Fiscal 2010

Management Discussion and Analysis

DHX MEDIA LTD.

June 30, 2010

MANAGEMENT DISCUSSION AND ANALYSIS

*The following Management Discussion & Analysis ("**MD&A**") prepared as of September 24, 2010, 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, 2010 and 2009. The audited consolidated financial statements and accompanying notes for the years ended June 30, 2010 and 2009 have been prepared in accordance with Canadian generally accepted accounting principles.*

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 delisted its shares from the AIM market of the London Stock Exchange effective October 1, 2009.

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

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

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

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

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

Business of the Company

DHX is a leading independent supplier and distributor of television and film productions. The Company is the result of the combination of The Halifax Film Company Limited ("**Halifax Film**") and Decode Entertainment Inc. ("**Decode**") during Fiscal 2006 and on December 4, 2007 and July 20, 2008 DHX added Studio B Productions ("**Studio B**") and imX Communications Inc. ("**imX**") respectively (See "Acquisition" and "Acquisitions" sections of the annual MD&A for the years ended June 30, 2009 and 2008 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 2,350 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, *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, Season 18 of which is slated to begin in the fall. The Company operates from its offices and production facilities in Halifax, Toronto, and Vancouver, producing content for distribution in domestic and international markets which is marketed via its Toronto based sales group.

Revenue Model

The Company historically earns revenues primarily from four categories: 1) proprietary production, includes Canadian and other rights proprietary programs (which as of the Q2 2010 MD&A has been reclassified out of #3, producer and service fee revenue), 2) distribution of its proprietary and third party titles, 3) producer and service fees, which includes production services for third parties and equity investments, and 4) other revenues which include rental of studios and office facilities, music and royalty revenue, and new media revenue. The Company is able to generate revenue from productions by licensing its initial broadcast rights and pre-licensing of territories for its programs. Production revenues include the initial broadcast license revenues and any pre-sales or distribution advances included in the initial financing of the production of a film and television program. Once a production is completed and delivered, the program is included in the Company's library of film and television programming. Further revenue from exploitation of the program is included in distribution revenue. The Company also generates revenue from 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 and equity investments.

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 "Critical Accounting Policies and Estimates" section of this MD&A for details on revenue recognition).

Distribution Revenue

The Company is able to retain the ownership rights to its proprietary and other proprietary 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 and video) for specified periods of time. Distribution revenue also includes theatrical and other revenues generated on its feature films.

Producer and Service Fee Revenue

As reclassified in Q2 2010, this category includes revenue accounted for using the percentage of completion method for revenues for service and corporate overhead fees earned for producing productions.

Other Revenue

Other revenue includes rental of studios, equipment, and office facilities, music and royalty (including merchandising and licensing (**"M&L"**), and new media revenue.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The summary consolidated financial information set out below for the years ended June 30, 2010, 2009, and 2008 has been derived from the Company's audited consolidated financial statements and accompanying notes for the years ended June 30, 2010, 2009, and 2008, and can be found at www.sedar.com or DHX's website at www.dhxmedia.com. **Each reader should read the following information in conjunction with those statements and the related notes.**

	Year Ended June 30,		
	2010	**2009**	**2008**
	($000) (except per share data)	($000) (except per share data)	($000) (except per share data)
Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) Data:[1]			
Revenues	**40,471**	61,969	52,379
Direct production costs and amortization of film and television produced	**24,062**	39,791	35,145
Gross margin	**16,409**	22,178	17,234
Selling, general, and administrative	**12,984**	13,787	12,082
Impairment in value of certain investment in film and television programs	**557**	494	2,782
Income before the following and discontinued operations	**1,522**	6,736	997
Income (loss) from strategic investments	**(47)**	122	(59)
Costs associated with abandoned transactions	**-**	(1,360)	(104)
Equity income (loss)	**(40)**	-	44
Gain on restructuring of investment	**348**	-	-
Foreign exchange (loss) gain	**(587)**	409	(37)
Amortization, interest and other expenses, net	**(2,500)**	(2,689)	(1,690)
Recovery of (provision for) income taxes	**491**	(1,375)	(40)
Net income (loss) and comprehensive income (loss) before discontinued operations	**(813)**	1,843	(889)
Discontinued operations, net of income tax	**-**	(1,468)	(141)
Net income (loss) and comprehensive income (loss)	**(813)**	375	(1,030)
Basic earnings (loss) before discontinued operations per common share	**(0.02)**	0.04	(0.02)
Diluted earnings (loss) before discontinued operations per common share	**(0.02)**	0.04	(0.02)
Basic earnings (loss) per common share	**(0.02)**	0.01	(0.03)
Diluted earnings (loss) per common share	**(0.02)**	0.01	(0.03)
Weighted average common shares outstanding			
Basic	**48,580**	43,066	39,039
Diluted	**48,580**	43,096	39,039
Consolidated Balance Sheet Data:			
Cash, restricted cash and short-term investments	**22,018**	11,086	9,570
Investment in film and television programs	**29,892**	35,827	49,981
Total assets	**133,304**	148,803	143,976
Total liabilites	**53,125**	88,253	85,783
Shareholders' equity	**80,179**	60,550	58,193

[1]The financial information for the year ended June 30, 2010 in the table includes a full year's results for Halifax Film, Decode, Studio B and imX (see–"Acquisition" section of the annual MD&A for the years ended June 30, 2009 and 2008 posted on SEDAR at www.sedar.com for further details on the imX acquisition). The financial information for the year ended June 30, 2009 in the table includes full results for Halifax Film, Decode, and Studio B, but only 345 days of activity for imX. The financial information for the year ended June 30, 2008 in the table includes a full year of activity of Halifax Film and Decode, 210 days of activity for Studio B (see–"Acquisition" section of the annual MD&A for the years ended June 30, 2008 and 2007 posted on SEDAR at www.sedar.com for further details on the Studio B acquisition), and no activity for imX.

Year Ended June 30, 2010 (“Fiscal 2010”) Compared to the Year Ended June 30, 2009 (“Fiscal 2009”)

Revenues

Revenues for Fiscal 2010 were $40.47 million, down 35% from $61.97 million for Fiscal 2009. The decrease in Fiscal 2010 was generally due to lower deliveries of proprietary programs versus Fiscal 2009. The continuing global recession resulted in a slowdown in advertising dollars for some of our broadcast customers and therefore fewer orders and lower per half-hour license fee revenue. Broadcasters in calendar 2009 did not commit to as many new shows and renewals as they had in calendar 2008. Because of the 12-18 month lag between production and delivery this resulted in fewer deliveries for Fiscal 2010.

Proprietary production revenues: Proprietary production revenues for Fiscal 2010 of $18.27 million were down 59% compared to $44.06 million for Fiscal 2009. The overall decrease was made up of a 71% decrease to $5.93 million (Fiscal 2009-$20.62 million) in proprietary production revenue for the Halifax Film division, a 34% decrease to $11.23 million for Fiscal 2010 (Fiscal 2009-$17.03 million) for the Decode division, and an 83% decrease to $1.11 million for the Studio B division (Fiscal 2009-$6.41 million). As noted above, Fiscal 2010 had fewer scheduled deliveries as compared to Fiscal 2009. Deliveries for Fiscal 2010 were generally in line with Management’s expectations. The single largest difference in Fiscal 2010 is no deliveries for *The Guard* versus in total $10.08 million ($4.10 million and $5.98 million for Seasons I and II respectively) for Fiscal 2009.

For Fiscal 2010, the Company accounted for 248.5 half-hours - $18.27 million of proprietary film and television program production revenue. This represented a 12% decrease versus the 283.5 half-hours for Fiscal 2009, where the programs have been delivered and the license periods have commenced for consolidated entities. Included in these totals for Fiscal 2010 are 113 half-hours (Fiscal 2009-57 half-hours) of other proprietary titles where the Company has Canadian and other rights, which are being accounted for using the percentage of completion method.

The breakdown for proprietary deliveries and dollar value subtotals for divisions for consolidated entities for Fiscal 2010 and Fiscal 2009 was as follows:

		Fiscal 2010		Fiscal 2009	
Title	**Season or Type**	**$ Million**	**Half-hours**	**$ Million**	**Half-hours**
Consolidated Entities					
Decode:					
Chop Socky Chooks	I		-		9.0
Clang Invasion	I		-		19.0
Dirt Girl World	I		26.0		-
Franny's Feet	III		13.0		-
The Latest Buzz	II		-		26.0
The Latest Buzz	III		26.0		-
Poppets Town	I		20.0 [3]		6.0
Super Why (CBC)	I		N/A [1]		N/A [1]
Super Why (PBS)	I		N/A [1]		24.0
Subtotals		$ 7.38	85.0	$ 13.81	84.0
Studio B:					
Being Ian	IV		-		2.0
Kid vs. Kat	I		-		26.0
Subtotals		-	-	5.01	28.0
Halifax Film:					
Animal Mechanicals	II		-		8.5
Animal Mechanicals	III		7.5		-
Bo on the Go!	II		-		8.0
Bo on the Go!	III		5.0		10.0
Canada's Super Speller	I		10.0		-
The Guard	I		N/A [1]		12.0
The Guard	II		-		18.0
The Making of Shake Hands with the Devil	Documentary		-		N/A [1]
The Mighty Jungle	III		-		10.0
Nathan Fielder's 2008 Election Special	Comedy Special		-		2.0
Pirates	I		8.0		-
Searching for Soul: Making of Keystone Choir	Documentary		2.0		-
SOUL	I		-		12.0
That's So Weird	I		-		13.0
This Hour Has 22 Minutes	XVI		-		21.0
This Hour Has 22 Minutes	XVII		18.0		-
Subtotals		5.93	50.5	20.62	114.5
Other Proprietary Titles with Canadian and Other Rights[2]					
Decode:					
Waybuloo (RDF Rights)-(70 half-hours to Treehouse)	I		83.0		17.0
Subtotals		$ 3.85	83.0	$ 3.22	17.0
Studio B:					
Martha Speaks (TVO)	I		N/A [1]		40.0
Martha Speaks (TVO)	II		30.0		N/A [1]
Subtotals		$ 1.11	30.0	$ 1.40	40.0
Total Consolidated Entities		**$ 18.27**	**248.5**	**$ 44.06**	**283.5**

[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.*

[2]*Effective Q2 2010 and onward, the Company has included other proprietary titles (accounted for using the percentage of completion method) in this proprietary television table as the Company owns Canadian and other rights on these programs. All prior quarters reported herein have been adjusted accordingly. MD&A's dated prior to Q2 2010 included these shows in Producer and Service Fee Revenues.*

[3]*Included in Poppets Town Season I are 3 half-hours which are a catch up for past deliveries not previously accounted for in delivery totals. As such, there are no revenues associated with these 3 half-hours recorded in Fiscal 2010.*

Producer and service fee revenues: For Fiscal 2010, the Company earned $7.48 million for producer and service fee revenues, an increase of 181% over the $2.66 million for Fiscal 2009 (note for the Q2 2010 MD&A and onward, Canadian and other rights programs previously shown in this category have been included in proprietary production revenue). The breakdown for Fiscal 2010 was as follows: $0.01 million for *The Señora Project* Season I, $0.13 million for *Badly Drawn Roy* Season I,

$0.01 million for *Tilly and Her Friends* Season I, $0.06 million for *Kung Fu Magoo* Season I, $3.53 million for *My Little Pony* Season I, $0.11 million for *The Math Show* Pilot, $0.99 million for *Killer Mountain,* a movie of the week, $0.93 million for *Ice Road Terror,* a movie of the week, and $1.71 million for *Trollope,* a feature length film. For Fiscal 2009 the breakdown for the $2.66 million was: $0.24 million for *Side Show Christmas* Season I, $0.39 million for *Badly Drawn Roy* Season I, $0.38 million for *Peanuts* Season I, $0.13 million for *George of the Jungle* Season I, $0.51 million for *Pucca* Season II, and $1.01 million for *Trollope*.

Distribution revenues: For Fiscal 2010, distribution revenues were at the lower end of Management's range, but in line with expectations. For Fiscal 2010, distribution revenues were down 9% to $11.20 million from $12.36 million for Fiscal 2009 as in the later half of 2010 the Company started to feel the lagging effect on distribution revenues of fewer 2010 proprietary deliveries. For Fiscal 2010, 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: *The Latest Buzz* Seasons I-III, *Animal Mechanicals* Seasons I-III, *Franny's Feet* Seasons I-III, *Super Why!* Season I, *Kid vs. Kat* Season I, *Poppets Town* Season I, *Waybuloo* Season I, *The Guard* Seasons I and II, *Grandpa in My Pocket* Seasons I and II, and *Martha Speaks* Season I. Management was pleased that distribution revenues for Fiscal 2010 met with expectations given the economic downturn that has persisted throughout 2010.

Music and royalty revenues: For Fiscal 2010, music and royalty revenues increased 21% to $2.41 million (Fiscal 2009-$1.99 million). Music and royalty revenues are up as Management believes the Company's rights library is gaining critical mass. As the rights library gets larger there are more opportunities to realize growth in this area. New media revenues increased in Fiscal 2010 to $0.40 million (Fiscal 2009-$0.22 million). New media revenues have increased as the Company has undertaken new activities to support several of its proprietary series for Fiscal 2010, specifically *That's So Weird, Animal Mechanicals*, and *This Hour Has 22 Minutes*, and are in line with Management's expectations.

Rental revenues: For Fiscal 2010, rental revenues were $0.71 million, up slightly from Fiscal 2009 of $0.68 million, as a result of continued rental of studio and office facilities to third parties of the Company's Halifax Film Children's Studio, rental of currently unused office space in the Company's headquarters in Halifax, Nova Scotia, and rental of office and equipment of the Company's Toronto, Ontario office.

Gross Margin

Gross margin for Fiscal 2010 was $16.41 million, a decrease in absolute dollars of 26% compared to $22.18 million for Fiscal 2009. Management was pleased with the overall margin at 41% of revenue for Fiscal 2010 which was above expectations. The Company continues to see integration efficiencies within its three main operating subsidiaries, particularly in funnelling Studio B and Halifax Film programs through the Decode distribution pipeline. The growing rights library has also resulted in increases in music, new media, and royalty opportunities, which continues to bolster the gross margin.

For Fiscal 2010, the margins for each revenue category in absolute dollars and as a margin percentage were as follows: production revenue margin of $6.59 million or 36%, net producer and service fee revenue margin of $1.27 million or 17%, distribution revenue margin of $5.21 million or 47% ($4.31 million or 38% when $0.90 million for the amortization of acquired libraries is removed), new media revenue margin of $0.39 million or 98%, and rental revenue margin of $0.71 million or 100%. For Fiscal 2010, music and royalty revenue less direct costs were $2.24 million or 93% of revenue. The production, distribution, producer service fee, music and royalty, and rental revenue streams were all significant contributors to the absolute dollar margin for Fiscal 2010.

In particular, production, producer and service fee revenue, and distribution in terms of absolute dollars contributed $6.59 million, $1.27 million, and $5.21 million respectively or 80% of the total margin. Production margin at 36% was in line with Management's expectations based on product delivery mix. Producer and service fee margins can vary greatly from 15-50% and at 17% is on the low end of Management's expectations. Distribution margin can fluctuate greatly from title-to-title and at 47% is in the mid range for Management's expectations. Music and royalty revenue less direct costs at 93% was in line with Management's expectations.

Operating Expenses

Operating expenses for Fiscal 2010 were $14.89 million compared to $15.44 million for Fiscal 2009, a decrease of 4%. Selling, General, & Administrative (**"SG&A"**) costs for Fiscal 2010 were down 6% at $12.98 million compared to $13.79 million for Fiscal 2009. This decrease in SG&A was in line with Managements' targeted reductions. These reductions were offset by $0.20 million worth of severance accruals, in Q4 2010, which will have the ongoing affect of further reductions of approximately $0.50 million in annual SG&A savings for 2011 and beyond. In addition to the decrease in SG&A, operating expenses were offset by increases in the following categories: $0.16 million increase in amortization of acquired library due to product mix and a $0.06 million increase in impairment in value of certain investment in film and television programs.

Impairment in Value of Certain Investment in Film and Television Programs

During Fiscal 2010, the Company recorded an impairment in value of certain investments in film and television programs of $0.56 million ($0.49 million for Fiscal 2009).

Loss (Income) from Strategic Investments

For Fiscal 2010, a loss from strategic investment activities of $0.05 million (Fiscal 2009-$0.12 million income) related to a realized capital loss of $0.05 million, versus $0.02 million for distributions of capital, $0.06 million for a realized capital gain, and $0.04 million related to an unrealized gain from short-term investments held for trading for Fiscal 2009. All investments were strategic in nature and were in the same or similar businesses as the business of the Company.

EBITDA

In Fiscal 2010, EBITDA was $4.16 million, a 56% decrease as compared to $9.39 million for Fiscal 2009. For Fiscal 2010 this was generally due to the decrease in gross margin dollars of $5.77 million, offset by a $0.81 million decrease in SG&A.

Amortization

For Fiscal 2010, amortization was $3.18 million (Fiscal 2009-$3.06 million). For Fiscal 2010, the amortization of acquired libraries was $0.90 million (Fiscal 2009-$0.74 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 2010, amortization of PP&E was $1.20 million (Fiscal 2009-$1.05 million). For Fiscal 2010, amortization of intangible assets was $1.08 million (Fiscal 2009-$1.27 million) which relates to the intangible assets acquired as part of the acquisitions of Decode and Studio B.

Gain on Restructuring of Investment

For Fiscal 2010, the Company recorded a $0.35 million gain on restructuring of its investment related to Tribal Nova (Fiscal 2009-nil) (see "Investments in Tribal Nova and Woozworld" section of this MD&A).

Foreign Exchange Loss (Gain)

For Fiscal 2010, foreign exchange loss was $0.59 million due to the strengthening of the Canadian dollar of 9-20% against the US dollar ("**USD**"), British Pound ("**GBP**") and Euro since June 30, 2009 (versus a $0.41 million foreign exchange gain for Fiscal 2009). The balance for Fiscal 2010 was made up of $0.15 million realized foreign exchange loss (Fiscal 2009-$0.07 million realized foreign exchange loss) on revenue and expense items translated at average rates for the period and $0.44 million in non-cash unrealized foreign exchange loss (Fiscal 2009-$0.48 million unrealized foreign exchange gain) for balance sheet translations at the exchange rates in effect at the balance sheet date.

Interest

Interest was a net interest expense for Fiscal 2010 of $0.22 million versus net interest expense of $0.34 million for Fiscal 2009. Interest expense consists of $0.12 million for interest expense on long-term debt and $0.17 million for interest and bank charges (Fiscal 2009-$0.17 million and $0.20 million, respectively) and offset by $0.07 million interest income (Fiscal 2009-$0.03 million).

Equity Loss and Non-Controlling Interest

For Fiscal 2010, the Company recorded an equity loss of $0.04 million for its investment in Tribal Nova (Fiscal 2009-nil). For Fiscal 2010, the Company recorded an expense of $0.01 million for non-controlling interest (Fiscal 2009-expense of $0.03 million).

Income Taxes

Income tax recovery for Fiscal 2010 was $0.49 million (Fiscal 2009-$1.38 million expense) made up of $0.06 million expense (Fiscal 2009-$0.10 million) for large corporation taxes, $0.15 million recovery (Fiscal 2009-$0.74 million expense) for current income taxes, and future income tax recovery of $0.40 million (Fiscal 2009-$0.54 million expense).

Net Income (Loss) and Comprehensive Income (Loss) Before Discontinued Operations

Net income (loss) and comprehensive income (loss) before discontinued operations for Fiscal 2010 was a loss of $0.81 million (Fiscal 2009-$1.84 million income).

Discontinued Operations

The Company recorded no loss from discontinued operations for Fiscal 2010 (Fiscal 2009-$1.47 million).

Net Income (Loss) and Comprehensive Income (Loss)

Net income (loss) and comprehensive income (loss) for Fiscal 2010 was a loss of $0.81 million, compared to an income of $0.38 million for Fiscal 2009, or a decrease of $1.19 million in absolute dollars or 313%. For Fiscal 2010, the overall decrease of $1.19 million was due to changes over Fiscal 2009 of the following amounts: a gross margin decrease of $5.77 million, offset by a $1.87 million decrease in provision for income taxes, a decrease in operating expenses, net of income from strategic investments of $0.38 million, and a $2.33 million decrease in net interest and other expenses, which includes amortization, foreign exchange loss, impairment in value of certain investment in film and television programs, costs associated with abandoned transactions, and loss for discontinued operations.

SELECTED CONSOLIDATED QUARTERLY FINANCIAL INFORMATION

The following table sets out selected consolidated financial information for each of the last eight quarters with the last one being the most recent quarter ended June 30, 2010. 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, 2010 and 2009 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 2010[1]				Fiscal 2009[1]			
(All numbers are in thousands except per share data)	**Q4[3] 30-Jun $**	**Q3[3] 31-Mar $**	**Q2[3] 31-Dec $**	**Q1[3] 30-Sep $**	**Q4[3] 30-Jun $**	**Q3 31-Mar $**	**Q2 31-Dec $**	**Q1 30-Sep $**
Revenue	9,081	9,015	9,427	12,948	11,523	12,061	21,514	16,871
Gross Margin[2]	4,196	3,338	4,018	4,857	6,224	4,571	6,330	5,053
EBITDA and Adjusted EBITDA[2 & 3]	1,024	479	935	1,718	3,680	1,144	2,650	1,916
Net Income (Loss) and Comprehensive Income (Loss) before Discontinued Operations	(78)	(535)	(209)	9	157	461	615	610
Net Income (Loss) and Comprehensive Income (Loss)	(78)	(535)	(209)	9	(271)	444	(328)	530
Basic Earnings (Loss) Before Discontinued Operations Per Common Share	0.00	(0.01)	(0.01)	0.00	0.00	0.01	0.02	0.01
Diluted Earnings (Loss) Before Discontinued Operations Per Common Share	0.00	(0.01)	(0.01)	0.00	0.00	0.01	0.02	0.01
Basic Earnings (Loss) Per Common Share	0.00	(0.01)	(0.01)	0.00	0.00	0.01	(0.01)	0.01
Diluted Earnings (Loss) Per Common Share	0.00	(0.01)	(0.01)	0.00	0.00	0.01	(0.01)	0.01

[1]The financial information for all of 2010 and Q4, Q3, and Q2 2009 includes full quarterly results for the Company's four divisions (Halifax Film, Decode, Studio B, and imX). Q1 2009 includes full quarterly results for three divisions (Halifax Film, Decode, and Studio B) and 72 days for imX.

[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 and foreign exchange gain (loss) 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).

Results for the three months ended June 30, 2010 (“Q4 2010”) compared to the three months ended June 30, 2009 (“Q4 2009”)

Revenues

Revenues for Q4 2010 were $9.07 million, down 21% from $11.53 million for Q4 2009. The decrease in Q4 2010 was mainly due to fewer deliveries, lower per half-hour license fee revenue as a result of variations in the product delivery mix, and lower Q4 2010 distribution revenues.

Proprietary production revenues: Proprietary production revenues for Q4 2010 of $2.19 million were down 41% compared to $3.71 million for Q4 2009. The overall decrease was made up of a 62% decrease to $0.64 million (Q4 2009-$1.70 million) in proprietary production revenue for the Halifax Film division, a 4% decrease to $1.52 million for Q4 2010 (Q4 2009-$1.59 million) for the Decode division, and a 93% decrease to $0.03 million for the Studio B division (Q4 2009-$0.42 million). As noted above, Q4 2010 had slightly lower half-hour license fee revenue as compared to Q4 2009.

For Q4 2010, the Company accounted for 34.0 half-hours - $2.19 million of proprietary film and television program production revenue, a 21% decrease versus the 43.0 half-hours for Q4 2009, where the programs have been delivered and the license periods have commenced for consolidated entities. Included in these totals for Q4 2010 are 26.0 half-hours (Q4 2009-17.0 half-hours) for other proprietary titles where the Company has Canadian rights and other rights, which are being accounted for using the percentage of completion method.

The breakdown for proprietary deliveries and dollar value subtotals for divisions for consolidated entities for Q4 2010 and Q4 2009 was as follows:

		Q4 2010		Q4 2009	
Title	**Season or Type**	**$ Million**	**Half-hours**	**$ Million**	**Half-hours**
Consolidated Entities					
Decode:					
Dirt Girl World	I		N/A [1]		-
Poppets Town	I		N/A [1]		1.0
Super Why (PBS)	I		-		N/A [1]
Super Why (CBC)	I		-		N/A [1]
Subtotals		$ 0.14	-	$ 0.69	1.0
Studio B:					
Subtotals		-	-	-	-
Halifax Film:					
Animal Mechanicals	III		5.0		-
Bo on the Go!	III		-		8.0
The Guard	I		-		N/A [1]
The Mighty Jungle	III		-		4.0
Pirates	I		3.0		-
That's So Weird	I		-		13.0
This Hour Has 22 Minutes	XVI		-		N/A [1]
Subtotals		0.64	8.0	1.70	25.0
Other Proprietary Titles with Canadian and Other Rights[2]					
Decode:					
Waybuloo (RDF Rights)-(30 half-hours to Treehouse)	I		26.0		17.0
Subtotals		$ 1.38	26.0	$ 0.90	17.0
Studio B:					
Martha Speaks (TVO)	I		-		N/A [1]
Martha Speaks (TVO)	II		N/A [1]		N/A [1]
Subtotals		$ 0.03	N/A [1]	$ 0.42	N/A [1]
Total Consolidated Entities		**$ 2.19**	**34.0**	**$ 3.71**	**43.0**

[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.

[2]Effective Q2 2010 and onward, the Company has included other proprietary titles (accounted for using the percentage of completion method) in this proprietary television table as the Company owns Canadian and other rights on these programs. All prior quarters reported herein have been adjusted accordingly. MD&A's dated prior to Q2 2010 included these shows in Producer and Service Fee Revenues.

Producer and service fee revenues: For Q4 2010, Management was pleased with the growth in this category as the Company earned $3.72 million for producer and service fee revenues, an above expectation increase of 182% over the $1.32 million for Q4 2009. For Q4 2010, the Company earned $1.80 million for *My Little Pony* Season I, $0.99 million for *Killer Mountain*, a movie of the week and $0.93 million for *Ice Road Terror*, a movie of the week. For Q4 2009, the breakdown for the $1.32 million was: $0.31 million for *Pucca* Season II and $1.01 million for *Trollope,* a feature length film.

Distribution revenues: For Q4 2010, distribution revenues were down 54% to $2.22 million from $4.84 million for Q4 2009, generally due to timing of license periods for existing contracts on hand. For Q4 2010, the Company slightly experienced the lagging effect on distribution revenues of fewer 2010 deliveries. For Q4 2010, 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: *The Latest Buzz* Seasons I-III, *Animal Mechanicals* Seasons I and II, *Franny's Feet* Seasons I-III, *Super Why!* Season I, *Kid vs. Kat* Season I, *Poppets Town* Season I, *The Guard* Seasons I and II, and *Martha Speaks* Season I.

Music and royalty revenues: For Q4 2010, music and royalty revenues decreased 33% to $0.90 million (Q4 2009-$1.34 million). Overall music and royalty revenues were down, but after removal of the Q4 2009 one time recognition of the minimum guarantee from Hasbro of $0.74 million related to *Franny's Feet*, the remaining royalty revenue was up 63% due to the fact the Company's volume of production was up considerably in Fiscal 2009. Due to a lag in these streams, they tend to follow on 12-18 months after production revenue. Based on adjustments determined on year end review new media revenues were a reversal of revenue of $0.14 million in Q4 2010 (Q4 2009-$0.15 million revenue).

Rental revenues: For Q4 2010, rental revenues were $0.18 million, up 6% from Q4 2009 of $0.17 million, as a result of continued rental of studio and office facilities to third parties of the Company's Halifax Film Children's Studio, rental of currently unused office space in the Company's headquarters in Halifax, Nova Scotia, and rental of office and equipment of the Company's Toronto, Ontario office.

Gross Margin

Gross margin for Q4 2010 was $4.20 million, a decrease in absolute dollars of 32% compared to $6.22 million for Q4 2009. Management was pleased with the overall margin at 46% of revenue for Q4 2010 which was above Management's expectations.

For Q4 2010, the margins for each revenue category in absolute dollars and as a margin percentage are as follows: production revenue margin of $1.16 million or 53%, net producer and service fee revenue margin of $0.47 million or 13%, distribution revenue margin of $1.00 million or 45% ($0.71 million or 32% when $0.29 million for the amortization of acquired libraries is removed), new media margin of $0.20 million, and rental revenue margin of $0.33 million. For Q4 2010, music and royalty revenue less direct costs were $1.04 million. The production, distribution, producer service fee, and rental revenue streams were all significant contributors to the absolute dollar margin for Q4 2010.

In particular, production, producer and service fee revenue, and distribution in terms of absolute dollars contributed $1.16 million, $0.47 million, and $1.00 million respectively or 63% of the total margin. Production margin at 53%, based on product delivery mix, was at the high end of Management's range but in line with expectations. Producer and service fee margins can vary greatly and at 13% is slightly below Management's expectations. Distribution margin can fluctuate greatly from title-to-title and at 45% is in line with Management's expectations.

Operating Expenses

Operating expenses for Q4 2010 were $4.13 million compared to $4.26 million for Q4 2009, a slight decrease of 3%. SG&A costs for Q4 2010 were up 10% at $3.28 million compared to $2.98 million for Q4 2009. The increase was mainly due to increases of $0.14 million for the opening of a small office in Los Angeles, California and $0.13 million of one time year end audit adjustments. Part of the increase was also due to $0.20 million for severance accruals which will have the ongoing affect of further reductions of approximately $0.50 million in annual SG&A savings for 2011 and beyond. The increase in SG&A was mainly offset by a $0.32 million decrease in impairment in value of certain investment in film and television programs and a $0.17 million decrease in amortization of acquired library due to product mix.

Impairment in Value of Certain Investment in Film and Television Programs

During Q4 2010, the Company recorded an impairment in value of certain investments in film and television programs of $0.17 million (Q4 2009-$0.49 million).

Income (Loss) from Strategic Investments

For Q4 2010, loss from strategic investments activities of $0.03 million related to a realized capital loss, versus a $0.14 million income for Q4 2009 comprised of an unrealized income from short-term investments held for trading of $0.17 million offset by a realized capital loss of $0.03 million.

EBITDA

In Q4 2010, EBITDA was $1.02 million, a 72% decrease as compared to $3.68 million for Q4 2009. For Q4 2010, this was generally due to the decrease in gross margin dollars of $2.03 million, an increase in SG&A of $0.30 million, and a $0.33 million decrease in non-cash stock based compensation.

Amortization

For Q4 2010, amortization was $1.11 million (Q4 2009-$1.18 million). For Q4 2010, the amortization of acquired libraries was $0.29 million (Q4 2009-$0.46 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 2010,

amortization of PP&E was $0.55 million (Q4 2009-$0.42 million). For Q4 2010, amortization of intangible assets was $0.27 million (Q4 2009-$0.30 million) which relates to the intangible assets acquired as part of the acquisitions of Decode and Studio B.

Gain on Restructuring of Investment

For Q4 2010, the Company recorded a $0.35 million gain on restructuring of its investment related to Tribal Nova (Q4 2009-nil) (see "Investments in Tribal Nova and Woozworld" section of this MD&A).

Foreign Exchange Loss (Gain)

For Q4 2010, due to the strengthening of the Canadian dollar against the USD, GBP, and Euro since March 31, 2010, foreign exchange loss was $0.06 million (versus a $0.36 million foreign exchange loss for Q4 2009). The balance for Q4 2010 was made up of $0.17 million realized foreign exchange gain (Q4 2009-$0.17 million foreign exchange loss) on revenue and expense items translated at average rates for the period and $0.23 million in non-cash unrealized foreign exchange loss (Q4 2009-$0.19 million unrealized foreign exchange loss) for balance sheet translations at the exchange rates in effect at each balance sheet date.

Interest

Interest for Q4 2010 decreased to $0.03 million expense versus $0.05 million expense for Q4 2009. Interest consists of $0.03 million for interest expense on long-term debt and $0.06 million for interest and bank charges (Q4 2009-$0.03 million and $0.03 million, respectively), offset by interest income of $0.06 million (Q4 2009-$0.01 million).

Equity Loss and Non-Controlling Interest

For Q4 2010, the Company recorded an equity loss of $0.04 million for its investment in Tribal Nova (Q4 2009-nil). For Q4 2010 the Company recorded nil for non-controlling interest (Q4 2009-nil).

Income Taxes

Income tax recovery for Q4 2010 was $0.48 million (Q4 2009-$0.60 million expense) made up of $0.01 million expense (Q4 2009-$0.07 million) for large corporation taxes, $0.22 million recovery (Q4 2009-$0.74 million expense) for current income taxes, and future income tax recovery of $0.27 million (Q4 2009-$0.21 million recovery).

Net Income (Loss) and Comprehensive Income (Loss) Before Discontinued Operations

Net income (loss) and comprehensive income (loss) before discontinued operations for Q4 2010 was a loss of $0.08 million (Q4 2009-$0.16 million income).

Discontinued Operations

The Company recorded no loss from discontinued operations for Q4 2010 (Q4 2009-$0.43 million).

Net Income (Loss) and Comprehensive Income (Loss)

Net income (loss) and comprehensive income (loss) for Q4 2010 was $0.08 million loss, compared to $0.26 million loss for Q4 2009, or an improvement of $0.18 million in absolute dollars or 69%. For Q4 2010, the overall improvement of $0.18 million was due to changes over Q4 2009 of the following amounts: a gross margin decrease of $2.03 million and a decrease in operating expenses, net of income from strategic investments of $0.04 million, offset by a $1.08 million decrease in provision for income taxes and a $1.17 million decrease in net interest and other expenses, which includes amortization, impairment in value of certain investment in film and television, costs associated with abandoned transactions, equity loss, and loss from discontinued operations.

Results for the three months ended March 31, 2010 ("Q3 2010") compared to the three months ended March 31, 2009 ("Q3 2009")

Revenues

Revenues for Q3 2010 were $9.02 million, down 25% from $12.06 million for Q3 2009.

Proprietary production revenues: Proprietary production revenues for Q3 2010 of $5.36 million were down 20% compared to $6.71 million for Q3 2009. The overall decrease was made up of a 49% decrease to $1.88 million (Q3 2009-$3.66 million) in proprietary production revenue for the Halifax Film division, an 84% increase to $3.44 million for Q3 2010 (Q3 2009-$1.87 million) for the Decode division, and a 97% decrease to $0.04 million for the Studio B division (Q3 2009-$1.18 million). Q3 2010 had lower half-hour license fee revenue as compared to Q3 2009.

For Q3 2010, the Company accounted for 62.0 half-hours - $5.36 million of proprietary film and television program production revenue, a 51% increase versus the 41.0 half-hours for Q3 2009, where the programs have been delivered and the license periods have commenced for consolidated entities. Included in these totals for Q3 2010 are 16.0 half-hours (Q3 2009-no

half-hours) for other proprietary titles where the Company has Canadian rights and other rights, which are being accounted for using the percentage of completion method.

The breakdown for proprietary deliveries and dollar value subtotals for divisions for consolidated entities for Q3 2010 and Q3 2009 was as follows:

Title	Season or Type	Q3 2010 $ Million	Q3 2010 Half-hours	Q3 2009 $ Million	Q3 2009 Half-hours
Consolidated Entities					
Decode:					
Clang Invasion	I		-		9.0
Dirt Girl World	I		11.0		-
Franny's Feet	III		4.0 [3]		-
The Latest Buzz	III		13.0		-
Poppets Town	I		3.0 [3]		5.0
Super Why (PBS)	I		N/A [1]		4.0
Super Why (CBC)	I		N/A [1]		N/A [1]
Subtotals		$ 2.58	31.0	$ 1.71	18.0
Studio B:					
Kid vs. Kat	I		-		4.0
Subtotals		-	-	0.73	4.0
Halifax Film:					
Animal Mechanicals	III		1.0		-
Bo on the Go!	II		-		N/A [1]
Bo on the Go!	III		-		2.0
The Guard	I		-		N/A [1]
The Guard	II		-		N/A [1]
The Mighty Jungle	III		-		6.0
Pirates	I		5.0		-
This Hour Has 22 Minutes	XVI		-		11.0
This Hour Has 22 Minutes	XVII		9.0		-
Subtotals		1.88	15.0	3.66	19.0
Other Proprietary Titles with Canadian and Other Rights[2]					
Decode:					
Waybuloo (RDF Rights)	I		16.0		N/A [1]
Subtotals		$ 0.86	16.0	$ 0.16	N/A [1]
Studio B:					
Martha Speaks (TVO)	I		N/A [1]		N/A [1]
Martha Speaks (TVO)	II		N/A [1]		N/A [1]
Subtotals		$ 0.04	N/A [1]	$ 0.45	N/A [1]
Total Consolidated Entities		**$ 5.36**	**62.0**	**$ 6.71**	**41.0**

[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.*

[2]*Effective Q2 2010 and onward, the Company has included other proprietary titles (accounted for using the percentage of completion method) in this proprietary television table as the Company owns Canadian and other rights on these programs. All prior quarters reported herein have been adjusted accordingly. MD&A's dated prior to Q2 2010 included these shows in Producer and Service Fee Revenues.*

[3]*The 4 half-hours for Franny's Feet Season III and the 3 half-hours for Poppets Town Season I are catch ups for past deliveries not previously accounted for in delivery totals. As such, there are no revenues associated with these half-hours in Q3 2010.*

Producer and service fee revenues: For Q3 2010, the Company earned $1.30 million for producer and service fee revenues, an increase of 81% over the $0.72 million for Q3 2009. For Q3 2010, the Company earned $1.30 million for *My Little Pony* Season I. For Q3 2009 the breakdown for the $0.72 million was: $0.21 million for *Pucca* Season II, $0.17 million for *George of the Jungle* Season I, and $0.34 million for *Badly Drawn Roy* Season I.

Distribution revenues: For Q3 2010, distribution revenues were down 58% to $1.68 million from $3.96 million for Q3 2009. For Q3 2010, 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: *The Latest Buzz* Seasons I, II, and III, *Animal Mechanicals* Seasons I and II, *Franny's Feet* Seasons I, II, and III, *Super Why!* Season I, *Kid vs. Kat* Season I, *Poppets Town* Season I, *The Guard* Seasons I and II, and *Martha Speaks* Season I.

Music and royalty revenues: For Q3 2010, music and royalty revenues increased 92% to $0.50 million (Q3 2009-$0.26 million). New media revenues were nil in Q3 2010 (Q3 2009-$0.01 million revenue).

Rental revenues: For Q3 2010, rental revenues were $0.18 million, down from Q3 2009 of $0.40 million, as a result of continued rental of studio and office facilities to third parties of the Company's Halifax Film Children's Studio, rental of currently unused office space in the Company's headquarters in Halifax, Nova Scotia, and rental of office and equipment of the Company's Toronto, Ontario office. Q3 2009 was higher as it had $0.33 million in one-time rental revenue from an outside production.

Gross Margin

Gross margin for Q3 2010 was $3.34 million, a decrease in absolute dollars of 27% compared to $4.58 million for Q3 2009.

In particular, production, producer and service fee revenue, and distribution in terms of absolute dollars contributed $1.81 million, $0.19 million, and $0.91 million respectively or 87% of the total margin. Production margin at 34% was in line with Management's expectations based on product delivery mix. Producer and service fee margins can vary greatly and at 15% is at the low end of Management's expectations. Distribution margin can fluctuate greatly from title-to-title and at 54% is at the high end of Management's expectations. Music and royalty revenue less direct costs at 70% was in line with Management's expectations.

Management was pleased with the overall margin at 37% of revenue for Q3 2010 which was in line with Management's expectations.

Foreign Exchange Loss (Gain)

For Q3 2010, foreign exchange loss was $0.10 million due to the strengthening of the Canadian dollar against the USD, GBP, and Euro (versus a $0.48 million foreign exchange gain for Q3 2009).

EBITDA

In Q3 2010, EBITDA was $0.48 million, a 58% decrease as compared to $1.14 million for Q3 2009. For Q3 2010, this was generally due to the decrease in gross margin dollars of $1.23 million, offset by a $0.58 million decrease in SG&A.

Net Income (Loss) and Comprehensive Income (Loss) Before Discontinued Operations

Net income (loss) and comprehensive income (loss) before discontinued operations for Q3 2010 was a loss of $0.54 million (Q3 2009-$0.46 million income).

Discontinued Operations

The Company recorded no loss from discontinued operations for Q3 2010 (Q3 2009-$0.02 million).

Net Income (Loss) and Comprehensive Income (Loss)

Net income (loss) and comprehensive income (loss) for Q3 2010 was a loss of $0.54 million, compared to $0.44 million income for Q3 2009, or a decrease of $0.98 million in absolute dollars or 223%.

Results for the three months ended December 31, 2009 ("Q2 2010") compared to the three months ended December 31, 2008 ("Q2 2009")

Revenues

Revenues for Q2 2010 were $9.42 million, down 56% from $21.51 million for Q2 2009. The decrease in Q2 2010 was due to lower deliveries of proprietary programs versus Q2 2009.

Proprietary production revenues: Proprietary production revenues for Q2 2010 of $3.92 million were down 79% compared to $18.98 million for Q2 2009. The overall decrease was made up of an 87% decrease to $1.44 million (Q2 2009-$11.07 million) in proprietary production revenue for the Halifax Film division, a 67% decrease to $1.85 million for Q2 2010 (Q2 2009-$5.61 million) for the Decode division, and a 73% decrease to $0.63 million for the Studio B division (Q2 2009-$2.30 million). As noted above, Q2 2010 had fewer scheduled deliveries as compared to Q2 2009. The single largest difference in Q2 2010 was a result of no deliveries for *The Guard* versus in total $6.19 million ($0.67 million and $5.52 million for Seasons I and II respectively) for Q2 2009.

For Q2 2010, the Company recognized 57.5 half-hours - $3.92 million of proprietary film and television program production revenue, a 39% decrease versus the 95.0 half-hours for Q2 2009, where the programs have been delivered and the license periods have commenced for consolidated entities. Included in these totals for Q2 2010 are 35 half-hours (15 half-hours – Q2 2009) of other proprietary titles where the Company has Canadian rights and other rights, which are being accounted for using the percentage of completion method.

The breakdown for proprietary deliveries and dollar value subtotals for divisions for consolidated entities for Q2 2010 and Q2 2009 was as follows:

		Q2 2010		Q2 2009	
Title	**Season or Type**	**$ Million**	**Half-hours**	**$ Million**	**Half-hours**
Consolidated Entities					
Decode:					
Chop Socky Chooks	I		-		1.0
Clang Invasion	I		-		7.0
Dirt Girl World	I		9.0		-
The Latest Buzz	III		N/A [1]		-
Poppets Town	I		4.0		-
Super Why (PBS)	I		-		9.0
Super Why (CBC)	I		N/A [1]		N/A [1]
Subtotals		$ 1.04	13.0	$ 3.78	17.0
Studio B:					
Kid vs. Kat	I		-		11.0
Subtotals		-	-	1.99	11.0
Halifax Film:					
Animal Mechanicals	II		-		8.0
Animal Mechanicals	III		1.5		-
Bo on the Go!	II		-		1.0
Bo on the Go!	III		N/A [1]		-
The Guard	I		-		2.0
The Guard	II		-		18.0
The Making of Shake Hands with the Devil	Documentary		-		N/A [1]
Nathan Fielder's 2008 Election Special	Comedy Special		-		2.0
SOUL	I		-		12.0
This Hour Has 22 Minutes	XVI		-		9.0
This Hour Has 22 Minutes	XVII		8.0		-
Subtotals		1.44	9.5	11.07	52.0
Other Proprietary Titles with Canadian and Other Rights[2]					
Decode:					
Waybuloo (RDF Rights)-(20 half-hours to Treehouse)	I		25.0		N/A [1]
Subtotals		$ 0.81	25.0	$ 1.83	N/A [1]
Studio B:					
Martha Speaks (TVO)	I		N/A [1]		15.0
Martha Speaks (TVO)	II		10.0		N/A [1]
Subtotals		$ 0.63	10.0	$ 0.31	15.0
Total Consolidated Entities		**$ 3.92**	**57.5**	**$ 18.98**	**95.0**

[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.

[2]Effective Q2 2010 and onward, the Company has included other proprietary titles (accounted for using the percentage of completion method) in this proprietary television table as the Company owns Canadian and other rights on these programs. All prior quarters reported herein have been adjusted accordingly. MD&A's dated prior to Q2 2010 included these shows in Producer and Service Fee Revenues.

Producer and service fee revenues: For Q2 2010, the Company earned $0.80 million for producer and service fee revenues, an increase of 433% over the $0.15 million for Q2 2009 (note for this Q2 2010 MD&A and onward, Canadian and other rights programs previously shown in this category have been included in proprietary production revenue). The breakdown for Q2 2010 was as follows: $0.01 million for *The Señora Project* Season I, $0.41 million for *My Little Pony* Season I, $0.08 million for *The*

Math Show Pilot, and $0.30 million for *Trollope,* a feature length film. For Q2 2009 the breakdown for the $0.15 million was: $0.03 million for *Side Show Christmas* Season I, $0.08 million for *Peanuts* Season I, and $0.05 million for *Badly Drawn Roy*, offset by small reversal of $0.01 million for *George of the Jungle* Season I.

Distribution revenues: For Q2 2010, distribution revenues were up 69% to $3.55 million from $2.10 million for Q2 2009. For Q2 2010, the Company recognized revenue on several contracts throughout its existing library and delivered episodes of newer titles.

Music and royalty revenues: For Q2 2010, music and royalty revenues increased 279% to $0.72 million (Q2 2009-$0.19 million). Music and royalty revenues are up as the Company's volume of production was up considerably in its most recent fiscal year ended 2009.

Rental revenues: For Q2 2010, rental revenues were $0.17 million, up from Q2 2009 of $0.06 million, as a result of continued rental of studio and office facilities to third parties of the Company's Halifax Film Children's Studio, rental of currently unused office space in the Company's headquarters in Halifax, Nova Scotia, and rental of office and equipment of the Company's Toronto, Ontario office.

Gross Margin

Gross margin for Q2 2010 was $4.01 million, a decrease in absolute dollars of 37% compared to $6.33 million for Q2 2009.

Foreign Exchange Loss (Gain)

For Q2 2010, foreign exchange loss was $0.22 million due to the strengthening of the Canadian dollar against the USD, GBP, and Euro (versus a $0.36 million foreign exchange gain for Q2 2009).

EBITDA

In Q2 2010, EBITDA was $0.94 million, a 65% decrease as compared to $2.65 million for Q2 2009.

Net Income (Loss) and Comprehensive Income (Loss) Before Discontinued Operations

Net income (loss) and comprehensive income (loss) before discontinued operations for Q2 2010 was $0.21 million loss (Q2 2009-$0.61 million income).

Discontinued Operations

The Company recorded no loss from discontinued operations for Q2 2010 (Q2 2009-$0.94 million).

Net Loss and Comprehensive Loss

Net loss and comprehensive loss for Q2 2010 was $0.21 million, compared to $0.33 million for Q2 2009, or an improvement of $0.12 million in absolute dollars or 36%.

Results for the three months ended September 30, 2009 ("Q1 2010") compared to the three months ended September 30, 2008 ("Q1 2009")

Revenues

Revenues for Q1 2010 were $12.95 million, down 23% from $16.87 million for Q1 2009. The decrease in Q1 2010 was generally due to lower deliveries of proprietary programs and lower per half-hour license fee revenue versus Q1 2009.

Proprietary production revenues: Proprietary production revenues for Q1 2010 of $6.80 million were down 54% compared to $14.66 million for Q1 2009. The overall decrease was as a result of a 53% decrease to $1.97 million (Q1 2009-$4.19 million) in proprietary production revenue for the Halifax Film division, a 44% decrease to $4.42 million for Q1 2010 (Q1 2009-$7.96 million) for the Decode division, and an 84% decrease to $0.41 million for the Studio B division (Q1 2009-$2.51 million).

For Q1 2010, the Company recognized 95.0 half-hours - $6.80 million of proprietary film and television program production revenue, a 9% decrease versus the 104.5 half-hours for Q1 2009, where the programs have been delivered and the license periods have commenced for consolidated entities. Included in these totals for Q2 2010 are 36 half-hours (25 half-hours Q1 2009) of other proprietary titles where the Company has Canadian rights and other rights, which are being accounted for using the percentage of completion method.

The breakdown for proprietary deliveries and dollar value subtotals for divisions for consolidated entities for Q1 2010 and Q1 2009 was as follows:

Title	Season or Type	Q1 2010 $ Million	Q1 2010 Half-hours	Q1 2009 $ Million	Q1 2009 Half-hours
Consolidated Entities					
Decode:					
Chop Socky Chooks	I		-		8.0
Clang Invasion	I		-		3.0
Dirt Girl World	I		6.0		-
Franny's Feet	III		9.0		-
The Latest Buzz	II		-		26.0
The Latest Buzz	III		13.0		-
Poppets Town	I		13.0		-
Super Why (CBC)	I		N/A [1]		-
Super Why (PBS)	I		-		11.0
Subtotals		$ 3.62	41.0	$ 7.63	48.0
Studio B:					
Being Ian	V		-		2.0
Kid vs. Kat	I		-		11.0
Subtotals		-	-	2.29	13.0
Halifax Film:					
Animal Mechanicals	II		-		0.5
Bo on the Go!	II		-		7.0
Bo on the Go!	III		5.0		-
Canada's Super Speller	I		10.0		-
Searching for Soul: Making of Keystone Choir	Documentary		2.0		-
The Guard	I		N/A [1]		10.0
This Hour Has 22 Minutes	XVI		-		1.0
This Hour Has 22 Minutes	XVII		1.0		-
Subtotals		1.97	18.0	4.19	18.5
Other Proprietary Titles with Canadian and Other Rights[2]					
Decode:					
Waybuloo (RDF Rights)-(20 half-hours to Treehouse)	I		16.0 [3]		N/A [1]
Subtotals		$ 0.80	16.0	$ 0.33	N/A [1]
Studio B:					
Martha Speaks (TVO)	I		N/A [1]		25.0
Martha Speaks (TVO)	II		20.0		N/A [1]
Subtotals		$ 0.41	20.0	$ 0.22	25.0
Total Consolidated Entities		**$ 6.80**	**95.0**	**$ 14.66**	**104.5**

[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.

[2]Effective Q2 2010 and onward, the Company has included other proprietary titles (accounted for using the percentage of completion method) in this proprietary television table as the Company owns Canadian and other rights on these programs. All prior quarters reported herein have been adjusted accordingly. MD&A's dated prior to Q2 2010 included these shows in Producer and Service Fee Revenues.

[3]This total has been adjusted as originally reported in the Q1 2010 MD&A as 20 half-hours in error.

Producer and service fee revenues: For Q1 2010, the Company earned $1.66 million for producer and service fee revenues, an increase of 253% over the $0.47 million for Q1 2009 (note for this Q2 2010 MD&A and onward, Canadian and other rights programs previously shown in this category have been included in proprietary production revenue).

Distribution revenues: For Q1 2010, distribution revenues were up 157% to $3.75 million from $1.46 million for Q1 2009.

Music and royalty revenues: For Q1 2010, music and royalty revenues increased 5% to $0.21 million (Q1 2009-$0.20 million). New media revenues increased in Q1 2010 to $0.35 million (Q1 2009-$0.03 million).

Rental revenues: For Q1 2010, rental revenues were $0.18 million, up from Q1 2009 of $0.05 million, as a result of continued rental of studio and office facilities to third parties of the Company's Halifax Film Children's Studio, rental of currently unused office space in the Company's headquarters in Halifax, Nova Scotia, and rental of office and equipment of the Company's Toronto, Ontario office.

Gross Margin

Gross margin for Q1 2010 was $4.86 million, a decrease in absolute dollars of 4% compared to $5.05 million for Q1 2009. The overall margin at 38% of revenue for Q1 2010 was at the high end of Management's expectations.

Foreign Exchange Loss (Gain)

For Q1 2010, foreign exchange loss was $0.21 million due to the strengthening of the Canadian dollar against the USD, GBP, and Euro (versus a $0.07 million foreign exchange loss for Q1 2009).

EBITDA

In Q1 2010, EBITDA was $1.72 million, a 10% decrease as compared to $1.91 million for Q1 2009.

Net Income and Comprehensive Income Before Discontinued Operations

Net income and comprehensive income before discontinued operations for Q1 2010 was $0.01 million (Q1 2009-$0.61 million).

Discontinued Operations

The Company recorded no loss from discontinued operations for Q1 2010 (Q1 2009-$0.08 million).

Net Income and Comprehensive Income

Net income and comprehensive income for Q1 2010 was $0.01 million, compared to $0.53 million for Q1 2009, or a decrease of $0.52 million in absolute dollars or 98%.

Liquidity and Capital Resources

	June 30, 2010 $	June 30, 2009 $
	(Amounts in Thousands, Except Balance Sheet Ratios)	
Key Balance Sheet Amounts and Ratios:		
Cash, restricted cash (1) and short-term investment…………………	**22,018**	11,086
Long-term assets ……………………………………………….……	**45,380**	44,851
Working capital………………………………………………..……	**37,936**	20,496
Long-term liabilities………………………………………………	**3,137**	4,797
Working capital ratio (2)……………………………………………	**1.75**	1.25
Cash Inflows (Outflows) by Activity:		
Operating activities…………………………………………………	**16,370**	786
Investing activities…………………………………………………	**(5,275)**	(3,793)
Financing activities…………………………………………………	**(5,981)**	4,987
Net cash inflows………………………………………………..	**5,114**	1,980
Adjusted Operating Activities[3]	**(4,608)**	7,089

(1) Restricted cash was the balance of cash on hand in Media Fund (Atlantic) Ltd. of $8 as at June 30, 2009. As of January 15, 2010 this cash was no longer restricted due to the acquisition of Media Fund (Atlantic) Ltd. (see Note 3(b) to the audited consolidated financial statements for the year ending June 30, 2010 for details).

(2) Working capital ratio is current assets divided by current liabilities.

(3) For the Year Ended June 30, 2010 Adjusted Operating Activities was an outflow of $4,608 (Year Ended June 30, 2009 – $7,089 inflow) calculated as cash inflows from operating activities of $16,370 (2009-$786) adjusted by proceeds from (repayment of) interim production financing of $(20,978) (2009-$6,303 proceeds from). 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, 2010 was $15.92 million compared to $10.81 million as of June 30, 2009. For Fiscal 2010 the cash balance increased $5.11 million when comparing it to the cash balance as at June 30, 2009.

For Fiscal 2010 cash flows generated from operating activities were $16.37 million. Cash flows from operating activities resulted from net loss of $0.81 million and adding back non-cash items of amortization of film and television programs, acquired library, PP&E, intangible assets, foreign exchange loss, impairment in value of certain investments in film and television programs, equity loss, loss on disposal of short-term investments, stock-based compensation, interest on promissory notes, and net change in non-cash working capital balances related to operations of $18.07 million, $0.90 million, $1.20 million, $1.08 million, $0.44 million, $0.56 million, $0.04 million, $0.04 million, $0.73 million, $0.01 million, and $8.48 million respectively. Cash flows were adjusted $13.60 million for investments in film and television programs, $0.35 million for gain on restructuring of investment, $0.01 million for unrealized gain on short-term investments, and $0.40 million from future income tax recovery. Cash flows were decreased by the non-cash discontinued operations charge of $0.01 million.

For Fiscal 2010 cash flows from financing activities were a use of cash of $5.98 million. Cash flows used in financing activities resulted primarily from repayment of interim production financing of $20.98 million, repayments of long-term debt of $0.63 million, common shares repurchased and cancelled of $0.12 million, repayment of bank indebtedness of $2.50 million, and repayment of other liability of $0.67 million. This was offset by cash generated of $18.92 million from the issuance of common stock.

For Fiscal 2010 cash flows from investing activities were a use of cash of $5.28 million. Cash flows used in investing activities were $6.08 million for acquisitions of short-term investments and $0.50 million for PP&E acquisitions. Cash flows generated in investing activities were proceeds from disposal of short-term investments of $0.23 million and $1.08 million net cash advances from investees.

Working Capital

Working capital ("**Working Capital**") represents the Company's current assets less current liabilities. Working Capital increased by $17.44 million as at June 30, 2010 over June 30, 2009. The working capital ratio remained strong at 1.75 for June 30, 2010.

Management was pleased with cash flow provided from Operating Activities of $16.37 million for Fiscal 2010. However, generally due to a fewer number of proprietary deliveries and slightly lower distribution revenues, cash flow from Adjusted Operating Activities was a use of $4.61 million for Fiscal 2010 (Fiscal 2009-$7.09 million cash flow provided by Adjusted Operating Activities), 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. For Fiscal 2010, Management was pleased to be able to mainly use positive cash flow from operations to pay down $20.98 million of interim production financing (Fiscal 2009-interim production financing increased by $6.30 million).

Based on the Company's current revenue expectations for Fiscal 2011 and 2012, 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 $37.94 million is sufficient to execute its current business plan.

Royal Bank Revolving Operating and Production Credit Facility

As at June 30, 2010, the Company has a revolving operating credit facility (the "**RBC Revolving Operating Credit Facility**") with the Royal Bank of Canada ("**Royal Bank**"), with a maximum amount of $3.51 million, bearing interest at Royal Bank Prime + 1.25% and is for general working capital purposes. The Company has extended this facility to November 30, 2010. The availability of the RBC Revolving Operating Credit Facility is subject to the Company maintaining interest and consolidated indebtedness coverage ratios and certain other covenants.

The Company also has a revolving production credit facility ("**The RBC Revolving Production Credit Facility**") with the Royal Bank with a maximum authorized amount of $39.38 million as of June 30, 2010. The RBC Revolving Production Credit Facility is the aggregate of interim production financing of individual programs financed through the Royal Bank which are subject to individual approved tranches (collectively the "**RBC Individual Approved Tranches**"). The RBC Revolving Production Credit Facility matures at various dates twenty-four months following the first drawdown of funds in respect of each RBC Individual Approved Tranche. The maturity dates for the RBC Individual Approved Tranches vary, but the outside maturity date is April 2012.

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 and distribution of its film and television properties. To maximize ongoing development and growth effort, the Company did not pay out dividends during the year ended June 30, 2010. The Company is not anticipating paying out dividends during the year ended June 30, 2011.

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 Revolving Operating and Revolving Production Credit Facilities, including but not limited to:

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

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

	Measure targets	**June 30, 2010**	**June 30, 2009**
Coverage Ratio	> 4.0x	15.8x	27.0x
Net Worth Ratio	< 3.0x	0.6x	1.1x

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

Contractual Obligations

As of June 30, 2010

Payments Due by Period

(All amounts are in thousands)	Total	Fiscal 2011	Fiscal 2012-2013	Fiscal 2014-2015	After Fiscal 2016
	$	$	$	$	$
Bank indebtedness [1]	250	250	-	-	-
Capital lease for equipment [2]	740	302	438	-	-
Long-term debt payments (principal and interest) [3]	2,978	342	652	609	1,375
Operating leases [4]	5,569	1,133	1,362	1,059	2,015
Total Contractual Obligations	9,537	2,027	2,452	1,668	3,390

(1) RBC Revolving Operating Credit Facility with a maximum amount of $3.51 million bearing interest at bank prime plus 1.25%. See note 12 to the audited consolidated financial statements for the year ended June 30, 2010 for details.

(2) Pursuant to capital leases for video editing, leaseholds, and other office equipment, the obligations bear interest ranging from 5.2% to 8.4% and mature from June 2010 to December 2011. Principal balances are included in note 14 to the audited consolidated financial statements for the year ended June 30, 2010.

(3) See note 14 to the audited consolidated financial statements for the year ended June 30, 2010 for details.

(4) Pursuant to operating leases. See note 18 to the audited consolidated financial statements for the year ended June 30, 2010 for details.

Outlook

The Company's June 30, 2010 balance sheet remains strong with more than $22.0 million in cash and short-term investments on hand. Management is focusing on its core strengths of developing, producing, and distributing 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. With its cash on hand the Company is also seeking acquisition targets to compliment its core strengths. Possible opportunities would include licensing expertise, additional production capacity and film and television libraries with a proven track record of positive cash flows.

With the weakened state of the global economy throughout 2009 the Company has seen a slowdown in advertising dollars for its broadcast customers. This translated into a slowdown of production revenue for 2010 versus 2009 as broadcasters did not commit to new shows and series renewals as quickly as they had in Fiscal 2009. Management feels the climate is improving and remains optimistic for Fiscal 2011 and beyond.

For Fiscal 2011, the Company is targeting 15-40% growth in proprietary production revenue. The Company's 2011 target output range is 200-250 half-hours of combined proprietary programs and other proprietary titles with Canadian and other rights. For 2011, the Company is targeting an average license fee per half-hour in the range of $0.75 - $1.25 million with a goal of being at or above the mid point of the range, which would represent 15-60% growth over 2010.

Children's programming is off prime time and therefore not as reliant on advertising dollars, and the fact that most of our customer base has a Governmental regulatory mandate to deliver a minimum requirement of children's programming, Management is optimistic that for Fiscal 2011 and going forward opportunities for proprietary children's programming will continue to improve.

For Fiscal 2011, Management is projecting a target for distribution revenues to be slightly lower than Fiscal 2010 in the range of $8-13 million as the Company may continue to see the lagging effect of fewer 2010 proprietary deliveries. However, the Company is optimistic it will continue to add third party distribution titles to supplement lower proprietary inventory levels. The Company has already been able to add signings of the following successful third party series: *Grandpa in my Pocket* Season II, Season II *Spectacle: With Elvis Costello…*, and *How to be Indie* Season I.

Looking forward to Fiscal 2011, a continued area for growth is a proliferation of coproduction opportunities. Management continues to target these areas along with new and existing service opportunities. DHX, having a strong distribution presence in the international marketplace and being well positioned in Canada, is in a prime position to capture some of this business. For 2011, Management's target range is $9-$15 million for contracted and expected producer and service fee revenues, representing a range of 20-100% growth over 2010.

M&L still represents upside for the Company, however as a result of the current climate, this has potentially been pushed further into the future. For Fiscal 2011, the Company is targeting 10-50% growth over 2010 in the category of music and royalty revenue. For 2011 new media revenue is expected to grow by 25-50% over 2010 and rental revenues are expected to be generally in line with 2010 levels.

As noted in the subsequent event section of this MD&A, on September 14, 2010 the Company acquired W!LDBRAIN Entertainment Inc. ("**Wildbrain**"). Actual unaudited pro forma revenues and net income for the six month period ended June 30, 2010 were approximately $6.90 million and $1.4 million USD respectively. Wildbrain was recently broken off from a large entity, so full year financials are not available. Management does not believe the financial results for Wildbrain for the six months ended June 30, 2010 should be relied upon as an indication of results for any future period. Management expects Wildbrain will contribute between $8-$12 million in revenues and approximately $0.75-$1.25 million in EBITDA from the date of closing to the end of Fiscal 2011.

For 2011, Management expects gross margin to range from 35-40% range with a goal to being near the high end of the range. Management continues to target additional SG&A reductions of 5% for 2011 versus 2010. For 2011, 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 $0.75-$1.50 million and $1.75-$2.25 million respectively. For 2011, stock-based compensation, interest expense, interest income, and equity loss are expected to be in the following ranges respectively: $0.50-$1.00 million, $0.10-$0.30 million, $0.10-$0.50 million, and $0.03-$0.10 million.

Media Fund

On January 15, 2010, the holders of the Media Fund (Atlantic) Ltd. ("**Media Fund**") Put Options exercised their rights and exchanged the Put Options for common shares of the Company. As such, the Company has acquired effectively all of the outstanding shares in Media Fund. The consideration for the exchange of the Media Fund Put Options was 425,420 shares of the Company valued at $391 (see note 3(b) of the audited consolidated financial statements for the year ended June 30, 2010 for further details).

Investment in Tribal Nova and Woozworld

On April 30, 2010 ("**Tribal Nova Transaction Date**"), the Company's investment in Tribal Nova Inc. ("**Tribal Nova**") was restructured. In exchange for 670,000 Class A preferred shares of Tribal Nova, the Company received 670,000 preferred shares, representing 4%, of Woozworld Inc. The Company also received 4,360,000 Class D preferred shares representing 34% of the shares of Tribal Nova, in exchange for the Company's remaining 1,344,898 Class A preferred shares of Tribal Nova. The Company recorded its investment in Tribal Nova at $2.06 million and its investment in Woozworld Inc. at $0.33 million. The $2.06 million investment in Tribal Nova has been allocated to the identifiable intangible assets based on their preliminary estimated fair values as follows: $1.65 million to source code, $0.40 million to license contracts and subscription lists. Amortization of these intangibles (net of equity income pickup for Tribal Nova) for the year ended June 30, 2010 was $0.40 million (2009 – $nil) (see notes 3(a) and 8 of the audited consolidated financial statements for the year ended June 30, 2010 for further details).

Subsequent Event

On September 14, 2010, the Company acquired all the outstanding shares in Wildbrain, a privately owned company, based in Los Angeles California, for $8.00 million USD. 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 $11.50 million (inclusive of an allocation for $0.50 million per year in operating expenses beginning from the year in which $10.00 million in cash receipts are achieved, as defined in the Wildbrain share purchase agreement) for a period of 36 months from closing.

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 Policies and Estimates

The preparation of the financial statements in conformity with Canadian GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates

of the financial statements and the reported amounts of revenue and expenses during the reporting period. Management of the Company regularly reviews its estimates and assumptions based on historical experience and various other assumptions that it believes would result in reasonable estimates given the circumstances. Actual results could differ from those estimates under different assumptions. The following is a discussion of accounting policies that require significant Management judgments and estimates. For a discussion of all of the Company's accounting policies, including the items outlined below, refer to note 1 of the audited consolidated financial statements for the years ended June 30, 2010 and 2009 on www.sedar.com or DHX's website at www.dhxmedia.com.

Revenue Recognition

Production and Distribution Revenue

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

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

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

Producer and Service Fee Revenue

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

Royalty Revenue

Royalty revenue is accrued for royalty streams the Company has a history of receiving revenue on and is recognized in periods in accordance with statements received from third party agents and or based on historical average.

Variable Interest Entities

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

Investment in Film and Television Programs

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

libraries, ultimate revenue includes estimates over a period not to exceed ten years following the date of initial release. For episodic television series, ultimate revenue includes estimates of revenue over a period not to exceed ten years from the date of delivery of the first episode or, if still in production, five years from the date of delivery of the most recent episode, if later. For acquired film and television libraries previously released, ultimate revenue includes estimates of revenue over a period not to exceed twenty years from the date of acquisition.

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

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

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

Stock-based Compensation

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

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

Investment in Production Companies and Other Equity Investments

The valuation of equity accounted investments is regularly reviewed by Management to ensure that any decline in market value that is considered other than temporary has been reflected in the related carrying value of the investment. In making that assessment, several factors are considered, including the amount by which the market value exceeds carrying value and investees' expected future cash flows and earnings. The Company recorded $0.04 million equity loss for Fiscal 2010 (nil for Fiscal 2009) and $0.04 million equity loss for Q4 2010 (nil for Q4 2009) on the statement of income (loss) and comprehensive income (loss) for the respective periods.

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

Goodwill

The Company implements the recommendations of the Canadian Institute of Chartered Accounts (''CICA'') Handbook Section 3062, "Goodwill and Other Intangible Assets". Based on this standard, goodwill of the Company is tested for impairment annually on June 30, or more frequently if impairment indicators arise, to determine if an impairment loss should be recognized. Impairment indicators include the existence of significant restructuring plans, the existence of significant adverse changes in the business climate, and the existence of significant write downs of assets. During the year ended June 30, 2010, the Company

recorded no amounts for impairment of goodwill (year ended June 30, 2009-nil) (See note 11 to the audited financial statements for the year ended June 30, 2010 for more details).

Provisions

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

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

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

Future Tax Assets and Liability

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

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

Accounting Policy Changes

Goodwill and Intangible Assets

On July 1, 2009, the Company adopted CICA Handbook Section 3064, "*Goodwill and Intangible Assets"* replacing Section 3062 "*Goodwill and Other Intangible Assets*" and Section 3450 "*Research and Development Costs*". The section establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are aligned with International Accounting Standard ("IAS") 38, "*Intangible Assets"*.

Financial Instruments

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

Future Accounting Standard Changes

In February 2008, Canada's Accounting Standards Board ("**AcSB**") confirmed that the use of International Financial Reporting Standards ("**IFRS**") will be required for publicly accountable profit-oriented enterprises for fiscal years beginning on or after January 1, 2011. After that date, IFRS will replace Canadian GAAP for those enterprises. The Company will thus apply IFRS in Fiscal 2012 and will issue its consolidated financial statements in accordance with IRFS, including Fiscal 2011 comparative figures using the same reporting standards, starting July 1, 2011.

In order to prepare for the initial opening comparative balance sheet under IFRS on July 1, 2011 (the "**Effective IFRS Date**"), the Company is following a three-phase transition plan: initial review and assessment, in-depth analysis, and implementation. The Company is currently in the initial review phase.

The second phase will begin shortly and its completion is planned for the first half of Fiscal 2011. In this phase, the Company will perform a detailed analysis of IFRS, including the identification of the differences between IFRS and DHX's current accounting policies, in order to prioritize the key areas that will be more significantly impacted by IFRS and to determine the options permitted under IFRS at the Effective IFRS Date and on an ongoing basis in order to finalize conclusion. This phase also includes detailed planning of IT and HR as they relate to IFRS. The Company anticipates the cost of this phase will be between $0.03-0.05 million for Fiscal 2011.

In the third phase, the Company will implement the accounting changes and any required modifications to internal procedures, controls, and systems so that they are in place and operating effectively for the first fiscal year under IFRS.

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement, and disclosures. The International Accounting Standards Board and AcSB will also continue to issue new accounting standards during the conversion period. As a result of the upcoming changes, the final impact of IFRS on the Company's consolidated financial statements can only be determined once all of the IFRS applicable at the Effective IFRS Date are known.

Management is providing the Audit Committee with timely project status updates as well as indications, decision, and conclusions regarding IFRS options.

The CICA issued the following new accounting standards: Section 1582, "*Business Combinations*", Section 1601, "*Consolidated Financial Statements*", and Section 1602, "*Non-controlling Interests*". Sections 1582, 1601, and 1602 are effective for fiscal years beginning on or after January 1, 2011 and, accordingly, the Company will be adopting them on July 1, 2011. See note 2(b) to the Company's audited consolidated financial statements and accompanying notes for the years ended June 30, 2010 and 2009 for more details on CICA Handbook Sections 1582, 1601, and 1602.

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 66% of total amounts receivable at June 30, 2010 (June 30, 2009 - 67%). Certain of these amounts are subject to audit by the government agencies. Management believes that these amounts are fully collectible. Management believes that it is normal course for the industry for some amounts receivable to take considerable time to collect; for instance it is normal course for federal and provincial tax credits receivable to take up to 24 months to proceed through audit and collection. The Company adjusts amounts receivable from Canadian federal government and other government agencies including federal and provincial tax credits receivables in connection with production financing, quarterly for any known differences arising from internal or external audit of these amounts. An allowance against federal and provincial tax credits receivable has been recorded based on the Company's history of collection 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 approximately 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 $0.20-$0.30 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 notes 12, 13, and 14 of the audited consolidated financial statements for June 30, 2010 for further details). As at June 30, 2010, the Company had cash on hand of $15.92 million (June 30, 2009 - $10.81 million) and short-term investments of $6.10 million in government T-bills and government bonds (June 30, 2009 - $0.27 million in strategic equity investments).

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 less than a $0.10 million impact on net income (loss).

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, Charles Bishop, 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. The Company maintains key man life insurance in respect of each of Michael Donovan and Charles Bishop pursuant to which the Company will receive $8.0 million and $3.5 million respectively, upon the death of the relevant individual. Each of Mr. Donovan and Mr. Bishop, and Mr. DeNure is under contract to the Company until 2011, 2011, and 2012 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 affect on the Company's revenues and earnings.

Litigation

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

Technological Change

Technological change may have a materially adverse effect on the Company's business, results of operations, and financial condition. The emergence of new production or CGI technologies or a new digital television broadcasting standard may diminish the value of the Company's existing equipment and programs. Although the Company is committed to production technologies

such as CGI and digital post-production, there can be no assurance that it will be able to incorporate other new production and post-production technologies which may become de facto industry standards. In particular, the advent of new broadcast standards, which may result in television programming being presented with greater resolution and on a wider screen than is currently the case, may diminish the evergreen value of the Company's programming library because such productions may not be able to take full advantage of such features. There can be no assurance that the Company will be successful in adapting to these changes on a timely basis.

Labour Relations

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

Exchange Rates

The returns to the Company from foreign exploitations of its properties are customarily paid in 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, 2010, 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 to Canadian GAAP.

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

Management, under the supervision of the CEO and CFO conducted an evaluation of control design on ICFR as at June 30, 2010. 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, 2010 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 Canadian generally accepted accounting principles, determined with reference to the Handbook of the CICA ("**GAAP**"), the Company uses various non-GAAP financial measures, which are not

recognized under Canadian GAAP, as supplemental indicators of our operating performance and financial position. These non-GAAP financial measures are provided to enhance the user's understanding of our historical and current financial performance and our prospects for the future. Management believes that these measures provide useful information in that they exclude amounts that are not indicative of our core operating results and ongoing operations and provide a more consistent basis for comparison between periods. The following discussion explains the Company's use of EBITDA, 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, and for Q4 2010 onward foreign exchange (loss) gain (as on final review with the Company's auditors it was determined the appropriate disclosure was to include this "below the line" in as a separate line on the Consolidated Statement of Income (Loss) and Comprehensive Income (Loss)) 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, 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. 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 and discontinued operations, EBITDA and Adjusted EBITDA, and Gross Margin, based on the audited financial statements of the Company for the years ended June 30, 2010 and 2009 and historical unaudited financial statements of the Company for the three months ended June 30, 2010 and 2009, March 31, 2010 and 2009, December 31, 2009 and 2008, and September 30, 2009 and 2008, included elsewhere in this MD&A. For further description see "Use of Non-GAAP Financial Measures" elsewhere in this MD&A.

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

	Year Ended June 30, 2010 ($000)	Q4-2010 ($000)	Q3-2010 ($000)	Q2-2010 ($000)	Q1-2010 ($000)
Income (loss) before income taxes and discontinued operations for the period	**(1,304)**	**(554)**	(666)	(185)	101
Interest expense	**291**	**89**	90	35	77
Interest (income) expense and loss (income) from strategic investments	**(21)**	**(29)**	(6)	(33)	47
Costs associated with abandoned transactions and non-controlling interest expense (income)	**3**	**-**	(5)	(15)	23
Equity loss	**40**	**40**	-	-	-
Gain on restructuring of investment	**(348)**	**(348)**	-	-	-
Foreign exchange loss[3]	**587**	**53**	102	224	208
Amortization	**3,171**	**1,105**	617	672	777
Impairment in value of certain investment in film and television programs[2]	**557**	**172**	151	75	159
Development expenses	**449**	**389**	35	-	25
Stock-based compensation expense	**731**	**107**	161	162	301
EBITDA and Adjusted EBITDA[1, 2 & 3]	**4,156**	**1,024**	**479**	**935**	**1,718**
Selling, general and administrative, net of stock-based compensation expense	**12,253**	**3,172**	2,859	3,083	3,139
Gross Margin[1 & 3]	**16,409**	**4,196**	**3,338**	**4,018**	**4,857**

	Year Ended June 30, 2009 ($000)	Q4-2009 ($000)	Q3-2009 ($000)	Q2-2009 ($000)	Q1-2009 ($000)
Income before income taxes and discontinued operations for the period	**3,218**	**752**	651	860	955
Interest expense	**363**	**57**	91	106	109
Interest (income) expense and loss (income) from strategic investments	**(148)**	**(153)**	9	80	(84)
Costs associated with abandoned transactions and non-controlling interest expense	**1,389**	**215**	16	1,151	7
Foreign exchange loss (gain)[3]	**(409)**	**364**	(481)	(363)	71
Amortization	**3,059**	**1,183**	643	573	660
Impairment in value of certain investment in film and television programs[2]	**494**	**494**	-	-	-
Development expenses	**425**	**333**	45	39	8
Stock-based compensation expense	**999**	**435**	170	204	190
EBITDA and Adjusted EBITDA[1, 2 & 3]	**9,390**	**3,680**	**1,144**	**2,650**	**1,916**
Selling, general and administrative, net of stock-based compensation expense	**12,788**	**2,543**	3,427	3,680	3,138
Gross Margin[1 & 3]	**22,178**	**6,223**	**4,571**	**6,330**	**5,054**

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

[2]Adjusted EBITDA for Q4 2010, Q3 2010, Q2 2010, Q1 2010, and Q4 2009 were adjusted for $0.17 million, $0.15 million, $0.07 million, $0.16 million, and $0.49 million respectively for impairment in value of certain investments in film and television programs recorded as a result of the year end net realizable value testing for investment in film and television programs as management believes this to be a more meaningful indicator of operating performance.

[3]Effective Q4 2010 and onward, foreign exchange losses (gains) have been adjusted on 2010 final audit out of direct production costs and amortization of film and television produced and shown separately as a line item in the Consolidated Statement of Income (Loss) and Comprehensive Income (Loss). The Company has adjusted accordingly for all prior quarters reported.

DHX MEDIA LTD.

Fiscal 2010

Supplemental Information
For the Year Ended June 30, 2010

1. Summary of securities issued and options and warrants granted during the year ended June 30, 2010 (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, 2009	**44,442,711**	**56,758**
Shares repurchased and cancelled as part of the Company's normal course issue bid	(149,833)	(116)
Balance at September 30, 2009	**44,292,878**	**56,642**
Shares issued to Steven DeNure, Director and Officer as part of management bonuses for the year ended June 30, 2009	171,415	120
Shares issued to Neil Court, active Director and former Officer as part of management bonuses for the year ended June 30, 2009	171,415	120
Shares issued to Elizabeth Stevenson as part of management bonuses for the year ended June 30, 2009	85,708	60
Balance at December 31, 2009	**44,721,416**	**56,942**
Issued for cash consideration	1,875,000	1,164
Share issuance costs net of tax effect of $9	-	(15)
Issued in exchange for the Media Fund Put Options	425,420	391
Balance at March 31, 2010	**47,021,836**	**58,482**
Issued for cash consideration	14,605,000	19,108
Share issuance costs net of tax effect of $494	-	(1,042)
Balance at June 30, 2010	**61,626,836**	**76,548**

b. Summary of options and warrants

Options	**Number of Options**	**Weighted-average exercise price**
Balance at June 30, 2009	**3,766,547**	**$1.36**
Granted to Employees	35,000	$0.90
Balance at September 30, 2009 and December 31, 2009	**3,801,547**	**$1.35**
Granted to Mark Gosine, Officer	50,000	$0.99
Granted to David Regan, Officer	100,000	$0.99
Balance at March 31, 2010	**3,951,547**	**$1.34**
Granted to Employees	160,000	$0.99
Balance at June 30, 2010	**4,111,547**	**$1.33**

Put Options	Number of Put Options	Weighted-average exercise price
Balance at June 30, 2009, September 30, 2009, and December 31, 2009	**425,420**	**Nil**
Exercised during the Year Ended June 30, 2010	(425,420)	Nil
Balance at March 31, 2010 and June 30, 2010	**-**	**Nil**

Warrants	Number of Warrants	Weighted-average exercise price
Balance at June 30, 2009, September 30, 2009, and December 31, 2009	**4,922,750**	**$2.10**
Issued for Cash Consideration	937,500	$1.15
Balance at March 31, 2010 and June 30, 2010	**5,860,250**	**$1.95**

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

61,626,836 common shares at a recorded value of $76,548;
100,000,000 preferred variable voting shares at a recorded value of nil.

iii. Description of options and warrants

See note 15 of the audited consolidated financial statements for the year ended June 30, 2010.

2. Directors and officers as at June 30, 2010

Directors

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

Officers

Michael Donovan	CEO
Dana Landry	CFO
Steven DeNure	President and COO
Charles Bishop	President of Production and Development
Mark Gosine	VP 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.