recognized in the consolidated financial statements. The Company considers the estimates, assumptions, and judgements to be reasonable but this can involve complex issues which may take an extended period to resolve. The final determination of prior years' tax provisions could be different from the estimates reflected in the financial statements.

- ***Impairment of investment in associates and long-term investment***

  In order to assess impairment, the fair value of the Company's investments in associates and held-to-maturity investments are determined using valuation techniques, as there are no published price quotations. The Company has used an earnings approach to value these investments based on earnings multiples for recent transactions involving similar businesses.

- ***Impairment of financial assets***

  At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss, as follows:

  - Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

  - Available-for-sale financial assets: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of income. This amount represents the cumulative loss in accumulated other comprehensive income that is reclassified to net income.

  Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for sale financial assets are not reversed.

Future Accounting Standard Changes

The IASB has issued IFRS 10, 11, 12, and 13 effective for annual periods beginning on or after January 1, 2013. The IASB has also issued IFRS 9 effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. IFRS 9 introduces new classification and measurement requirements for financial instruments. IFRS 10 defines the principles of control and establishes the basis of when and how an entity should be included within a set of consolidated financial statements. IFRS 11, *Joint Ventures* – establishes principles to determine the type of joint arrangement and guidance for financial reporting activities required by the entities that have an interest in arrangements which are controlled jointly. IFRS 12, *Disclosure of Interests in Other Entities* – requires extensive disclosures relating to a company's interest in subsidiaries, joint arrangements, associates, and unconsolidated structured entities. IFRS 13, *Fair Value Measurement* – defines fair value, provides guidance in a single framework for measuring fair value and identifies the required disclosures pertaining to fair value measurement. DHX continues to assess the impact of IFRS 9, 10, 11, 12, and 13 on its consolidated statement of operations and financial position.

Accounting Policies and Transition to IFRS

The significant accounting policies of DHX are described in note 3 to the June 30, 2012 audited consolidated financial statements for the year ended June 30, 2012 of DHX.

Transition to IFRS

Effective July 1, 2011 and as further described in the Company's consolidated financial statements and notes accompanying, DHX began reporting its financial results in accordance with IFRS.

The following table summarizes DHX's key metrics for the year ended June 30, 2011 under IFRS, versus those previously reported under CGAAP:

	Fiscal 2011		
(unaudited)	**CGAAP**	**Adj.**	**IFRS**
(expressed in thousands of Canadian dollars)	**$**	**$**	**$**
Revenue	54,676	733	55,409
Direct production costs and amortization	32,409	728	33,137
Gross margin[1]	22,267	5	22,272
Other expenses (income)	20,097	545	20,642
Income before income taxes	2,170	(540)	1,630
Income taxes	457	(143)	314
Net income	1,713	(397)	1,316
Comprehensive income	1,713	(866)	847
Performance indicators			
EBITDA[1]	7,346	(515)	6,831
Cash flow from:			
Operating activities	11,890	3,489	15,379
Adjusted operating activities[1]	8,394	(407)	7,987

[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).

The key impacts of IFRS on certain key metrics are as follows:

a) Revenue and direct production costs and amortization

For the year ended June 30, 2011, revenues increased by $733, direct production costs and amortization and increased by $728 as a result of certain subsidiaries which were considered variable interest entities under Canadian GAAP and were not subject to full consolidation and were reported in the financial statements under the equity method. These subsidiaries have been fully consolidated for IFRS purposes.

b) Other expenses (income)

For the year ended June 30, 2011, other expenses increased by $545 as a result of a number of IFRS adjustments as follows:

- First, in accordance with IFRS transitional provisions, the Company elected to apply IFRS 3 – Business Combination prospectively to business combinations occurring after its transition date. Under IFRS transaction costs associated with the Wildbrain acquisition and other deferred acquisition costs must be expensed, resulting in an increase in other expenses of $470 for the year ended June 30, 2011.
- Second, under IFRS, the Company expenses the estimated fair value of stock options over the vesting period using the graded vesting method of amortization. As a result, other expenses decreased by $39, for the year ended June 30, 2011.
- Thirdly, under IFRS, unrealized gains and losses on the Company's short-term investments, classified as available-for-sale investments, are included in other comprehensive income, rather than in net income, resulting in an increase in other expenses of $7 for the year ended June 30, 2011.
- Fourth, under IFRS, the Company assesses whether uncertain tax positions are probable of being sustained upon examination by tax authorities, rather than assessing the likelihood of the taxes being payable, resulting in an increase in other expenses of $102, related to certain withholding taxes.
- Finally and as noted above, the full consolidation of certain entities previously reported in the financial statements using the equity method resulting in an increase in other expense of $5 for the year ended June 30, 2011.

c) Income taxes

Deferred income taxes were adjusted to give effect to the above noted adjustments, resulting in an increase in deferred income taxes recovered for the year ended June 30, 2011 of $143.

d) Net income and comprehensive income

The changes noted above result in a decrease in net income of $397 for the year ended June 30, 2011.

Additionally, there were two changes to comprehensive income:

Under Canadian GAAP, the Company used the temporal method of foreign exchange translation for its integrated wholly owned subsidiary, Wildbrain. Under the temporal method, non-monetary assets were converted to the presentation currency using historical foreign exchange rates and the resulting difference between the translation of the balance sheet and income statement was recorded in income statement. Under IFRS, the temporal method is not recognized and the translation methodology used to translate the financial statements of entities with presentation currencies other than Canadian dollars is driven by the determination of the functional currency in each entity in the group. Because the functional currency of Wildbrain has been determined to be the US dollar, the Company translated the assets and liabilities of Wildbrain at the exchange rate in effect at each balance sheet date. As a result, comprehensive income decreased by $476.

Secondly, as noted above, under IFRS, unrealized gains and losses on the Company's short-term investments, classified as available-for-sale investments, are included in other comprehensive, resulting in the reclassification of unrealized gains on available-for-sale investments from other expenses to comprehensive income. As a result, comprehensive income increased by $7.

e) EBITDA

While the transition to IFRS resulted in multiple changes to the statement of income, the net impact on EBITDA was a decrease of $515 for the year ended June 30, 2011, representing the above-mentioned expensing of transaction costs associated with Wildbrain acquisition.

f) Cash flows from operating activities and cash flow from adjusting operating activities

For the year ended June 30, 2011, cash flows from operating activities increased by $3,489 and cash flows from adjusted operating activities decreased by $407 as a result of the transition to IFRS. Both the increase in cash flows from operating activities and the decrease in cash flows from adjusting operating activities were primarily a result of the full consolidation of certain entities previously reported in the financial statements using the equity method.

The following is a summary of transition adjustments to the Company's shareholders' equity from Canadian GAAP to IFRS:

	June 30, 2011 $	**July 1, 2010 $**
Equity – CGAAP	82,059	80,179
IFRS adjustments increase (decrease)		
Business combinations	(470)	-
Cumulative translation adjustment	(476)	-
Withholding taxes payable	(409)	(307)
Deferred income taxes	143	-
Equity –IFRS	80,847	79,872

The following represent the key changes to equity as a result of the transition to IFRS:

a) Business combinations and deferred acquisition costs.

In accordance with IFRS transitional provisions, the Company elected to apply IFRS 3 – Business Combination prospectively to business combinations occurring after its transition date. The Company's acquisition of Wildbrain was accounted for using the purchase method under Canadian GAAP and IFRS, and under Canadian GAAP the Company had deferred acquisition costs related to potential acquisitions under consideration. Under IFRS transaction costs associated with the Wildbrain acquisition and other deferred acquisition costs must be expensed, resulting in a decrease in equity of $470 and nil as at June 30, 2011 and July 1, 2010, respectively.

b) Change in foreign exchange translation methodology

Under Canadian GAAP, the Company used the temporal method of foreign exchange translation for its integrated wholly owned subsidiary, Wildbrain. Under the temporal method, non-monetary assets were converted to the presentation currency using historical foreign exchange rates and the resulting difference between the translation of the balance sheet and income statement was recorded in income statement.

Under IFRS, the temporal method is not recognized and the translation methodology used to translate the financial statements of entities with presentation currencies other than Canadian dollars is driven by the determination of the functional currency in each entity in the group. Because the functional currency of Wildbrain has been determined to be the US dollar, the Company translated the assets and liabilities of Wildbrain at the exchange rate in effect at each balance sheet date. As a result, equity decreased by $476 and nil as at June 30, 2011 and July 1, 2010, respectively.

c) Withholding taxes payable

Under Canadian GAAP, the Company assessed the likelihood of withholding taxes being payable. If Management considered it likely, an amount payable was recorded for withholding taxes. If it considered it unlikely that the related withholding tax would be payable, no accrual was recorded. Under IFRS, the Company assesses whether an uncertain tax position is probably of being sustained on examination by the taxing authority. A liability is recognised in connection with each item that is not probable of being sustained. As a result of applying the guidance under IFRS, equity decreased by $409 and $307 as at June 30, 2011 and July 1, 2010, respectively.

d) Deferred taxes

Deferred income taxes were adjusted to give effect to the above noted adjustments, resulting in an increase in equity of $143 and nil as at June 30, 2011 and July 1, 2010, respectively.

The table below provides the 2011 quarterly and full year consolidated statement of income under IFRS:

(unaudited) (expressed in thousands of Canadian dollars)	Q1 2011 $	Q2 2011 $	Q3 2011 $	Q4 2011 $	Fiscal 2011 $
Revenues	12,227	19,381	12,283	11,518	55,409
Direct costs and amortization of film and television produced	7,310	12,278	6,771	6,778	33,137
Gross margin	4,917	7,103	5,512	4,740	22,272
Other Expenses (Incomes)					
Amortization of acquired library	260	79	107	165	611
Amortization of property, plant and equipment and intangibles	506	512	527	589	2,134
Development expenses and other	68	368	408	342	1,186
Impairment in value of certain investment in film and television programs	100	350	-	-	450
Selling, general and administrative	3,423	4,262	4,132	4,113	15,930
Share of loss of associates	71	83	111	68	333
Finance expense (income), net	(153)	143	(72)	80	(2)
Income (loss) before income taxes	642	1,306	299	(617)	1,630
Provision for (recovery of) income taxes	213	452	62	(413)	314
Net income (loss) for the periods	429	854	237	(204)	1,316

The table below provides the 2011 quarterly and full year consolidated statement of cash flow under IFRS:

(unaudited) (expressed in thousands of Canadian dollars)	Q1 2011 $	Q2 2011 $	Q3 2011 $	Q4 2011 $	Fiscal 2011 $
Cash provided by (used in)					
Operating activities					
Net income (loss) for the periods	429	854	237	(204)	1,316
Charges (credits) to income not involving cash					-
Amortization of film and television programs	4,046	4,338	2,266	2,449	13,099
Amortization of acquired library	260	79	107	165	611
Amortization of property, plant, and equipment	235	258	329	362	1,184
Amortization of intangible assets	271	253	198	227	949
Unrealized foreign exchange loss (gain)	(297)	98	(58)	268	11
Share of loss of associates	71	83	111	68	333
Impairment in value of certain investment in film and television programs	100	350	-	-	450
Share-based compensation	142	77	85	185	489
Interest on promissory notes	2	1	1	1	5
Recovery of deferred income taxes	(124)	(122)	(242)	(176)	(664)
	5,135	6,269	3,034	3,345	17,783
Net investment in film and television programs	(6,895)	(6,222)	(1,637)	(1,892)	(16,646)
Net change in non-cash working capital balances related to operations	3,255	271	5,374	5,342	14,242
Cash provided by operating activities	1,495	318	6,771	6,795	15,379
Financing activities					
Proceeds from issuance of common shares and warrants, net of issuance costs	-	-	(100)	(63)	(163)
Proceeds of shares related to employee share purchase plan	-	2	4	23	29
Proceeds from repayment of employee share purchase loan	-	-	-	2	2
Proceeds from (repayment of) bank indebtedness	5,376	435	(87)	(774)	4,950
Proceeds from (repayment of) interim production financing	370	3,418	(3,975)	(7,205)	(7,392)
Repayment of long-term debt	(140)	(135)	(135)	(135)	(545)
Cash provided by (used in) financing activities	5,606	3,720	(4,293)	(8,152)	(3,119)
Investing activities					
Business acquisitions, net of cash acquired	(7,936)	-	-	(80)	(8,016)
Acquisitions of short-term investments	(4,002)	-	(3)	(4)	(4,009)
Proceeds on disposal of short-term investments	-	10	1,006	3,014	4,030
Acquisitions of property, plant, and equipment	(428)	(259)	(279)	(978)	(1,944)
Cash provided by (used in) investing activities	(12,366)	(249)	724	1,952	(9,939)
Effect of foreign exchange rate changes on cash				(72)	(72)
Net change in cash during the periods	(5,265)	3,789	3,202	523	2,249
Cash – Beginning of periods	17,276	12,011	15,800	19,002	17,276
Cash – End of periods	12,011	15,800	19,002	19,525	19,525

Financial Instruments and Risk Management

The Company's financial instruments consist of cash, restricted cash, short-term investments, amounts receivable, long-term investment, bank indebtedness, interim production financing, accounts payable and accrued liabilities, long-term debt and obligations under capital leases, and other liability. The Company, through its financial assets and liabilities, has exposure to the following risks from its use of financial instruments: credit risk, interest rate risk, liquidity risk, and currency risk. Management monitors risk levels and reviews risk management activities as they determine to be necessary.

Credit Risk

Amounts receivable from the Canadian federal government and other government agencies in connection with production financing represents 62% of total amounts receivable at June 30, 2012 (June 30, 2011 - 61%). Certain of these amounts are subject to audit by the government agencies. The Company adjusts amounts receivable from Canadian federal government and other government agencies including federal and provincial tax credits receivables in connection with production financing, quarterly and annually for any known differences arising from internal or external audit of these amounts.

The balance of trade amounts receivable are primarily with Canadian broadcasters and large international distribution companies. The Company has recorded an allowance for doubtful accounts of less than 1% against the gross amounts of trade receivables, and management believes that the net amount of trade receivables is fully collectible.

Interest Rate Risk

The Company is exposed to interest rate risk arising from fluctuations in interest rates as its interim production financing and certain long-term debt bear interest at floating rates. A 1% fluctuation would have an approximate $0.25 million effect on net income (loss).

Liquidity Risk

The Company manages liquidity by forecasting and monitoring operating cash flows and through the use of capital leases and revolving credit facilities (see note 14 of the audited consolidated financial statements for June 30, 2012 for further details). As at June 30, 2012 the Company had cash on hand of $19.17 million (June 30, 2011 - $19.53 million) and short-term investments of $3.32 million in Canadian government grade bonds (June 30, 2011 - $6.06 million).

Currency Risk

The Company's activities which expose it to currency risk involve the holding of foreign currencies as well as incurring production costs and earning revenues that are denominated in foreign currencies. For every 1% change in the USD, GBP, or Euros exchange rate versus the Canadian dollar there is approximately a $0.10 million impact on net income (loss) and minimal effect on balance sheet items.

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 the Company's film and television programs in development or renew licenses to broadcast film and television programs in the Company's 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 swine 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 Steven DeNure. 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. Each of Mr. Donovan and Mr. DeNure are under contract to the Company until 2014 and 2013 respectively.

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 effect 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 USD, GBP, and Euro and, as such, may be affected by fluctuations in the exchange rate of the USD. 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 (**"CEO"**) and Chief Financial Officer (**"CFO"**) 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 CEO and CFO, after evaluating the effectiveness of the Company's disclosure controls and procedures have concluded that, as at June 30, 2012, the entity's disclosure controls and procedures were effective. It should be noted that while the entity's CEO and CFO 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 CEO and CFO 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 with IFRS.

ICFR has been designed based on the framework issued by COSO to provide reasonable assurance regarding the reliability of DHX's financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

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.

Management, under the supervision of the CEO and CFO conducted an evaluation of control design on ICFR as at June 30, 2012. 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 National Instrument 52-109 would have been known to them.

Changes in ICFR

There were no changes in the Company's ICFR that occurred during the year ended June 30, 2012 that to Management's knowledge 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 IFRS or GAAP, the Company uses various non-GAAP financial measures, which are not recognized under IFRS or 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, Gross Margin, and Adjusted Operating Activities as measures of performance.

"**EBITDA**" and "**Adjusted EBITDA**" means earnings (loss) before interest, taxes, depreciation, amortization, stock-based compensation expense, foreign exchange (loss) gain and impairment of certain investments in film and television programs ("Adjusted EBITDA"). Amortization includes amortization of PP&E, acquired libraries, and intangible assets. EBITDA and Adjusted EBITDA represents net income (loss) of the Company before amortization of PP&E, acquired libraries, and intangible assets, interest expense, interest income, non-controlling interest, share of loss of associates (formerly, equity income), development expenses, stock-based compensation expense, and foreign exchange (loss) gain. 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 produced. 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.

"**Adjusted Operating Activities**" is a non-GAAP financial measure of cash inflows and outflows from operating activities adjusted for increases and decreases in interim production financing, as in Management's opinion, these are also an integral part of determining cash flows from operations. Adjusted Operating Activities is one of the key cash flow measurement tools used by Management in assessing cash flow performance.

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 audited consolidated financial statements for the year ended June 30, 2012 and 2011 of the Company found on www.sedar.com and www.dhxmedia.com. For further description see "Use of Non-GAAP Financial Measures" elsewhere in this MD&A. **In addition, the table reconciles EBITDA reported under IFRS to those previously reported under CGAAP.**

The operating results for any period should not be relied upon as an indication of results for any future period.

	Q4-2012 ($000) IFRS	Q4-2011 ($000) IFRS	Q4-2011 ($000) Adjustments	Q4-2011 ($000) CGAAP
Income before income taxes for the period	144	(617)	(342)	(275)
Finance expense (income)	(128)	80	-	80
Realized loss on disposals of short term investment and property, plant, and equipment	224	-	-	-
Share of loss of associates	65	68	(220)	288
Amortization	582	754	1	753
Impairment in value of certain investment in film and television programs	380	-	-	-
Development expenses and other	337	342	118	224
Share-based compensation expense	111	185	(2)	187
EBITDA and Adjusted EBITDA[1]	**1,715**	**812**	**(445)**	**1,257**
Selling, general and administrative, net of share-based compensation expense	4,103	3,928	445	3,483
Gross Margin[1]	**5,818**	**4,740**	**-**	**4,740**

	Fiscal 2012 ($000) IFRS	Fiscal 2011 ($000) IFRS	Fiscal 2011 ($000) Adjustments	Fiscal 2011 ($000) CGAAP
Income before income taxes for the period	3,980	1,630	(540)	2,170
Finance expense (income)	(151)	(2)	(28)	26
Realized loss on disposals of short term investment and property, plant, and equipment	224	-	-	-
Share of loss of associates	146	333	(220)	553
Amortization	3,155	2,745	1	2,744
Impairment in value of certain investment in film and television programs	515	450	-	450
Development expenses and other	773	1,186	311	875
Share-based compensation expense	492	489	(39)	528
EBITDA and Adjusted EBITDA[1]	**9,134**	**6,831**	**(515)**	**7,346**
Selling, general and administrative, net of share-based compensation expense	15,585	15,441	520	14,921
Gross Margin[1]	**24,719**	**22,272**	**5**	**22,267**

[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).

DHX MEDIA LTD.

Fiscal 2012

Supplemental Information

1. Summary of securities issued and options and warrants granted during Fiscal 2012 (expressed in thousands of Canadian dollars, except for shares and amounts per share)

a. Summary of securities issued

	Number of Common Shares	Value $
Balance at June 30, 2011	**61,596,615**	**76,437**
Shares issued as part of employee share purchase plan	12,454	9
Normal course issuer bid shares repurchased and cancelled	(1,369,500)	(1,698)
Shares cancelled related to an employee loan forgiven	(27,000)	(50)
Substantial issuer bid shares repurchased and cancelled	(7,142,857)	(8,857)
Balance at June 30, 2012	**53,069,712**	**65,841**

b. Summary of options and warrants

Options	Number of Options	Weighted-average exercise price
Balance at June 30, 2011	**4,020,000**	**$1.07**
Granted to employees	880,000	0.80
Options forfeited	(306,250)	1.22
Options expired	(450,000)	2.05
Granted to Officer - Steven DeNure	200,000	0.92
Balance at June 30, 2012	**4,343,750**	**$0.90**

Warrants	Number of Warrants	Weighted-average exercise price
Balance at June 30, 2011	**937,500**	**1.15**
Warrants expired	(937,500)	1.15
Warrants granted	1,000,000	0.78
Balance at June 30, 2012	**1,000,000**	**$0.78**

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

i. Authorized share capital

Unlimited common shares without nominal or par value;
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

53,069,712 common shares at a recorded value of $65,841;
100,000,000 preferred variable voting shares at a recorded value of nil.

iii. Description of options and warrants

See note 16(f) and 16(g) of the audited consolidated financial statements for the years ended June 30, 2012 and June 30, 2011.

2. Directors and officers as at June 30, 2012

Directors	
Sir Graham Day (1) (2) (3)	Lead Director of DHX, Chair of Governance Committee
Michael Donovan (1)	Chairman, Board of Directors
J. William Ritchie (2) (3)	Director
Donald Wright (2) (3)	Director, Chair of Audit Committee
Joe Medjuck (2) (3)	Director
Laura Formusa	Director
Robert Sobey (3)	Director, Chair of the Compensation Committee

Officers	
Michael Donovan	CEO
Dana Landry	CFO
Steven DeNure	President and COO
Mark Gosine	EVP, Legal Affairs, Secretary and General Counsel
David Regan	EVP, Corporate Development & Investor Relations

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