



# power of corus.

**Fourth Quarter 2017 Report to Shareholders**

For the Three Months and Year Ended August 31, 2017  
(Unaudited)



## Table of Contents

|           |                                                     |
|-----------|-----------------------------------------------------|
| <b>3</b>  | <b>Financial Highlights</b>                         |
| <b>4</b>  | <b>Significant Events in the Quarter</b>            |
| <b>5</b>  | <b>Significant Events Subsequent to the Quarter</b> |
| <b>6</b>  | <b>Management's Discussion and Analysis</b>         |
| <b>7</b>  | <b>Overview of Consolidated Results</b>             |
| <b>10</b> | <b>Television</b>                                   |
| <b>12</b> | <b>Radio</b>                                        |
| <b>13</b> | <b>Corporate</b>                                    |
| <b>13</b> | <b>Quarterly Consolidated Financial Information</b> |
| <b>15</b> | <b>Risks and Uncertainties</b>                      |
| <b>15</b> | <b>Financial Position</b>                           |
| <b>16</b> | <b>Liquidity and Capital Resources</b>              |
| <b>17</b> | <b>Key Performance Indicators</b>                   |
| <b>20</b> | <b>Impact of New Accounting Policies</b>            |
| <b>20</b> | <b>Controls and Procedures</b>                      |
| <b>21</b> | <b>Consolidated Financial Statements and Notes</b>  |

## FINANCIAL HIGHLIGHTS

(These highlights are derived from the unaudited consolidated financial statements)

|                                                                     | Three months ended |         | Year ended |           |
|---------------------------------------------------------------------|--------------------|---------|------------|-----------|
|                                                                     | August 31,         |         | August 31, |           |
| (in thousands of Canadian dollars except per share amounts)         | 2017               | 2016    | 2017       | 2016      |
| <b>Revenues</b>                                                     |                    |         |            |           |
| Television                                                          | 346,008            | 347,283 | 1,529,792  | 1,015,609 |
| Radio                                                               | 35,204             | 37,184  | 149,216    | 155,705   |
|                                                                     | 381,212            | 384,467 | 1,679,008  | 1,171,314 |
| <b>Segment profit <sup>(1)</sup></b>                                |                    |         |            |           |
| Television                                                          | 107,253            | 106,817 | 564,367    | 404,225   |
| Radio                                                               | 8,302              | 8,509   | 39,527     | 36,159    |
| Corporate                                                           | (7,954)            | (9,955) | (25,811)   | (29,370)  |
|                                                                     | 107,601            | 105,371 | 578,083    | 411,014   |
| Net income attributable to shareholders                             | 28,919             | 25      | 191,665    | 125,931   |
| Adjusted net income attributable to shareholders <sup>(1) (2)</sup> | 43,944             | 14,535  | 220,488    | 129,033   |
| Basic earnings per share                                            | \$0.14             | \$0.00  | \$0.95     | \$0.96    |
| Adjusted basic earnings per share <sup>(1) (2)</sup>                | \$0.22             | \$0.07  | \$1.10     | \$0.98    |
| Diluted earnings per share                                          | \$0.14             | \$0.00  | \$0.95     | \$0.96    |
| <b>Free cash flow <sup>(1)</sup></b>                                | 80,202             | 61,397  | 292,660    | 188,165   |

<sup>(1)</sup> Segment profit, adjusted net income attributable to shareholders, adjusted basic earnings per share, and free cash flow do not have standardized meanings prescribed by IFRS. The Company believes these non-IFRS measures are frequently used as key measures to evaluate performance. For definitions and explanations, see discussion under the Key Performance Indicators section of the Fiscal 2017 Report to Shareholders.

<sup>(2)</sup> Refer to Key Performance Indicators section of the Fiscal 2017 Report to Shareholders for details of adjustments to arrive at adjusted net income attributable to shareholders and adjusted basic earnings per share.

## SIGNIFICANT EVENTS IN THE QUARTER

- On June 5, 2017, the Company announced its slate of new and returning Canadian content, showcasing exceptional storytelling, an amazing roster of homegrown talent, and original, high-quality productions. New season orders of established hits underscore Corus' commitment to investing in Canadian content across its portfolio of brands, championing original series and fostering Canadian talent, both in front of and behind the camera. Additionally, with strategically curated programs featuring globally appealing themes and formats, the Company's Corus Studios and Nelvana subsidiaries will continue to grow their slates of premium original content which are now available in more than 160 countries and territories around the world.
- On June 5, 2017, the Company's Global subsidiary unveiled its fiscal 2018 primetime lineup featuring six new dramas and four new comedies which will join 23 returning primetime series. Global also secured 16 hours of weekly simulcast.
- On June 8, 2017, Corus announced a multi-year licensing agreement with The Walt Disney Studios for the Canadian broadcast rights to one of the most successful movie franchises of all time – *Star Wars*, including two pending theatrical releases. The installment that launched the franchise, *Star Wars: A New Hope*, comes to Corus through a separate deal with 20th Century Fox. Beginning fall 2017, films from the franchise will make their debuts on Corus' conventional and specialty networks, including Global, Showcase, W Network, ABC Spark, YTV, Disney Channel, Disney XD and more.
- On June 13, 2017, the Company's Nelvana subsidiary inked a broadcast deal with Turner International to bring the adventures of *The ZhuZhus* to viewers across Europe. Nelvana's long-term broadcast license deal for the show was completed with Turner for Cartoon Network, Boomerang, Boing, and Cartoonito across the U.K., France, and the Nordics.
- On June 13, 2017, the Company's Nelvana subsidiary signed on six new licensing agents for *The ZhuZhus* including Discovery Italia in Italy, License Connection in The Benelux Union (Belgium, the Netherlands, and Luxembourg), Licensing Dynamics International in Israel, Megalicense in Russia and CIS territories, Popcorn Brand Activity in Portugal and 20too Licensing in the Middle East.
- On June 13, 2017, the Company's Toon Boom subsidiary unveiled its new brand and new product, *Toon Boom Producer*, which is designed for animation studios and production companies working with *Storyboard Pro* and *Harmony*. It is a web-based production tracking and digital asset management tool that dramatically improves workflow and communication throughout the entire animation pipeline.
- On June 20, 2017, the Company's Global News subsidiary received the Edward R. Murrow Award for Excellence in Innovation in the Large Market Television Category, for its revolutionary Multi-Market Content (MMC) initiative. MMC enables Global News stations to achieve back-end production synergies while preserving local television newscasts and increasing reporting resources across the country.
- On June 22, 2017, the Canadian Radio-television and Telecommunications Commission (the "CRTC") renewed ten of Corus' commercial radio licences. Each of the licenses were renewed for a full seven-year term under the existing conditions of license. The full decisions can be found at [www.crtc.gc.ca/eng/archive/2017/2017-212.htm](http://www.crtc.gc.ca/eng/archive/2017/2017-212.htm).
- On June 27, 2017, the Company paid a monthly dividend of \$0.094583 and \$0.095 per share to holders of its Class A and Class B Shares, respectively.
- On July 26, 2017, the Company's Nelvana subsidiary inked a broadcast deal with Sprout, the preschool destination within NBCUniversal Cable Entertainment's Universal Kids network, to bring the adventures of its successful original series *Ranger Rob* to viewers across the U.S.
- On July 26, 2017, the Company's Treehouse subsidiary announced a deal with ABC Commercial and iconic children's entertainment group *The Wiggles*, securing exclusive broadcast rights to new series and specials, access to the group's popular library of studio-recorded specials, and a partnership for the network to present a cross-Canada tour in 25 cities of the new live show, *The Wiggles' Big Show!*.
- On July 31, 2017, the Company paid a monthly dividend of \$0.094583 and \$0.095 per share to holders of its Class A and Class B Shares, respectively.
- On August 4, 2017, the CRTC issued amendments to the *Broadcasting Distribution Regulations* and the *Television Broadcasting Regulations*, 1987 regarding local and community television, and financial support, logging requirements and Canadian exhibition requirements for over-the-air television stations. These amendments operationalize the determinations announced in the Commission's revised policy for local and community television. The full text of these CRTC amendments can be found at [www.crtc.gc.ca/eng/archive/2017/2017-278.htm](http://www.crtc.gc.ca/eng/archive/2017/2017-278.htm).
- On August 31, 2017, the Company paid a monthly dividend of \$0.094583 and \$0.095 per share to holders of its Class A and Class B Shares, respectively.

## SIGNIFICANT EVENTS SUBSEQUENT TO THE QUARTER

- On September 10, 2017, the Company's Calgary radio station, COUNTRY 105 (CKRY-FM), was recognized as Radio Station of the Year (Large Market) at the 2017 Canadian Country Music Association Awards. The station also received the Slaight Music Humanitarian Award for their Caring for Kids Radiothon.
- On September 10, 2017, the Company's Edmonton radio station, 103.9 Country (CISN-FM), was recognized for the On-Air Personalities of the Year (Large Market) for the program, *CISN in the Mornings with Chris, Jack & Matt*.
- On September 22, 2017, the Company's Food Network Canada subsidiary announced a partnership with General Mills Canada on the first-ever, fully-integrated special for Pillsbury and Betty Crocker's online baking contest, *Bake it Possible*.
- On September 27, 2017, the Company's Nelvana subsidiary announced an exclusive partnership agreement with Macmillan Publishers and Imprint, a division of Macmillan Children's Publishing Group, to publish a series of novels based on Nelvana's original animated series, *Mysticons*. The action-fantasy series recently debuted in North America and is currently the #1 program this fall on Corus' YTV network.
- On September 28, 2017, Federal Minister of Canadian Heritage, Melanie Joly, unveiled the results of her consultations on the Canadian culture sector. The Minister's policy vision entitled "Creative Canada" confirms reviews of the *Broadcast Act* and *Telecommunications Act* will proceed, beginning with a report by the CRTC on the state of the broadcasting sector. That report must be completed by June 1, 2018, and will become the factual foundation for the Government to consider making changes to the *Broadcasting Act*. Further information on Creative Canada may be found at [www.canada.ca/en/canadian-heritage/campaigns/creative-canada.html](http://www.canada.ca/en/canadian-heritage/campaigns/creative-canada.html).
- On September 29, 2017, the Company paid a monthly dividend of \$0.094583 and \$0.095 per share to holders of its Class A and Class B Shares, respectively.
- On October 6, 2017, Bill S-228, an Act to amend the Food and Drugs Act (prohibiting food and beverage marketing directed at children), passed through the Senate and received First Reading in the House of Commons. It will next proceed to Second Reading in the House, and be referred to a House Committee.
- On October 11, 2017, the Company's Corus Studios subsidiary announced new international content sales for a number of original lifestyle series as follows: *Backyard Builds*, *Save My Reno* and *Worst to First* have been sold to Australia's Nine Entertainment Co. (Nine Network); Service Video on Demand (SVoD) rights for *Cheer Squad* have been sold to Netflix in the United Kingdom and Latin America; Foxtel in Australia and One Africa's The Home Channel in South Africa has picked up Seasons 1 and 2 of *Home to Win*; *Masters of Flip* has been sold to Israel's Talit Communications; and MTV Finland for MTV3, Sub and Ava channels has acquired *My Baby's Having a Baby*.
- On October 17, 2017, the Company announced it had reached an agreement to sell its French-language specialty channels Historia and Séries+ to Bell Media. The total value of the transaction is approximately \$200 million CDN and is subject to customary price adjustments upon closing. The sale is pending approval by the CRTC and the Competition Bureau.
- On October 17, 2017, the Company's Nelvana subsidiary and Discovery Communications announced the formation of a new venture to produce a new pipeline of content to the kids' market in Canada, Latin America and around the world. Based in Canada, the yet-to-be named venture operates independently of Corus, Discovery and Nelvana's other services, and is dedicated to the production of premium children's content across linear and digital platforms. The venture combines the strength of the hugely successful Discovery Kids business in Latin America, and Corus' high-ranking suite of kids' channels in Canada – both of whom will commission content from the new production company.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis of the financial position and results of operations for the three months and year ended August 31, 2017 is prepared at October 17, 2017. The following should be read in conjunction with Management's Discussion and Analysis, consolidated financial statements and the notes thereto included in the Company's August 31, 2016 Annual Report and the consolidated financial statements and notes of the current quarter. The financial highlights included in the discussion of the segmented results are derived from the unaudited consolidated financial statements. All amounts are stated in Canadian dollars unless specified otherwise.

Corus Entertainment Inc. ("Corus" or the "Company") reports its financial results under International Financial Reporting Standards ("IFRS") in Canadian dollars. Per share amounts are calculated using the weighted average number of shares outstanding for the applicable period.

### ***Cautionary statement regarding forward-looking statements***

This document contains forward-looking information and should be read subject to the following cautionary language:

To the extent any statements made in this report contain information that is not historical, these statements are forward-looking statements and may be forward-looking information within the meaning of applicable securities laws (collectively, "forward-looking statements"). These forward-looking statements relate to, among other things, our objectives, goals, strategies, intentions, plans, estimates and outlook, including advertising, distribution, merchandise and subscription revenues, operating costs and tariffs, taxes and fees, currency value fluctuations and interest rates, and can generally be identified by the use of words such as "believe", "anticipate", "expect", "intend", "plan", "will", "may" and other similar expressions. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. Although Corus believes that the expectations reflected in such forward-looking statements are reasonable, such statements involve risks and uncertainties and undue reliance should not be placed on such statements. Certain material factors or assumptions are applied in making forward-looking statements, including without limitation, factors and assumptions regarding advertising, distribution, merchandise and subscription revenues, operating costs and tariffs, taxes and fees, currency value fluctuations and interest rates, and actual results may differ materially from those expressed or implied in such statements. Important factors that could cause actual results to differ materially from these expectations include, among other things: our ability to attract and retain advertising revenues; audience acceptance of our television programs and networks; our ability to recoup production costs, the availability of tax credits and the existence of co-production treaties; our ability to compete in any of the industries in which we do business; the opportunities (or lack thereof) that may be presented to and pursued by us; conditions in the entertainment, information and communications industries and technological developments therein; changes in laws, regulations and policies or the interpretation or application of those laws and regulations; our ability to integrate and realize anticipated benefits from our acquisitions and to effectively manage our growth; our ability to successfully defend ourselves against litigation matters arising out of the ordinary course of business; and changes in accounting standards. Additional information about these factors and about the material assumptions underlying such forward-looking statements may be found in our Annual Information Form. Corus cautions that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to Corus, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Unless otherwise required by applicable securities laws, Corus disclaims any intention or obligation to publicly update or revise any forward-looking statements whether as a result of new information, events or circumstances that arise after the date thereof or otherwise.

For a discussion on the Company's results of operations for fiscal 2016, we refer you to the Company's Annual Report for the year ended August 31, 2016, filed on SEDAR on December 12, 2016.

The following discussion describes the significant changes in the consolidated results from operations.

## OVERVIEW OF CONSOLIDATED RESULTS

Commencing April 1, 2016, 100% of the operating results of Shaw Media Inc. (the "Acquisition" or "Shaw Media"), as well as its assets and liabilities have been fully consolidated as a business combination in accordance with IFRS 3 – *Business Combinations* and, as a result, Shaw Media has been accounted for by applying the acquisition method as of that date. Shaw Media has been reported as part of the Television segment (refer to note 27 of the Company's audited annual consolidated financial statements for the year ended August 31, 2016, filed on SEDAR, for further details).

For fiscal 2016, certain of Corus' Pay Television business' ("Pay TV") assets and liabilities were reclassified as held for disposal effective November 19, 2015 as a consequence of meeting the definition of assets held for sale under IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*. The Company's business activities are conducted through two operating segments, Television and Radio. The disposal group, Pay TV, was not a separate operating segment, but was included as part of the Television operating segment. Accordingly, the disposal group, Pay TV, did not qualify for discontinued operations presentation and, as a result, its operating results remained in continuing operations in the consolidated statement of income and comprehensive income for the year ended August 31, 2016. However, intangible assets classified as held for disposal ceased being amortized effective November 19, 2015 and as a consequence, amortization of program and film rights in the Television segment for the year ended August 31, 2016 was lower by \$15.6 million than it would have been had amortization on these assets not ceased. On February 29, 2016, the Pay TV disposition was completed and the related proceeds and gain associated with this disposal group were recognized (refer to note 27 of the Company's audited annual consolidated financial statements for the year ended August 31, 2016, filed on SEDAR, for further details).

These transactions contributed to the significant year-over-year variances in the consolidated operating results for the year ended August 31, 2017, as the prior year includes only five months of the operating results of the Shaw Media business, while the Pay TV business was shut down on February 29, 2016. In the prior year, the Shaw Media business generated revenues and segment profit of \$1,017.8 million and \$293.2 million, respectively, while the Pay TV business generated revenues and segment profit of \$67.8 million and \$49.3 million, respectively.

### **Fiscal 2017 Objectives**

Following the acquisition of Shaw Media in fiscal 2016, Corus met its three key objectives for fiscal 2017 of 1) completing the integration of Shaw Media and capturing annualized cost synergies which were greater than Corus' target of \$40 to \$50 million; 2) improving the Company's competitive position in the marketplace; and 3) significantly increasing free cash flow and achieving Corus' target to delever to below 3.5 times net debt to segment profit by the end of fiscal 2017.

The achievement of these objectives, combined with an on-going focus on operational efficiencies, have resulted in an improved cost structure and enhanced ability to compete in the evolving media landscape.

### **Revenues**

Consolidated revenues for the fourth quarter of fiscal 2017 of \$381.2 million decreased 1% compared to \$384.5 million in the prior year. On a consolidated basis, advertising revenues were flat compared to the prior year while subscriber revenues and merchandising, distribution and other revenues decreased 1%, and 10%, respectively. Revenues were flat in Television, and decreased by 5% in Radio in the fourth quarter compared to the prior year. Further analysis of revenues is provided in the discussion of segmented results.

For the year ended August 31, 2017, consolidated revenues of \$1,679.0 million were up 43% from \$1,171.3 million in the prior year. On a consolidated basis, advertising revenues and subscriber revenues increased 63% and 25%, respectively, while merchandising, distribution and other revenues decreased by 12%. Revenues increased in Television by 51%, but decreased in Radio by 4% in the current year compared to the prior year. The significant increase in revenues is mainly attributable to the Acquisition as discussed above, offset by the shutdown of the Pay TV business effective February 29, 2016, as well as a decrease in the Radio revenues. On a pro forma basis, including Shaw Media and excluding Pay TV for the year ended August 31, 2016, total revenues declined 2% in 2017 compared to the prior year. Further analysis of revenue is provided in the discussions of segmented results.

### **Direct cost of sales, general and administrative expenses**

Direct cost of sales, general and administrative expenses for the fourth quarter of fiscal 2017 of \$273.6 million decreased 2% from \$279.1 million in the prior year. On a consolidated basis, direct cost of sales and employee costs increased by 3% and 1%, respectively, while other general and administrative expenses decreased by 18%.

For the year ended August 31, 2017, direct cost of sales, general and administrative expenses of \$1,100.9 million

were up 45% from \$760.3 million in the prior year. On a consolidated basis, direct cost of sales increased 57%, employee costs increased 40%, and other general and administrative expenses increased 26%. For the year ended August 31, 2016, direct cost of sales excludes the amortization not taken on Pay TV program right assets of \$15.6 million that were part of the disposal group.

The significant increase in direct cost of sales, general and administrative expenses in the year ended August 31, 2017 is mainly attributable to the Acquisition, offset by the shutdown of the Pay TV business as discussed above. On a pro forma basis, including Shaw Media and excluding Pay TV for the year ended August 31, 2016, total direct cost of sales, general and administrative expenses declined by 5% compared to the prior year. Further analysis of expenses is provided in the discussion of segmented results.

### **Segment profit**

Consolidated segment profit for the fourth quarter of fiscal 2017 was \$107.6 million, an increase of 2% from \$105.4 million last year. Segment profit margin for the fourth quarter of fiscal 2017 was 28%, up from 27% in the prior year.

For the year ended August 31, 2017, consolidated segment profit was \$578.1 million, up 41% from \$411.0 million last year. On a pro forma basis, including Shaw Media and excluding Pay TV for the year ended August 31, 2016, segment profit increased 4% compared to the prior year. Segment profit margin of 34% for the year ended August 31, 2017 was down from 35% in the prior year (as reported) and up from 32% on a pro forma basis. Further analysis is provided in the discussions of segmented results.

### **Depreciation and amortization**

Depreciation and amortization expense for the fourth quarter of fiscal 2017 was \$22.8 million, a decrease from \$33.6 million in the prior year. The decrease in the quarter arises from increased depreciation in the fourth quarter of fiscal 2016 on reflecting accelerated depreciation on various software applications due to shortened useful lives resulting from integration activities completed in the fall of 2016. For the year ended August 31, 2017, depreciation and amortization expense was \$91.8 million, up from \$74.0 million in the prior year. The increase in the year arises from incremental depreciation and amortization associated with property, plant and equipment, and intangible assets acquired as a result of the Acquisition.

### **Interest expense**

Interest expense for the three months and year ended August 31, 2017 was \$38.1 million and \$156.7 million, respectively, down from \$39.8 million and up from \$110.9 million, respectively, in the prior year. The decrease in the quarter results from lower interest costs of \$1.4 million due to lower bank debt in the current year, and lower imputed interest costs of \$0.2 million. For the full year, the increase is due to higher interest on long-term debt and imputed interest costs. The increase in interest on long-term debt of \$39.7 million for the year is attributable to increased bank debt associated with financing the Acquisition. The increase in imputed interest costs of \$6.1 million for the year is attributable to incremental long-term obligations assumed with the Acquisition.

The effective interest rate on bank loans and notes for both the three months and year ended August 31, 2017 was 4.7% compared to 4.8% and 4.6%, respectively, in the prior year. The decrease in the effective rate for the fourth quarter result from a lower weighted average on the Company's syndicated senior secured credit facilities in the current quarter compared to the prior year. The higher effective rate for the year is attributable to the Company's syndicated senior secured credit facilities established April 1, 2016 in connection with the Acquisition being in place for the full year in fiscal 2017 compared to five months in the prior year, offset by the redemption of the 4.25% senior unsecured guaranteed notes due 2020 mid way through the third quarter of the prior year as discussed below.

### **Broadcast license and goodwill impairment**

Broadcast licenses and goodwill are tested for impairment annually as at August 31 or more frequently if events or changes in circumstances indicate that they may be impaired. The Company has completed its annual impairment testing of broadcast licenses and goodwill and determined that there were no impairment charges required at August 31, 2017.

### **Debt refinancing costs**

The debt refinancing costs of \$61.2 million in fiscal 2016 relate to a redemption premium of approximately \$52.6 million associated with the redemption on April 18, 2016 of the \$550.0 million 4.25% senior unsecured guaranteed notes due 2020 and \$8.6 million of unamortized financing charges and bridge loan commitment fees associated with financing the acquisition of Shaw Media.

### ***Business acquisition, integration and restructuring costs***

For the three months and year ended August 31, 2017, the Company incurred \$13.3 million and \$32.0 million of business acquisition, integration and restructuring costs, respectively, compared to \$19.6 million and \$57.2 million, respectively, in the prior year. The current fiscal year costs were attributable to costs relating to ongoing integration activities, as well as an onerous premise lease provision of approximately \$7.0 million for the previous Shaw Media offices in Toronto, which were fully vacated during the first quarter of fiscal 2017. These costs are decreasing year-over-year as a result of completing integration activities. These charges are excluded from the determination of segment profit.

### ***Gain on disposition***

On February 29, 2016, the Company disposed of certain assets and related liabilities of its Pay TV business, which resulted in a gain of \$86.2 million. The Company received cash proceeds of \$211.0 million from Bell Media Inc. to cease operations of its Pay TV business. Further detail is provided in the discussion of the segmented results as well as note 27 of the Company's annual consolidated financial statements for the year ended August 31, 2016.

### ***Other expense (income), net***

Other income for three month period ended August 31, 2017 was \$16.5 million, compared to an expense of \$1.7 million in the prior year. The increase in the quarter reflects a higher foreign exchange gain of \$19.2 million primarily reflecting translation of USD denominated payables and a venture fund distribution of \$2.9 million, offset by impairment charges related to certain investments of \$5.3 million. Other income for the year ended August 31, 2017 was \$9.0 million compared to an expense of \$8.8 million in the prior year. In the current fiscal year, other income includes a foreign exchange gain of \$12.2 million, a venture fund distribution of \$2.9 million, and interest income of \$1.0 million, offset by equity losses from investees of \$2.6 million and impairment charges related to certain investments of \$5.3 million. In the prior year, other expense includes equity loss from associates of \$5.9 million, offset by a venture fund distribution of \$0.5 million, a gain on sale of an investment of \$0.7 million, interest income of \$0.8 million, and foreign exchange gains of \$0.3 million.

### ***Income tax expense***

The effective income tax rate for the three months and year ended August 31, 2017 was 28.4% and 26.9%, respectively, consistent with the Company's 26.5% statutory income tax rate. The effective income tax rate for the three months and year ended August 31, 2016 was 20.7% and 22.5%, respectively, compared to the Company's statutory income tax rate. The lower effective income tax rate in the prior year is primarily the result of the non-taxable portion of capital gains associated with the disposition of certain Pay TV assets recorded in the second quarter of fiscal 2016.

### ***Net income attributable to shareholders and earnings per share.***

Net income attributable to shareholders for the fourth quarter of fiscal 2017 was \$28.9 million (\$0.14 per share basic), as compared to \$ nil (\$ nil per share) in the prior year. Net income attributable to shareholders for the current fiscal quarter includes business acquisition, integration and restructuring costs of \$13.3 million (\$0.05 per share) and investment impairments of \$5.3 million (\$0.03 per share). Adjusting for the impact of these items results in an adjusted net income attributable to shareholders of \$43.9 million (\$0.22 per share basic) in the quarter. Net loss attributable to shareholders for the prior year quarter includes business acquisition, integration and restructuring costs of \$19.6 million (\$0.07 per share). Adjusting for the impact of this item results in an adjusted net income attributable to shareholders of \$14.5 million (\$0.07 per share basic) in the prior year quarter.

Net income attributable to shareholders for the year ended August 31, 2017 was \$191.7 million (\$0.95 per share), as compared to \$125.9 million (\$0.96 per share basic) in the prior year. Net income attributable to shareholders for fiscal 2017 includes business acquisition, integration and restructuring costs of \$32.0 million (\$0.12 per share) and investment impairments of \$5.3 million (\$0.03 per share). Adjusting for the impact of these items results in an adjusted net income attributable to shareholders of \$220.5 million (\$1.10 per share basic) for the current fiscal year. Net income attributable to shareholders for the year ended August 31, 2016 includes business acquisition, integration and restructuring costs of \$57.2 million (\$0.35 per share), debt refinancing costs of \$61.2 million (\$0.34 per share), a gain relating to the discontinuation of the Pay TV business and the disposal of certain assets of \$86.2 million (\$0.58 per share), and excludes amortization of disposed of Pay TV program and film rights of \$15.6 million (\$0.09 per share). Adjusting for the impact of these items results in an adjusted net income attributable to shareholders of \$129.0 million (\$0.98 per share basic) for the prior fiscal year.

The weighted average number of basic shares outstanding for the three months and year ended August 31, 2017 was 202,256,000 and 201,065,000, respectively, compared to 194,792,000 and 131,783,000, respectively, in the prior year for the same comparable periods. The number of shares outstanding increased from the issuance of

shares from treasury under the Company's dividend reinvestment plan and in connection with the Acquisition.

### **Other comprehensive income (loss), net of income tax**

Other comprehensive income for the year ended August 31, 2017 was \$33.4 million, compared to a loss of \$14.4 million in the prior year. For the year ended August 31, 2017, comprehensive income includes an unrealized gain associated with remeasuring the fair value of cash flow hedges of \$27.4 million, an actuarial gain on post-employment benefit plans of \$6.9 million, offset by an unrealized loss from foreign currency translation adjustments of \$0.6 million, and an unrealized loss in the fair value of a venture fund investment of \$0.3 million. The prior year comprehensive income includes an unrealized loss associated with remeasuring the fair value of cash flow hedges of \$10.3 million, actuarial losses on post-employment benefit plans of \$3.5 million, and the reclassification to income of \$0.6 million in mark-to-market gains associated with an equity investment.

## **TELEVISION**

The Television segment is comprised of 45 specialty television services, 15 conventional television stations and the Corus content business, which includes the production and distribution of films and television programs, merchandise licensing, book publishing, animation software and technology and media services. On February 29, 2016, the Company discontinued its Pay TV business. On April 1, 2016, the Company acquired 100% of Shaw Media Inc. from Shaw Communications Inc., which included 19 specialty television services, 12 Global Television branded conventional television stations, Global News and globalnews.ca, and the HistoryGO and GlobalGO apps.

### **Financial Highlights**

|                                                | Three months ended |         | Year ended |           |
|------------------------------------------------|--------------------|---------|------------|-----------|
|                                                | August 31,         |         | August 31, |           |
| (thousands of Canadian dollars)                | 2017               | 2016    | 2017       | 2016      |
| Revenues                                       |                    |         |            |           |
| Advertising                                    | 193,801            | 191,267 | 939,843    | 515,182   |
| Subscriber fees                                | 127,110            | 128,179 | 506,666    | 405,728   |
| Merchandising, distribution and other          | 25,097             | 27,837  | 83,283     | 94,699    |
| Total revenues                                 | 346,008            | 347,283 | 1,529,792  | 1,015,609 |
| Expenses                                       | 238,755            | 240,466 | 965,425    | 611,384   |
| Segment profit <sup>(1)</sup>                  | 107,253            | 106,817 | 564,367    | 404,225   |
| Amortization of disposed assets <sup>(2)</sup> | —                  | —       | —          | (15,585)  |
| Adjusted segment profit <sup>(1)</sup>         | 107,253            | 106,817 | 564,367    | 388,640   |
| Adjusted segment profit margin <sup>(1)</sup>  | 31%                | 31%     | 37%        | 38%       |

<sup>(1)</sup> As defined in the "Key Performance Indicators" section

<sup>(2)</sup> For fiscal 2016, certain of Corus' Pay TV assets and liabilities were reclassified as held for disposal effective November 19, 2015 as a consequence of meeting the definition of assets held for sale under IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations. The disposal group, Pay TV, did not qualify for discontinued operations presentation and, as a result, its operating results remain in continuing operations, intangible assets reclassified as held for disposal ceased being amortized effective November 19, 2015 and, as a consequence, amortization of program and film rights in the Television segment for the year ended August 31, 2016 was lower by \$15.6 million than it would have been had amortization on these assets not ceased. Adjusting for this, segment profit and segment profit margin for fiscal 2016 would have been \$388.6 million and 38%, respectively. Further discussion is provided in note 27 of the Company's audited annual consolidated financial statements for the year ended August 31, 2016.

Revenues were flat in the fourth quarter of fiscal 2017 as a result of a 1% increase in advertising revenues, offset by a 1% decrease in subscriber revenues, and a 10% decrease in merchandising, distribution and other revenues. Television advertising revenues continued to sequentially improve this quarter benefiting from the impact of a stronger program schedule and renewal of calendar year advertising agency contracts. The decrease in subscriber revenues reflects the impact of some retroactive adjustments on renewals of certain carriage agreements in the prior year. The decrease in merchandising, distribution and other revenues is primarily attributable to prior year Corus Live revenues which did not recur this year. In the current fiscal quarter, total revenues from Nelvana were up 10% from the prior year reflecting higher production and distribution revenues from increased deliveries and higher merchandising revenues, offset by lower revenues from service work.

For the year ended August 31, 2017, total revenues increased 51% from the prior year as a result of an 82% increase in advertising revenues, a 25% increase in subscriber revenues, offset by a 12% decrease in merchandising, distribution and other revenues. The Acquisition, and the shutdown of the Pay TV business, contributed to the significant variance in the full fiscal year operating results for the Television segment. The prior fiscal year includes the operating results of the Shaw Media business for the last five months and the operating results of the Pay TV business for the first six months of fiscal 2016. In the prior fiscal year, the Shaw Media business generated revenues and segment profit of \$1,017.8 million and \$293.2 million, respectively, while the Pay TV business generated revenues and segment profit of \$67.8 million and \$49.3 million, respectively.

On a pro forma basis, which adjusts the prior year operating results for the inclusion of Shaw Media and exclusion of Pay TV results for the full fiscal year, total revenues for the year ended August 31, 2017 decreased 2% as a result of a 3% decrease in advertising revenues, a 3% increase in subscriber revenues and a decrease of 14% in merchandising, distribution and other revenues. Television advertising revenues were soft in the first half of the 2017 fiscal year as a result of the timing of agency contract renewals, particularly the loss in calendar 2016 of a major agency deal, and the non-recurrence of federal election spending which occurred in the prior year. However, there was sequential improvement in 2017 as the quarters progressed, particularly in the third and fourth quarters, benefitting from the impact of a stronger program schedule and renewal of calendar year advertising agency contracts.

On a pro forma basis subscriber revenues increased 3% for the year, reflecting continued positive impact from the launch of the Company's suite of Disney branded channels in fiscal 2016, as well as wholesale fee increases in certain carriage agreements.

On a pro forma basis merchandising, distribution and other revenues decreased 14% for the year due to several multi-year subscription video-on-demand licensing deals of approximately \$15.3 million in the prior year.

Total expenses in the fourth quarter of fiscal 2017 decreased by 1%. Direct cost of sales (which includes amortization of program rights and film investments, and other cost of sales) increased 3% from the prior year. With the combination of its portfolio of television properties following the Acquisition, the Company utilized a higher proportion of existing program inventory and made lower incremental program investments in the prior year while formulating its new programming strategy. General and administrative expenses decreased 6% from the prior year primarily reflecting the realization of cost synergies from the Acquisition.

On a pro forma basis for the year, total expenses decreased by 4% as a result of a 1% decrease in direct cost of sales and a 9% decrease in general and administrative expenses. The decrease in direct cost of sales reflects lower amortization of program rights due to timing of program investments and lower cost of sales due to a lower level of service work at Nelvana, offset by higher amortization of film investments due to increased deliveries at Nelvana. General and administrative expenses decreased 9% for the year, primarily reflecting the realization of cost synergies from the Acquisition.

Segment profit<sup>(1)</sup> was flat in the fourth quarter of fiscal 2017 and increased 3% on a pro forma basis for the year. Segment profit margin<sup>(1)</sup> for the quarter was consistent with the prior year at 31% and was 37% for the year compared to 40% in the prior year or 35% on a pro forma basis.

In the quarter, Global continued to deliver solid programming results, finishing the summer with 7 of the Top 20 shows nationally for A25-54, up one from the prior year. Global also improved its ranking among younger A18-34 viewers with 7 of the top 20 shows, up 3 from last summer. The results were driven by the long standing franchise *Big Brother* along with new summer dramas, *Midnight Texas* and *Salvation* both of which performed in the Top 20.<sup>(2)</sup> The Fall programming line-up includes new Global shows *Will and Grace*, *The Brave*, *Law & Order True Crime: The Menendez Murders*, *SEAL Team*, and *S.W.A.T.* along with returning favourites including the NCIS franchise, the Chicago franchise, *Hawaii Five-O*, *Survivor*, *Bull*, and *Madame Secretary*.

The Specialty channels also delivered solid ratings results during the summer, with 4 of the Top 5 Canadian Specialty Stations and 13 of the Top 20 Canadian Specialty stations for Adults 25-54. The Fall programming line-up consists of a strong stable of returning shows along with new programming. The Top 5 Kids networks for children 2-11 this summer were Corus networks<sup>(2)</sup>.

<sup>(1)</sup> As defined in the "Key Performance Indicators" section

<sup>(2)</sup> Based on Numeris TV Meter, Total Canada, Global Summer 2017 (May 29/17 – August 27, 2017) excl. NHL Playoffs, Canadian Commercial Specialty networks Summer 2017 (May 29/17 – August 27, 2017), ex. Sports stations, Adults ages 25-54, and Kids networks Summer 2017 (May 29/17 – August 27, 2017), including non-commercial stations, Kids ages 2-11.

## RADIO

The Radio segment is comprised of 39 radio stations situated primarily in high-growth urban centres in English Canada, with a concentration in the densely populated area of Southern Ontario. Corus is one of Canada's leading radio operators in terms of audience reach.

### Financial Highlights

|                                      | Three months ended |        | Year ended     |         |
|--------------------------------------|--------------------|--------|----------------|---------|
|                                      | August 31,         |        | August 31,     |         |
| (thousands of Canadian dollars)      | 2017               | 2016   | 2017           | 2016    |
| Revenues                             | <b>35,204</b>      | 37,184 | <b>149,216</b> | 155,705 |
| Expenses                             | <b>26,902</b>      | 28,675 | <b>109,689</b> | 119,546 |
| Segment profit <sup>(1)</sup>        | <b>8,302</b>       | 8,509  | <b>39,527</b>  | 36,159  |
| Segment profit margin <sup>(1)</sup> | <b>24%</b>         | 23%    | <b>26%</b>     | 23%     |

<sup>(1)</sup>As defined in the "Key Performance Indicators" section

Revenues decreased 5% in the fourth quarter of fiscal 2017 compared to the prior year and decreased 4% for the year. The decline in advertising revenues in the quarter compared to the prior year was driven by a slowdown in national sales and soft, though improving, local sales. Overall, the Ontario markets experienced a difficult quarter with Toronto bearing the majority of the national sales slowdown, offset by continued strong double-digit growth in Ottawa. In the West, soft economic conditions persisted in Alberta, which was offset by growing momentum in Vancouver, particularly in local sales.

Direct cost of sales, general and administrative expenses decreased 6% in the fourth quarter of fiscal 2017 and 8% for the year. The significant decrease in general and administrative costs is mainly attributable to the realization of cost synergies discussed below.

Radio's segment profit decreased 2% in the fourth quarter of fiscal 2017, but increased 9% for the year. Segment profit margin of 24% in the quarter and 26% for the year was an improvement compared to 23% for both the prior quarter and year. On April 1, 2016, in conjunction with the Shaw Media acquisition, the Company announced a new organizational structure that benefits from the combined power of the Company's radio operations and its conventional television stations to create a strong presence in local advertising – across radio, TV and digital. Accordingly, fiscal 2017 results reflect the continued realization of cost synergies derived from these efforts.

Subsequent to the quarter, the Summer PPM audience ratings were released, with solid results and gains in key markets. Highlights in the Adults 25-54 demographic segment since the Spring PPM ratings book include the following: in Calgary, Country 105 strengthened its number one position; in Edmonton, CISM Country 103.9 and 630 CHED maintained their number three and five positions, respectively, and Fresh 92.5 gained five ranked positions to number eight; in Vancouver, Rock 101 maintained its number three ranked position and CFOX declined slightly to the number four ranked position; ; and, Toronto's Q107 saw a significant share gain, moving up two ranked positions to number four, while 102.1 The Edge also saw improvement, moving up a ranked position to number eight.

## CORPORATE

The Corporate results are comprised of the incremental cost of corporate overhead in excess of the amount allocated to the operating divisions.

### Financial Highlights

|                                        | Three months ended |       | Year ended |        |
|----------------------------------------|--------------------|-------|------------|--------|
|                                        | August 31,         |       | August 31, |        |
| (thousands of Canadian dollars)        | 2017               | 2016  | 2017       | 2016   |
| Share-based compensation               | 2,589              | 1,269 | 8,266      | 4,085  |
| Other general and administrative costs | 5,365              | 8,686 | 17,545     | 25,285 |
|                                        | 7,954              | 9,955 | 25,811     | 29,370 |

Share-based compensation includes expenses related to the Company's stock options and other long-term incentive plans (such as Performance Share Units - "PSUs", Deferred Share Units - "DSUs", and Restricted Share Units - "RSUs"). The expense fluctuates with changes in assumptions, primarily regarding the Company's share price and number of units estimated to vest.

The increase in share-based compensation expense in the fourth quarter of fiscal 2017 is due to a year-over-year increase in share price. Higher share-based compensation expense for the year ended August 31, 2017 reflects an expanded number of participants in the long-term incentive plans, an increase in the number of units estimated to hit vesting targets, and a higher share price in the current year.

Other general and administrative costs were lower in the fourth quarter of fiscal 2017 and the year, reflecting realization of cost synergies related to corporate centralized services that support operating divisions such as information technology, facilities, human resources and finance.

## QUARTERLY CONSOLIDATED FINANCIAL INFORMATION

### Seasonal fluctuations

As discussed in Management's Discussion and Analysis for the year ended August 31, 2016, Corus' operating results are subject to seasonal fluctuations that can significantly impact quarter-to-quarter operating results. The Company's advertising revenues are dependent on general advertising revenues and retail cycles associated with consumer spending activity, accordingly the first and third quarter results tend to be the strongest and second and fourth quarter results tend to be the weakest in a fiscal year. The Company's merchandising and distribution revenues are dependent on the number and timing of film and television programs delivered as well as the timing and level of success achieved of associated merchandise licensed in the market, which cannot be predicted with certainty. Consequently, the Company's results may fluctuate materially from period-to-period and the results of any one period are not necessarily indicative of results for future periods.

The following table sets forth certain unaudited data derived from the Company's interim condensed consolidated financial statements for each of the eight most recent quarters ended August 31, 2017. In Management's opinion, these unaudited interim condensed consolidated financial statements have been prepared on a basis consistent with the audited consolidated financial statements in the Company's Annual Report for the year ended August 31, 2016.

(thousands of Canadian dollars, except per share amounts)

| (thousands of Canadian dollars, except per share amounts) |          |                               |                                                |                                                  | Earnings per share |        |           |                |
|-----------------------------------------------------------|----------|-------------------------------|------------------------------------------------|--------------------------------------------------|--------------------|--------|-----------|----------------|
|                                                           | Revenues | Segment profit <sup>(1)</sup> | Net income (loss) attributable to shareholders | Adjusted net income attributable to shareholders |                    | Basic  | Diluted   | Adjusted basic |
| 2017                                                      |          |                               |                                                |                                                  |                    |        |           |                |
| 4th quarter                                               | 381,212  | 107,601                       | 28,919                                         | 43,944                                           | \$                 | 0.14   | \$ 0.14   | \$ 0.22        |
| 3rd quarter                                               | 461,628  | 175,813                       | 66,719                                         | 70,141                                           | \$                 | 0.33   | \$ 0.33   | \$ 0.35        |
| 2nd quarter                                               | 368,187  | 102,683                       | 24,881                                         | 25,577                                           | \$                 | 0.12   | \$ 0.12   | \$ 0.13        |
| 1st quarter                                               | 467,981  | 191,986                       | 71,146                                         | 80,826                                           | \$                 | 0.36   | \$ 0.36   | \$ 0.41        |
| 2016                                                      |          |                               |                                                |                                                  |                    |        |           |                |
| 4th quarter                                               | 384,467  | 105,371                       | 25                                             | 14,535                                           | \$                 | —      | \$ —      | \$ 0.07        |
| 3rd quarter                                               | 360,824  | 130,186                       | (15,766)                                       | 52,950                                           | \$                 | (0.10) | \$ (0.10) | \$ 0.34        |
| 2nd quarter                                               | 197,705  | 79,579                        | 102,232                                        | 20,944                                           | \$                 | 1.17   | \$ 1.17   | \$ 0.24        |
| 1st quarter                                               | 228,318  | 95,878                        | 41,320                                         | 42,484                                           | \$                 | 0.47   | \$ 0.47   | \$ 0.49        |

<sup>(1)</sup> As defined in "Key Performance Indicators".

### Significant items causing variations in quarterly results

- Net income attributable to shareholders for the fourth quarter of fiscal 2017 was negatively impacted by business acquisition, integration and restructuring costs of \$13.3 million (\$0.05 per share) and investment impairments of \$5.3 million (\$0.03 per share).
- Net income attributable to shareholders for the third quarter of fiscal 2017 was negatively impacted by business acquisition, integration and restructuring costs of \$4.6 million (\$0.02 per share).
- Net income attributable to shareholders for the second quarter of fiscal 2017 was negatively impacted by business acquisition, integration and restructuring costs of \$0.9 million (\$0.01 per share).
- Net income attributable to shareholders for the first quarter of fiscal 2017 was negatively impacted by business acquisition, integration and restructuring costs of \$13.2 million (\$0.05 per share).
- Net income attributable to shareholders for the fourth quarter of fiscal 2016 was negatively impacted by business acquisition, integration and restructuring costs of \$19.6 million (\$0.07 per share).
- Revenues, segment profit and net income attributable to shareholders for the third quarter of fiscal 2016 was positively impacted by the Acquisition and inclusion of its operating results effective April 1, 2016; however, it was negatively impacted by the shutdown of the Pay TV business effective February 29, 2016. Net income attributable to shareholders for the third quarter of fiscal 2016 was also negatively impacted by business acquisition, integration and restructuring costs of \$29.3 million (\$0.15 per share) and debt refinancing costs of \$61.2 million (\$0.29 per share).
- Net income attributable to shareholders for the second quarter of fiscal 2016 was positively impacted by a gain of \$86.2 million (\$0.87 per share) resulting from the disposition of assets relating to the Pay TV business, amortization ceasing on certain programming assets disposed of at the end of the quarter of \$14.2 million (\$0.12 per share), and negatively impacted by restructuring costs of \$6.0 million (\$0.06 per share).
- Net income attributable to shareholders for the first quarter of fiscal 2016 was negatively impacted by business acquisition, integration and restructuring costs of \$2.4 million (\$0.03 per share) and positively impacted by amortization ceasing on certain programming assets reclassified as held for disposal of \$1.4 million (\$0.01 per share).

## RISKS AND UNCERTAINTIES

The significant risks and uncertainties affecting the Company and its business are discussed in the Company's August 31, 2016 Annual Report under the "Risks and Uncertainties" section. There has been the following change in the risks or uncertainties facing the Company since that date.

### *Risks related to Reconsideration of Group Based Licensing Decisions ("GBL")*

On May 15, 2017, the Canadian Radio-Television and Telecommunications Commission ("CRTC") issued its license renewal decisions for TV licenses held by Corus. The Canadian Programming Expenditure ("CPE") requirement for Corus' English-language services were set at 30% and expenditures towards programs national interest ("PNI") were set at 5%. The CPE for Corus' French-language group of services were set at 26% and the PNI requirement was set at 15%.

Following the GBL renewal decisions in May 2017, a number of parties in the creative community appealed the decisions to Cabinet.

On August 30, 2017, the CRTC requested the large media groups to file information and/or amend their original applications. The rehearing is expected sometime in 2018 with decisions to be issued prior to the 2018-2019 broadcast year. The CRTC clarified that for the 2017-2018 broadcast year, the May 2017 GBL decisions will apply without modification.

The potential outcome of the process is difficult to predict and as such, Corus is unable to quantify the potential impacts at the present time. More information can be found at [www.crtc.gc.ca](http://www.crtc.gc.ca).

## FINANCIAL POSITION

Total assets at August 31, 2017 remained consistent with August 31, 2016 at \$6.1 billion. The following discussion describes the significant changes in the consolidated statements of financial position since August 31, 2016.

Current assets at August 31, 2017 were \$525.4 million, down \$55.3 million from August 31, 2016.

Cash and cash equivalents increased by \$22.3 million. Refer to the discussion of cash flows in the next section.

Accounts receivable increased \$28.6 million during the year. The accounts receivable balance is subject to seasonal trends. Typically, the balance is higher in the first and third quarters and lower in the second and fourth quarters as a result of the broadcast revenue seasonality. The Company carefully monitors the aging of its accounts receivable.

Tax credits receivable decreased \$1.7 million during the year as a result of tax credit receipts exceeding accruals related to film and interactive productions.

Investments and other assets increased \$17.8 million during the year, primarily as a result of additional investments in Venture funds and unrealized gains on interest rate swaps, offset by equity losses from associates and impairment charges on certain investments.

Property, plant and equipment decreased \$22.0 million during the year, as a result of depreciation expense exceeding additions for the year ended August 31, 2017.

Program and film rights decreased \$33.9 million during the year, as additions of acquired rights of \$476.8 million were offset by amortization of \$510.7 million.

Film investments decreased \$4.4 million during the year, as film amortization of \$24.0 million was offset by film spending (net of tax credit accruals) of \$19.6 million.

Intangibles decreased \$30.4 million during the year, primarily as a result of amortization of finite life intangibles exceeding additions. Goodwill decreased \$3.0 million from August 31, 2016 as a result of the working capital settlement on the Acquisition.

Accounts payable and accrued liabilities increased \$22.3 million during the year, primarily as a result of higher accruals for program rights, film production, trade mark liabilities, and dividends payable, offset by lower accrued liabilities. The decrease in accrued liabilities relate primarily to the reduction in the short-term portion of tangible benefits, other working capital accruals, offset by higher short-term compensation accruals.

Provisions, including the long-term portion, at August 31, 2017 was \$27.5 million compared to \$30.3 million at August 31, 2016. The decrease of \$2.8 million from August 31, 2016 is a result of payments made related to restructuring exceeding additions, which included the addition of an onerous premise lease provision during fiscal 2017.

Long-term debt, including the current portion, as at August 31, 2017 was \$2,091.6 million compared to \$2,196.0

million as at August 31, 2016. As at August 31, 2017 the \$172.5 million classified as the current portion of long-term debt reflects the mandatory repayment on the debt in the next twelve months. During the year ended August 31, 2017, the Company repaid bank loans of \$110.8 million and amortized \$6.3 million of deferred financing charges.

Other long-term liabilities decreased by \$88.4 million during the year, primarily from decreases in long-term program rights payable, registered and non-registered pension obligations, the fair value of the interest rate swaps, intangible liabilities, and CRTC benefit obligations, offset by an increase in long-term employee obligations and unearned revenues.

Share capital increased \$123.3 million, primarily as a result of the issuance of shares from treasury under the Company's dividend reinvestment plan. Contributed surplus increased \$1.0 million due to share-based compensation expense.

## **LIQUIDITY AND CAPITAL RESOURCES**

### ***Cash flows***

Overall, the Company's cash and cash equivalents position increased by \$15.7 million in the fourth quarter of fiscal 2017 and increased by \$22.3 million over the prior year. Free cash flow for the three months and year ended August 31, 2017 was \$80.2 million and \$292.7 million, respectively, compared to free cash flow of \$61.4 million and \$188.2 million in the comparable periods of the prior year. A reconciliation of free cash flow to the consolidated statements of cash flows is provided in the Key Performance Indicators section.

Cash flow from operating activities for the three months and year ended August 31, 2017 was \$89.1 million and \$298.1 million, respectively, compared to \$73.0 million and \$200.2 million in the comparable periods of the prior year. The increase in the current quarter and fiscal year arises from higher cash flow from operations, primarily as a result of the Acquisition, offset by lower cash provided by working capital.

Cash used in investing activities for the three months and year ended August 31, 2017 was \$10.9 million and \$20.9 million, respectively, compared to \$8.1 million and \$1,658.4 million in the comparable periods of the prior year. In the fourth quarter of fiscal 2017, the higher cash used in investing activities is a result of a higher spend on capital assets, offset by a return of capital from a venture fund. The decrease in the current fiscal year is primarily due to the significant M&A activity in the prior year, specifically, the acquisition of Shaw Media of \$1.8 billion in the third quarter of fiscal 2016, offset by the net cash proceeds received from Bell relating to the shutdown of the Pay TV business of \$209.5 million in the second quarter of fiscal 2016 (refer to note 27 of the audited consolidated financial statements for the year ended August 31, 2016, filed on SEDAR at [www.sedar.com](http://www.sedar.com), for further details).

Cash used in financing activities in the three months and year ended August 31, 2017 was \$62.6 million and \$254.9 million, respectively, compared to cash used of \$61.2 million and provided by \$1,492.1 million in the comparable periods of the prior year. In the fourth quarter of fiscal 2017, the Company decreased bank debt by \$25.1 million, paid cash dividends of \$35.4 million and made capital lease payments of \$2.3 million. For the year ended August 31, 2016, the Company decreased bank debt by \$110.7 million, paid cash dividends of \$141.1 million and made capital lease payments of \$3.2 million. In fiscal 2016, the Company decreased bank debt in the quarter by \$28.1 million and increased bank debt for the full year by \$1,959.2 million, raised \$276.5 million from the issuance of subscription receipts, redeemed Notes for \$605.7 million (inclusive of redemption premium), paid dividends in the quarter and year of \$32.0 million and \$109.5 million, respectively, incurred debt refinancing costs of \$55.7 million, incurred financing fees in the year of \$23.6 million, and made capital lease payments in the quarter and year of \$1.2 million and \$4.8 million, respectively.

### ***Liquidity***

The Company's capital management objectives are to maintain financial flexibility in order to pursue its strategy of organic growth combined with strategic acquisitions and to provide returns to its shareholders. The Company defines capital as the aggregate of its shareholders' equity and long-term debt less cash and cash equivalents.

The Company manages its capital structure in accordance with changes in economic conditions. In order to maintain or adjust its capital structure, the Company may elect to issue or repay long-term debt, issue shares, repurchase shares through a normal course issuer bid, pay dividends or undertake any other activities as deemed appropriate under the specific circumstances.

The Company monitors capital using several key performance metrics, including: net debt to segment profit ratio and dividend yield. The Company's stated long-term objectives are a leverage target (net debt to segment profit ratio) of 3.0 to 3.5 times, and to maintain a dividend yield in excess of 2.5%. In the short term, the Company may

permit the long-term leverage range to be exceeded (for long-term investment opportunities), but endeavours to return to the leverage target range as the Company believes that these objectives provide a reasonable framework for providing a return to shareholders and is supportive of maintaining the Company's credit ratings. The Company is currently operating within these internally imposed objectives.

As at August 31, 2017, the Company had available approximately \$300.0 million under the Revolving Facility, all of which could be drawn, and was in compliance with all loan covenants. As at August 31, 2017, the Company had a net cash balance of \$93.7 million.

For further details on the credit facilities established on April 1, 2016 refer to note 9 of the Company's interim condensed consolidated financial statements in the Fourth Quarter 2017 Report to Shareholders, filed on SEDAR at [www.sedar.com](http://www.sedar.com).

Management believes that cash flow from operations and existing credit facilities will provide the Company with sufficient financial resources to fund its operations for the next 12 months.

#### ***Net debt to segment profit***

As at August 31, 2017, net debt was \$1,997.9 million, down from \$2,124.7 million at August 31, 2016. Net debt to segment profit at August 31, 2017 was 3.46 times, down from 5.17 times (3.83 times on a pro forma basis at August 31, 2016). Further discussion on this is contained in the Key Performance Indicators section.

#### ***Total capitalization***

As at August 31, 2017, total capitalization was \$4,597.4 million compared to \$4,601.0 million, a decrease of \$3.6 million from August 31, 2016. The decrease is attributable to higher net debt resulting from the repayment of debt of \$104.4 million, offset by the increase in cash of \$22.3 million and the issuance of \$123.1 million of shares from treasury under the Company's dividend reinvestment plan.

#### ***Off-Balance Sheet arrangements and derivative financial instruments***

During the third quarter of fiscal 2016, the Company entered into interest rate swap agreements to fix the interest rate on the majority of its outstanding term loan facilities. The counterparties of the swap agreements are highly rated financial institutions and the Company does not anticipate any non-performance. The fair value of future cash flows of interest rate swap derivatives change with fluctuations in market interest rates. The estimated fair value of these agreements as at August 31, 2017 is \$23.0 million, which has been recorded in the interim condensed consolidated statements of financial position in other assets.

### **KEY PERFORMANCE INDICATORS**

The Company measures the success of its strategies using a number of key performance indicators. These have been outlined in Management's Discussion and Analysis contained in the Annual Report for the year ended August 31, 2016, including a discussion as to their relevance, definitions, calculation methods and underlying assumptions.

In particular, segment profit is calculated as revenues less direct cost of sales, general and administrative expenses as reported in the Company's consolidated statements of income and retained earnings. Segment profit is calculated by dividing segment profit by revenues. Segment profit and segment profit margin may be calculated and presented for an individual operating segment, or for the consolidated Company. The Company believes segment profit is an important measure as it allows the Company to evaluate the operating performance of its business segments and its ability to service and/or incur debt; therefore, it is calculated before (i) non-cash expenses such as depreciation and amortization; (ii) interest expense; and (iii) items not indicative of the Company's core operating results, and not used in management's evaluation of the business segment's performance, such as: goodwill and broadcast license impairment; significant intangible asset impairments; debt refinancing; non-cash gains or losses and certain other income and expenses (note 13 to the Company's interim condensed consolidated financial statements in the Fourth Quarter 2017 Report to Shareholders, filed on [www.sedar.com](http://www.sedar.com)). Segment profit is also one of the measures used by the investing community to value the Company and is included in note 15 to the Company's interim condensed consolidated financial statements. Segment profit and segment profit margin do not have any standardized meaning prescribed by International Financial Reporting Standards ("IFRS") and are not necessarily comparable to similar measures presented by other companies.

Certain key performance indicators are not measurements in accordance with IFRS and should not be considered as an alternative to net income or any other measure of performance under IFRS. The following tables reconcile those key performance indicators that are not in accordance with IFRS measures:

### Adjusted segment profit and adjusted segment profit margin

Adjusted segment profit margin is calculated by dividing adjusted segment profit by revenues. Adjusted segment profit and adjusted segment profit margin do not have any standardized meaning prescribed by IFRS and are not necessarily comparable to similar measures presented by other companies. Adjusted segment profit and adjusted segment profit margin should not be considered in isolation or as a substitute for net income prepared in accordance with IFRS as issued by the IASB.

For fiscal 2016, adjusted segment profit is calculated as segment profit less amortization of Pay TV programming assets if they had not been reclassified as held for sale as at November 19, 2015.

| (thousands of Canadian dollars)                     | Three months ended |                | Year ended     |                |
|-----------------------------------------------------|--------------------|----------------|----------------|----------------|
|                                                     | August 31,         |                | August 31,     |                |
|                                                     | 2017               | 2016           | 2017           | 2016           |
| <b>Adjusted segment profit</b>                      |                    |                |                |                |
| Reported segment profit                             | 107,601            | 105,371        | 578,083        | 411,014        |
| <b>Adjustments:</b>                                 |                    |                |                |                |
| Amortization not taken on Pay TV assets disposed of | —                  | —              | —              | (15,585)       |
| <b>Adjusted segment profit</b>                      | <b>107,601</b>     | <b>105,371</b> | <b>578,083</b> | <b>395,429</b> |
| <b>Adjusted segment profit margin</b>               | <b>28%</b>         | <b>27%</b>     | <b>34%</b>     | <b>34%</b>     |

### Free cash flow

Free cash flow is calculated as cash provided by operating activities less cash used in investing activities, as reported in the consolidated statements of cash flows, and then adding back cash used specifically for business combinations and strategic investments and deducting net proceeds from dispositions. Free cash flow is a key metric used by the investing community that measures the Company's ability to repay debt, finance strategic business acquisitions and investments, pay dividends, and repurchase shares. Free cash flow does not have any standardized meaning prescribed by IFRS and is not necessarily comparable to similar measures presented by other companies. Free cash flow should not be considered in isolation or as a substitute for cash flows prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB").

| (thousands of Canadian dollars)                                                                           | Three months ended |               | Year ended     |                    |
|-----------------------------------------------------------------------------------------------------------|--------------------|---------------|----------------|--------------------|
|                                                                                                           | August 31,         |               | August 31,     |                    |
|                                                                                                           | 2017               | 2016          | 2017           | 2016               |
| Cash provided by (used in):                                                                               |                    |               |                |                    |
| Operating activities                                                                                      | 89,114             | 73,013        | 298,133        | 200,227            |
| Investing activities                                                                                      | (10,850)           | (8,075)       | (20,908)       | (1,658,427)        |
|                                                                                                           | <b>78,264</b>      | <b>64,938</b> | <b>277,225</b> | <b>(1,458,200)</b> |
| Add back: cash used for (provided from) business combinations and strategic investments <sup>(1)(2)</sup> | 1,938              | (3,541)       | 15,435         | 1,646,365          |
| <b>Free cash flow</b>                                                                                     | <b>80,202</b>      | <b>61,397</b> | <b>292,660</b> | <b>188,165</b>     |

<sup>(1)</sup> Strategic investments are comprised of investments in venture funds and associated companies.

<sup>(2)</sup> Adjusted to remove the impact of disposing the Pay TV business.

Free cash flow in the current year reflects the inclusion of the Shaw Media business, while the prior year only includes five months of the Shaw Media business from the date of Acquisition.

### Adjusted net income and adjusted basic earnings per share

In addition to disclosing results in accordance with IFRS as issued by the IASB, the Company also provides supplementary non-IFRS measures as a method of evaluating the Company's performance. Management uses adjusted net income and adjusted basic earnings per share as a measure of enterprise-wide performance. Adjusted net income and adjusted basic earnings per share are defined as net income and basic earnings per share before items such as: non-recurring gains or losses related to acquisitions and/or dispositions of investments; costs of debt refinancing; non-cash impairment charges; and business acquisition, integration and restructuring costs. Management believes that adjusted net income and adjusted basic earnings per share

are useful measures that facilitate period-to-period operating comparisons. Adjusted net income and adjusted basic earnings per share do not have any standardized meaning prescribed by IFRS and are not necessarily comparable to similar measures presented by other companies. Adjusted net income and adjusted basic earnings per share should not be considered in isolation or as a substitute for net income prepared in accordance with IFRS as issued by the IASB.

**Adjusted net income and adjusted basic earnings per share reconciliation**

|                                                           | Three months ended |        | Year ended     |          |
|-----------------------------------------------------------|--------------------|--------|----------------|----------|
|                                                           | August 31,         |        | August 31,     |          |
| (thousands of Canadian dollars, except per share amounts) | 2017               | 2016   | 2017           | 2016     |
| <b>Net income attributable to shareholders</b>            | <b>28,919</b>      | 25     | <b>191,665</b> | 125,931  |
| <b>Adjustments, net of income tax:</b>                    |                    |        |                |          |
| Gain on disposal of Pay TV assets                         | —                  | —      | —              | (76,631) |
| Amortization of Pay TV assets                             | —                  | —      | —              | (11,455) |
| Investment in associates impairment                       | <b>5,250</b>       | —      | <b>5,250</b>   | —        |
| Business acquisition, integration and restructuring costs | <b>9,775</b>       | 14,510 | <b>23,573</b>  | 46,171   |
| Debt refinancing costs                                    | —                  | —      | —              | 45,017   |
| <b>Adjusted net income attributable to shareholders</b>   | <b>43,944</b>      | 14,535 | <b>220,488</b> | 129,033  |
| <b>Basic earnings per share</b>                           | <b>\$0.14</b>      | \$0.00 | <b>\$0.95</b>  | \$0.96   |
| <b>Adjustments, net of income tax:</b>                    |                    |        |                |          |
| Gain on disposal of Pay TV assets                         | —                  | —      | —              | (0.58)   |
| Amortization of Pay TV assets                             | —                  | —      | —              | (0.09)   |
| Investment in associates impairment                       | <b>0.03</b>        | —      | <b>0.03</b>    | —        |
| Business acquisition, integration and restructuring costs | <b>0.05</b>        | 0.07   | <b>0.12</b>    | 0.35     |
| Debt refinancing costs                                    | —                  | —      | —              | 0.34     |
| <b>Adjusted basic earnings per share</b>                  | <b>\$0.22</b>      | \$0.07 | <b>\$1.10</b>  | \$0.98   |

**Net debt and net debt to segment profit**

Net debt is calculated as long-term debt less cash and cash equivalents as reported in the consolidated statements of financial position. Net debt is an important measure as it reflects the principal amount of debt owing by the Company as at a particular date. Net debt to segment profit is an important measure of the Company's liquidity. Net debt and net debt to segment profit do not have any standardized meaning prescribed by IFRS and are not necessarily comparable to similar measures presented by other companies.

|                                                     | As at August 31, | As at August 31, |
|-----------------------------------------------------|------------------|------------------|
| (thousands of Canadian dollars)                     | 2017             | 2016             |
| Total bank loans, net of unamortized financing fees | <b>2,091,580</b> | 2,196,020        |
| Cash and cash equivalents                           | <b>(93,701)</b>  | (71,363)         |
| <b>Net debt</b>                                     | <b>1,997,879</b> | 2,124,657        |

### Net debt to segment profit

Net debt to segment profit is calculated as net debt divided by segment profit. It is one of the key metrics used by the investing community to measure the Company's ability to repay debt through ongoing operations. Net debt to segment profit does not have any standardized meaning prescribed by IFRS and is not necessarily comparable to similar measures presented by other companies.

| (thousands of Canadian dollars)             | As at August 31,<br>2017 | As at August 31,<br>2016 |
|---------------------------------------------|--------------------------|--------------------------|
| Net debt (numerator)                        | 1,997,879                | 2,124,657                |
| Segment profit (denominator) <sup>(1)</sup> | 578,083                  | 411,014                  |
| <b>Net debt to segment profit</b>           | <b>3.46</b>              | <b>5.17</b>              |

<sup>(1)</sup> Reflects aggregate amounts for the most recent four quarters, as detailed in the table in the "Quarterly Consolidated Financial Information" section.

As at August 31, 2017, net debt was \$1,997.9 million, down from \$2,124.7 million as at August 31, 2016. Net debt to segment profit as at August 31, 2017 was 3.46 times compared to 5.17 times as at August 31, 2016. Segment profit for the net debt to segment profit calculation reflects aggregate amounts as reported by the Company for the most recent four quarters; however, fiscal 2016 does not include segment profit from Shaw Media prior to April 1, 2016. The decrease from the prior year in net debt reflects debt repayments of \$110.7 million made during fiscal 2017. Adjusting segment profit in fiscal 2016 to include the Acquisition and exclude Pay TV for the last twelve months would result in a net debt to segment profit of 3.83 times.

## IMPACT OF NEW ACCOUNTING POLICIES

The International Accounting Standards Board ("IASB") continues to issue new and revised IFRS. A listing of the recent accounting pronouncements promulgated by the IASB and not yet adopted by the Company is included in note 3 in the Company's August 31, 2016 consolidated financial statements and note 3 in the Company's August 31, 2017 interim condensed consolidated financial statements.

### Changes in accounting policies

#### IAS 16 – Property, Plant and Equipment and IAS 38 – Intangibles

The Company has adopted the IASB issued amendments to IAS 16 and IAS 38, prohibiting the use of revenue-based depreciation for property, plant and equipment and significantly limiting the use of revenue-based amortization for intangible assets, effective September 1, 2016. Previously the Company used the individual-film-forecast-computation method to determine amortization of film investments, which is a revenue based amortization model. The Company has segregated its film investments into two categories: current productions and library or acquired productions. Current productions are considered library productions immediately subsequent to their initial availability for licensing as they are considered completed. Film investments are categorized as intangible assets by the Company, and therefore will continue to be presented in the statements of financial position as long-term assets.

Current productions have been amortized using a declining balance method at rates ranging from 50 – 75% at the time the episode is available for delivery and at annual rates ranging from 15 – 25% thereafter. Library and acquired content is amortized using a declining balance method at rates ranging from 10 – 25% annually. These amendments have been applied prospectively and resulted in no material impact on the consolidated financial statements.

## CONTROLS AND PROCEDURES

### Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred in the three month period ended August 31, 2017 that have materially affected, or are likely to materially affect, the Company's internal controls over financial reporting.

**CORUS ENTERTAINMENT INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

|                                                  | As at August 31,<br>2017 | As at August 31,<br>2016 |
|--------------------------------------------------|--------------------------|--------------------------|
| (unaudited - in thousands of Canadian dollars)   |                          |                          |
| <b>ASSETS</b>                                    |                          |                          |
| <b>Current</b>                                   |                          |                          |
| Cash and cash equivalents                        | 93,701                   | 71,363                   |
| Accounts receivable                              | 408,443                  | 379,861                  |
| Income taxes recoverable                         | 1,388                    | —                        |
| Prepaid expenses and other assets                | 21,870                   | 18,835                   |
| <b>Total current assets</b>                      | <b>525,402</b>           | <b>470,059</b>           |
| Tax credits receivable                           | 18,172                   | 19,860                   |
| Investments and other assets (note 4)            | 64,559                   | 46,759                   |
| Property, plant and equipment                    | 260,068                  | 282,105                  |
| Program rights (note 5)                          | 648,346                  | 682,268                  |
| Film investments (note 6)                        | 40,728                   | 45,164                   |
| Intangibles (note 7)                             | 2,045,813                | 2,076,237                |
| Goodwill                                         | 2,387,652                | 2,390,652                |
| Deferred income tax assets                       | 77,104                   | 80,281                   |
|                                                  | <b>6,067,844</b>         | <b>6,093,385</b>         |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>      |                          |                          |
| <b>Current</b>                                   |                          |                          |
| Accounts payable and accrued liabilities         | 415,661                  | 393,367                  |
| Current portion of long-term debt (note 9)       | 172,500                  | 115,000                  |
| Provisions (note 8)                              | 15,791                   | 21,390                   |
| Income taxes payable                             | —                        | 1,982                    |
| <b>Total current liabilities</b>                 | <b>603,952</b>           | <b>531,739</b>           |
| Long-term debt (note 9)                          | 1,919,080                | 2,081,020                |
| Other long-term liabilities                      | 442,349                  | 530,767                  |
| Provisions (note 8)                              | 11,707                   | 8,905                    |
| Deferred income tax liabilities                  | 491,235                  | 464,607                  |
| <b>Total liabilities</b>                         | <b>3,468,323</b>         | <b>3,617,038</b>         |
| <b>SHAREHOLDERS' EQUITY</b>                      |                          |                          |
| Share capital (note 10)                          | 2,291,814                | 2,168,543                |
| Contributed surplus                              | 11,449                   | 10,444                   |
| Retained earnings                                | 114,492                  | 142,499                  |
| Accumulated other comprehensive income (loss)    | 22,938                   | (3,569)                  |
| <b>Total equity attributable to shareholders</b> | <b>2,440,693</b>         | <b>2,317,917</b>         |
| Equity attributable to non-controlling interest  | 158,828                  | 158,430                  |
| <b>Total shareholders' equity</b>                | <b>2,599,521</b>         | <b>2,476,347</b>         |
|                                                  | <b>6,067,844</b>         | <b>6,093,385</b>         |

See accompanying notes

**CORUS ENTERTAINMENT INC.**  
**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**

|                                                                          | Three months ended<br>August 31, |                | Year ended<br>August 31, |                |
|--------------------------------------------------------------------------|----------------------------------|----------------|--------------------------|----------------|
| (unaudited - in thousands of Canadian dollars, except per share amounts) | 2017                             | 2016           | 2017                     | 2016           |
| Revenues                                                                 | 381,212                          | 384,467        | 1,679,008                | 1,171,314      |
| Direct cost of sales, general and administrative expenses (note 11)      | 273,611                          | 279,096        | 1,100,925                | 760,300        |
| Depreciation and amortization                                            | 22,807                           | 33,585         | 91,750                   | 73,969         |
| Interest expense (note 12)                                               | 38,121                           | 39,788         | 156,716                  | 110,862        |
| Debt refinancing                                                         | —                                | —              | —                        | 61,248         |
| Business acquisition, integration and restructuring costs                | 13,265                           | 19,559         | 31,983                   | 57,198         |
| Gain on disposition                                                      | —                                | —              | —                        | (86,151)       |
| Other expense (income), net (note 13)                                    | (16,474)                         | 1,716          | (8,953)                  | 8,752          |
| Income before income taxes                                               | 49,882                           | 10,723         | 306,587                  | 185,136        |
| Income tax expense (note 14)                                             | 14,168                           | 2,218          | 82,498                   | 41,575         |
| <b>Net income for the period</b>                                         | <b>35,714</b>                    | <b>8,505</b>   | <b>224,089</b>           | <b>143,561</b> |
| <b>Net income attributable to:</b>                                       |                                  |                |                          |                |
| Shareholders                                                             | 28,919                           | 25             | 191,665                  | 125,931        |
| Non-controlling interest                                                 | 6,795                            | 8,480          | 32,424                   | 17,630         |
|                                                                          | 35,714                           | 8,505          | 224,089                  | 143,561        |
| <b>Earnings per share attributable to shareholders:</b>                  |                                  |                |                          |                |
| Basic                                                                    | \$0.14                           | \$0.00         | \$0.95                   | \$0.96         |
| Diluted                                                                  | \$0.14                           | \$0.00         | \$0.95                   | \$0.96         |
| <b>Net income for the period</b>                                         | <b>35,714</b>                    | <b>8,505</b>   | <b>224,089</b>           | <b>143,561</b> |
| <b>Other comprehensive income (loss), net of income taxes:</b>           |                                  |                |                          |                |
| <b>Items that may be reclassified subsequently to income:</b>            |                                  |                |                          |                |
| Unrealized foreign currency translation adjustment                       | (1,047)                          | 12             | (643)                    | (49)           |
| Unrealized change in fair value of available-for-sale investments        | (27)                             | (610)          | (298)                    | (620)          |
| Unrealized change in fair value of cash flow hedges                      | 17,385                           | (5,045)        | 27,448                   | (10,253)       |
| Actuarial gain (loss) on employee post-employment benefits               | (2,435)                          | (5,459)        | 6,874                    | (3,489)        |
|                                                                          | 13,876                           | (11,102)       | 33,381                   | (14,411)       |
| <b>Comprehensive income (loss) for the period</b>                        | <b>49,590</b>                    | <b>(2,597)</b> | <b>257,470</b>           | <b>129,150</b> |
| <b>Comprehensive income (loss) attributable to:</b>                      |                                  |                |                          |                |
| Shareholders                                                             | 42,795                           | (11,077)       | 225,046                  | 111,520        |
| Non-controlling interest                                                 | 6,795                            | 8,480          | 32,424                   | 17,630         |
|                                                                          | 49,590                           | (2,597)        | 257,470                  | 129,150        |

See accompanying notes

**CORUS ENTERTAINMENT INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

|                                                              | Share<br>capital | Contributed<br>surplus | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income (loss) | Total equity<br>attributable to<br>shareholders | Non-<br>controlling<br>interest | Total equity     |
|--------------------------------------------------------------|------------------|------------------------|----------------------|--------------------------------------------------------|-------------------------------------------------|---------------------------------|------------------|
| (unaudited - in thousands of Canadian dollars)               |                  |                        |                      |                                                        |                                                 |                                 |                  |
| At August 31, 2016                                           | 2,168,543        | 10,444                 | 142,499              | (3,569)                                                | 2,317,917                                       | 158,430                         | 2,476,347        |
| Comprehensive income                                         | —                | —                      | 191,665              | 33,381                                                 | 225,046                                         | 32,424                          | 257,470          |
| Dividends declared                                           | —                | —                      | (231,046)            | —                                                      | (231,046)                                       | (35,026)                        | (266,072)        |
| Issuance of shares under stock option plan                   | 154              | —                      | —                    | —                                                      | 154                                             | —                               | 154              |
| Issuance of shares under dividend reinvestment plan          | 123,117          | —                      | —                    | —                                                      | 123,117                                         | —                               | 123,117          |
| Actuarial gain on post-retirement benefit plans              | —                | —                      | 6,874                | (6,874)                                                | —                                               | —                               | —                |
| Share-based compensation expense                             | —                | 1,005                  | —                    | —                                                      | 1,005                                           | —                               | 1,005            |
| Reallocation of equity interest (note 17)                    | —                | —                      | 4,500                | —                                                      | 4,500                                           | 3,000                           | 7,500            |
| <b>At August 31, 2017</b>                                    | <b>2,291,814</b> | <b>11,449</b>          | <b>114,492</b>       | <b>22,938</b>                                          | <b>2,440,693</b>                                | <b>158,828</b>                  | <b>2,599,521</b> |
| At August 31, 2015                                           | 994,571          | 9,471                  | 191,182              | 7,353                                                  | 1,202,577                                       | 17,334                          | 1,219,911        |
| Comprehensive income                                         | —                | —                      | 125,931              | (14,411)                                               | 111,520                                         | 17,630                          | 129,150          |
| Dividends declared                                           | —                | —                      | (171,125)            | —                                                      | (171,125)                                       | (19,824)                        | (190,949)        |
| Issuance of shares under public equity offering              | 279,762          | —                      | —                    | —                                                      | 279,762                                         | —                               | 279,762          |
| Issuance of shares to related party                          | 833,541          | —                      | —                    | —                                                      | 833,541                                         | —                               | 833,541          |
| Existing non-controlling ownership interest from acquisition | —                | —                      | —                    | —                                                      | —                                               | 143,290                         | 143,290          |
| Issuance of shares under dividend reinvestment plan          | 60,669           | —                      | —                    | —                                                      | 60,669                                          | —                               | 60,669           |
| Actuarial gain on post-retirement benefit plans              | —                | —                      | (3,489)              | 3,489                                                  | —                                               | —                               | —                |
| Share-based compensation expense                             | —                | 973                    | —                    | —                                                      | 973                                             | —                               | 973              |
| At August 31, 2016                                           | 2,168,543        | 10,444                 | 142,499              | (3,569)                                                | 2,317,917                                       | 158,430                         | 2,476,347        |
| See accompanying notes                                       |                  |                        |                      |                                                        |                                                 |                                 |                  |

# CORUS ENTERTAINMENT INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

|                                                                       | Three months ended August 31, |                 | Year ended August 31, |                    |
|-----------------------------------------------------------------------|-------------------------------|-----------------|-----------------------|--------------------|
| (unaudited - in thousands of Canadian dollars)                        | 2017                          | 2016            | 2017                  | 2016               |
| <b>OPERATING ACTIVITIES</b>                                           |                               |                 |                       |                    |
| Net income for the period                                             | 35,714                        | 8,505           | 224,089               | 143,561            |
| Adjustments to reconcile net income to cash flow from operations:     |                               |                 |                       |                    |
| Amortization of program rights (note 5)                               | 119,707                       | 114,514         | 510,716               | 313,300            |
| Amortization of film investments (note 6)                             | 7,181                         | 8,800           | 23,958                | 22,690             |
| Depreciation and amortization                                         | 22,807                        | 33,585          | 91,750                | 73,969             |
| Deferred income taxes (recovery)                                      | —                             | (197)           | 17,109                | (22,554)           |
| Intangible and other assets impairment (recovery)                     | 5,250                         | (822)           | 5,250                 | (822)              |
| Share-based compensation expense                                      | 373                           | 304             | 1,005                 | 973                |
| Imputed interest (note 12)                                            | 12,324                        | 12,523          | 51,519                | 45,429             |
| Debt refinancing costs                                                | —                             | —               | —                     | 61,248             |
| Gain on disposition                                                   | —                             | —               | —                     | (86,151)           |
| Payment of program rights                                             | (134,060)                     | (129,067)       | (509,979)             | (344,855)          |
| Net additions to film investments                                     | (7,045)                       | 2,086           | (24,579)              | (29,616)           |
| CRTC benefit payment                                                  | (12,159)                      | (17,213)        | (29,740)              | (25,740)           |
| Other                                                                 | 734                           | 1,423           | 2,969                 | 5,566              |
| <b>Cash flow from operations</b>                                      | <b>50,826</b>                 | <b>34,441</b>   | <b>364,067</b>        | <b>156,998</b>     |
| Net change in non-cash working capital balances related to operations | 36,977                        | 38,572          | (65,934)              | 43,229             |
| <b>Cash provided by operating activities</b>                          | <b>87,803</b>                 | <b>73,013</b>   | <b>298,133</b>        | <b>200,227</b>     |
| <b>INVESTING ACTIVITIES</b>                                           |                               |                 |                       |                    |
| Additions to property, plant and equipment                            | (13,422)                      | (11,594)        | (26,989)              | (22,550)           |
| Net proceeds from disposition                                         | —                             | —               | —                     | 209,474            |
| Business combinations, net of acquired cash                           | —                             | 11,871          | 3,000                 | (1,827,452)        |
| Proceeds from disposition of non-controlling interest                 | —                             | —               | 5,250                 | —                  |
| Proceeds from disposition of investment                               | 4,122                         | —               | 4,122                 | 1,684              |
| Net cash flows for intangibles, investments and other assets          | (1,550)                       | (8,352)         | (6,291)               | (19,583)           |
| <b>Cash used in investing activities</b>                              | <b>(10,850)</b>               | <b>(8,075)</b>  | <b>(20,908)</b>       | <b>(1,658,427)</b> |
| <b>FINANCING ACTIVITIES</b>                                           |                               |                 |                       |                    |
| Increase (decrease) in bank loans                                     | (25,090)                      | (28,086)        | (110,706)             | 1,959,209          |
| Redemption of notes                                                   | —                             | —               | —                     | (550,000)          |
| Debt refinancing costs                                                | —                             | —               | —                     | (55,671)           |
| Financing fees                                                        | —                             | —               | —                     | (23,595)           |
| Share subscription, net of issuance costs                             | —                             | —               | —                     | 276,529            |
| Issuance of shares under stock option plan                            | 154                           | —               | 154                   | —                  |
| Dividends paid                                                        | (27,462)                      | (25,133)        | (106,062)             | (89,702)           |
| Dividends paid to non-controlling interest                            | (7,901)                       | (6,822)         | (35,026)              | (19,824)           |
| Other                                                                 | (2,275)                       | (1,171)         | (3,247)               | (4,805)            |
| <b>Cash provided by (used in) financing activities</b>                | <b>(62,574)</b>               | <b>(61,212)</b> | <b>(254,887)</b>      | <b>1,492,141</b>   |
| Net change in cash and cash equivalents during the period             | 14,379                        | 3,726           | 22,338                | 33,941             |
| Cash and cash equivalents, beginning of the period                    | 78,011                        | 67,637          | 71,363                | 37,422             |
| <b>Cash and cash equivalents, end of the period</b>                   | <b>92,390</b>                 | <b>71,363</b>   | <b>93,701</b>         | <b>71,363</b>      |
| Supplemental cash flow disclosures (note 16)                          |                               |                 |                       |                    |
| See accompanying notes                                                |                               |                 |                       |                    |

**CORUS ENTERTAINMENT INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**August 31, 2017**

(in thousands of Canadian dollars, except per share information)

**1. CORPORATE INFORMATION**

Corus Entertainment Inc. (the "Company" or "Corus") is a diversified Canadian communications and entertainment company. The Company is incorporated under the *Canada Business Corporations Act* and its Class B Non-Voting Shares are listed on the Toronto Stock Exchange (the "TSX") under the symbol CJR.B.

The Company's registered office is at 1500, 850 – 2<sup>nd</sup> Street SW, Calgary, Alberta, T2P 0R8. The Company's executive office is at Corus Quay, 25 Dockside Drive, Toronto, Ontario, M5A 0B5.

These interim condensed consolidated financial statements include the accounts of the Company and all its subsidiaries and joint ventures. The Company's principal business activities are: the operation of specialty television networks, conventional television stations, and pay television services (ceased operations February 29, 2016); the operation of radio stations; and the Corus content business, which consists of the production and distribution of films and television programs, merchandise licensing, book publishing and the production and distribution of animation software.

**2. STATEMENT OF COMPLIANCE**

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"). The accounting policies used in the preparation of these interim condensed consolidated financial statements conform with those in the Company's audited annual consolidated financial statements for the year ended August 31, 2016, except as described in note 3. These interim condensed consolidated financial statements do not include all the information and disclosures required in annual financial statements and, accordingly, should be read in conjunction with the Company's annual consolidated financial statements for the year ended August 31, 2016, which are available at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.corusent.com](http://www.corusent.com).

These interim condensed consolidated statements of the Company for the three months and year ended August 31, 2017 were authorized for issue in accordance with a resolution of the Company's Board of Directors on October 17, 2017.

**3. SIGNIFICANT ACCOUNTING POLICIES**

**Basis of presentation**

The interim condensed consolidated financial statements have been prepared on a cost basis, except for derivative financial instruments and certain available-for-sale financial assets, which have been measured at fair value. The interim condensed consolidated financial statements are presented in Canadian dollars which is also the Company's functional currency and all values are rounded to the nearest thousand, except where otherwise noted. Each entity consolidated by the Company determines its own functional currency based on the primary economic environment in which the entity operates.

**Changes in accounting policies**

*IAS 16 – Property, Plant and Equipment and IAS 38 – Intangibles*

The Company has adopted the IASB issued amendments to IAS 16 and IAS 38, prohibiting the use of revenue-based depreciation for property, plant and equipment and significantly limiting the use of revenue-based amortization for intangible assets, effective September 1, 2016. Previously, the Company used the individual-film-forecast-computation method to determine amortization of film investments, which is a revenue based amortization model. The Company has segregated its film investments into two categories: current productions and library or acquired productions. Current productions are considered library productions immediately subsequent to their initial availability for licensing as they are considered completed. Film investments are categorized as intangible assets by the Company and, therefore, will continue to be presented in the statements of financial position as long-term assets.

Current productions have been amortized using a declining balance method at rates ranging from 50 – 75% at the time the episode is available for delivery and at annual rates ranging from 15 – 25% thereafter. Library and acquired content is amortized using a declining balance method at rates ranging from 10 – 25%

**CORUS ENTERTAINMENT INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**August 31, 2017**

(in thousands of Canadian dollars, except per share information)

annually. These amendments have been applied prospectively and resulted in no material impact on the consolidated financial statements.

**Pending accounting changes**

*IFRS 9 – Financial Instruments: Classification and Measurement*

In July 2014, the IASB issued the final version of IFRS 9 – *Financial Instruments*, which reflects all phases of the financial instrument project and replaces IAS 39 – *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for recognition and measurement impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, which will be September 1, 2018 for Corus, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

*IFRS 15 – Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15, which replaces IAS 18 – *Revenues* and covers principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, which will be September 1, 2018 for Corus. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

*IFRS 16 – Leases*

On January 13, 2016, the IASB published a new standard, IFRS 16 – *Leases*. The new standard will eliminate the distinction between operating and finance leases and will bring most leases on to the balance sheet for lessees. This standard is effective for annual reporting periods beginning on or after January 1, 2019, which will be September 1, 2019 for Corus and is to be applied retrospectively. The Company has not yet determined the impact on its consolidated financial statements.

**4. INVESTMENTS AND OTHER ASSETS**

|                                   | Investments in<br>associates | Other assets  | Total         |
|-----------------------------------|------------------------------|---------------|---------------|
| Balance - August 31, 2016         | 15,483                       | 31,276        | 46,759        |
| Increase (decrease) in investment | (4,925)                      | 22,725        | 17,800        |
| <b>Balance - August 31, 2017</b>  | <b>10,558</b>                | <b>54,001</b> | <b>64,559</b> |

**5. PROGRAM RIGHTS**

|                                  |                |
|----------------------------------|----------------|
| Balance - August 31, 2016        | 682,268        |
| Net additions                    | 476,794        |
| Amortization                     | (510,716)      |
| <b>Balance - August 31, 2017</b> | <b>648,346</b> |

**6. FILM INVESTMENTS**

|                                  |               |
|----------------------------------|---------------|
| Balance - August 31, 2016        | 45,164        |
| Net additions                    | 19,522        |
| Amortization                     | (23,958)      |
| <b>Balance - August 31, 2017</b> | <b>40,728</b> |

**CORUS ENTERTAINMENT INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**August 31, 2017**

(in thousands of Canadian dollars, except per share information)

**7. INTANGIBLES**

|                                  | <b>Broadcast<br/>Licenses <sup>(1)</sup></b> | <b>Other <sup>(2)</sup></b> | <b>Total</b>     |
|----------------------------------|----------------------------------------------|-----------------------------|------------------|
| Balance - August 31, 2016        | 984,889                                      | 1,091,348                   | 2,076,237        |
| Net additions                    | —                                            | 12,439                      | 12,439           |
| Amortization                     | —                                            | (42,863)                    | (42,863)         |
| <b>Balance - August 31, 2017</b> | <b>984,889</b>                               | <b>1,060,924</b>            | <b>2,045,813</b> |

<sup>(1)</sup> Broadcast licenses are located in Canada.

<sup>(2)</sup> Other intangibles are comprised of brands, trade marks and software.

**8. PROVISIONS**

The continuity of provisions is as follows:

|                                  | <b>Restructuring</b> | <b>Onerous<br/>lease<br/>obligation</b> | <b>Asset<br/>retirement<br/>obligation</b> | <b>Other</b> | <b>Total</b>  |
|----------------------------------|----------------------|-----------------------------------------|--------------------------------------------|--------------|---------------|
| Balance - August 31, 2016        | 21,695               | —                                       | 8,015                                      | 585          | 30,295        |
| Additions                        | 24,255               | 7,336                                   | 392                                        | —            | 31,983        |
| Payments                         | (30,336)             | (4,444)                                 | —                                          | —            | (34,780)      |
| <b>Balance - August 31, 2017</b> | <b>15,614</b>        | <b>2,892</b>                            | <b>8,407</b>                               | <b>585</b>   | <b>27,498</b> |
| Current                          | 12,314               | 2,892                                   | —                                          | 585          | 15,791        |
| Long-term                        | 3,300                | —                                       | 8,407                                      | —            | 11,707        |
| <b>Balance - August 31, 2017</b> | <b>15,614</b>        | <b>2,892</b>                            | <b>8,407</b>                               | <b>585</b>   | <b>27,498</b> |

**9. LONG-TERM DEBT**

|                                     | <b>August 31,<br/>2017</b> | <b>August 31,<br/>2016</b> |
|-------------------------------------|----------------------------|----------------------------|
| Bank loans                          | <b>2,107,299</b>           | 2,218,055                  |
| Unamortized financing fees          | <b>(15,719)</b>            | (22,035)                   |
|                                     | <b>2,091,580</b>           | 2,196,020                  |
| Less: current portion of bank loans | <b>(172,500)</b>           | (115,000)                  |
|                                     | <b>1,919,080</b>           | 2,081,020                  |

Interest rates on the bank loans fluctuate with Canadian bankers' acceptances and/or LIBOR. As at August 31, 2017, the weighted average interest rate on the outstanding bank loans was 3.8% (2016 – 4.7%). Interest on the bank loans averaged 4.7% for both the three months and year ended August 31, 2017, respectively (2016 – 4.8% and 4.6%, includes Notes interest).

The banks hold, as collateral, a first ranking charge on all assets and undertakings of Corus and certain of Corus' subsidiaries as designated under the Amended and Restated Credit agreement dated April 1, 2016 (the "Facility"). Under the facility, the Company has undertaken to comply with financial covenants regarding a minimum interest coverage ratio and a maximum debt to cash flow ratio. Management has determined that the Company was in compliance with the covenants provided under the bank loans as at August 31, 2017.

**Credit facilities**

In connection with the closing of the Acquisition of Shaw Media (the "Acquisition"), Corus established syndicated senior secured credit facilities in the aggregate amount of \$2.6 billion consisting of \$2.3 billion

**CORUS ENTERTAINMENT INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**August 31, 2017**

(in thousands of Canadian dollars, except per share information)

in term loans (the "Term Facility"), all of which was fully drawn at closing, and a \$300.0 million revolving facility (the "Revolving Facility"), which was not drawn on as part of closing. The Term Facility and Revolving Facility replaced Corus' previous credit facilities and were established pursuant to a fourth amended and restated credit agreement dated as of April 1, 2016.

*Term Facility*

The Term Facility consists of two tranches, with the first tranche being in the initial amount of \$766.7 million and having a maturity of April 1, 2019, and the second tranche being in the initial amount of \$1,533.3 million and having a maturity of April 1, 2021. The Term Facility was available in a single Canadian dollar drawdown, and net proceeds from the Term Facility after deducting related fees and expenses were used (together with the net proceeds from the public equity offering and the concurrent private placement) to finance the Acquisition, to prepay the amount outstanding under its existing credit facilities and to redeem the senior unsecured guaranteed notes ("Notes").

Advances under the Term Facility may be outstanding in the form of either prime loans or bankers' acceptances and bear interest at the applicable reference rate plus an applicable margin depending on the type of advance and Corus' total debt to cash flow ratio.

Voluntary prepayments on the amount outstanding under the Term Facility are permitted at any time without penalty, subject to payment of customary breakage costs, if applicable, and provided that advances in the form of bankers' acceptances may only be paid on their maturity. Each tranche of the Term Facility will be subject to mandatory repayment equal to 1.25% per quarter at the end of each fiscal quarter of Corus, increasing to 1.875% per quarter commencing with the November 30, 2017 instalment and, in the case of the second tranche, to 2.5% per quarter commencing with the November 30, 2019 instalment.

*Revolving Facility*

The \$300.0 million Revolving Facility matures on April 1, 2020. The Revolving Facility is available on a revolving basis to finance permitted acquisitions and capital expenditures and for general corporate purposes. Amounts owing under the Revolving Facility will be payable in full at maturity. The Revolving Facility permits full or partial cancellation of the facility and, if applicable, concurrent prepayment of the amounts drawn thereunder at any time without penalty, subject to payment of customary breakage costs, if applicable, and provided that advances in the form of bankers' acceptances may only be paid on their maturity.

Advances under the Revolving Facility may be drawn in Canadian dollars as either a prime rate loan, bankers' acceptance or Canadian dollar denominated letters of credit (to a sub-limit of \$50.0 million total), or in U.S. dollars as either a base rate loan, U.S. LIBOR loan or U.S. dollar denominated letters of credit (to a sub-limit of \$50.0 million total). Amounts drawn under the Revolving Facility will bear interest at the applicable reference rate plus an applicable margin depending on the type of advance and Corus' total debt to cash flow ratio. A standby fee will also be payable on the unutilized amount of the Revolving Facility. As at August 31, 2017, all of the Revolving Facility was available and could be drawn.

**Swap agreements**

On May 31, 2016, the Company entered into Canadian interest rate swap agreements to fix the interest rate on \$457.0 million and \$1,414.0 million of its outstanding term loan facilities at 1.076% and 1.195%, respectively, plus applicable margins to February 28, 2019 and February 26, 2021. The notional value of these swaps reduces concurrently with the mandatory repayments of the Term Facility. The counterparties of the swap agreements are highly rated financial institutions and the Company does not anticipate any non-performance. The fair value of Level 2 financial instruments such as interest rate swap agreements is calculated by way of discounted cash flows, using market interest rates and applicable credit spreads. The Company has assessed that there is no ineffectiveness in the hedge of its interest rate exposure. As an effective hedge, unrealized gains or losses on the interest rate swap agreements are recognized in other comprehensive income. The estimated fair value of these agreements as at August 31, 2017 is \$23.0 million, which has been recorded in the consolidated statements of financial position in other assets. The effectiveness of the hedging relationship is reviewed on a quarterly basis.

On February 3, 2014, the Company entered into Canadian dollar interest rate swap agreements to fix the interest rate on the \$150.0 million Term Facility at 1.375%, plus an applicable margin, to February 3, 2016.

**CORUS ENTERTAINMENT INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**August 31, 2017**

(in thousands of Canadian dollars, except per share information)

This hedge was wound up on February 3, 2016.

**Redemption of 4.25% Senior Unsecured Guaranteed Notes Due 2020**

On April 18, 2016, the Company redeemed all of its outstanding \$550.0 million 4.25% senior unsecured guaranteed notes due 2020 (the "2020 Notes"). This redemption included accrued and unpaid interest on the 2020 Notes up to, but excluding, the redemption premium of \$52.6 million as well as the write-off of unamortized financing charges of \$4.8 million.

**10. SHARE CAPITAL**

**Authorized**

The Company is authorized to issue, upon approval of holders of no less than two-thirds of the existing Class A shares, an unlimited number of Class A participating shares ("Class A Voting Shares"), as well as an unlimited number of Class B non-voting participating shares ("Class B Non-Voting Shares"), Class A Preferred Shares, and Class 1 and Class 2 Preferred Shares.

|                                                                     | Voting Shares    |               | Non-Voting Shares  |                  | Total            |
|---------------------------------------------------------------------|------------------|---------------|--------------------|------------------|------------------|
|                                                                     | #                | \$            | #                  | \$               | \$               |
| Balance – August 31, 2016                                           | 3,425,792        | 26,529        | 192,997,999        | 2,142,014        | 2,168,543        |
| Conversion of Class A Voting Shares<br>to Class B Non-Voting Shares | (4,000)          | (31)          | 4,000              | 31               | —                |
| Issuance of shares under stock<br>option plan                       | —                | —             | 14,850             | 154              | 154              |
| Issuance of shares under dividend<br>reinvestment plan              | —                | —             | 9,818,652          | 123,117          | 123,117          |
| <b>Balance – August 31, 2017</b>                                    | <b>3,421,792</b> | <b>26,498</b> | <b>202,835,501</b> | <b>2,265,316</b> | <b>2,291,814</b> |

**Class B Share subscription receipts**

In connection with the Acquisition, on February 3, 2016, Corus completed a public equity offering (the "Equity Offering") of 25.4 million subscription receipts of Corus (the "Subscription Receipts") at a price of \$9.00 per Subscription Receipt, for gross proceeds of approximately \$228.6 million. On February 5, 2016, the underwriters in the Equity Offering exercised their option to purchase an additional 3.81 million Subscription Receipts at a price of \$9.00 per Subscription Receipt, for additional gross proceeds of approximately \$34.3 million, representing total gross proceeds from the Equity Offering of \$262.9 million. Concurrently with the closing of the Equity Offering, on February 3, 2016, the Shaw family also purchased 3.56 million Subscription Receipts on a private placement basis (the "Concurrent Private Placement") from Corus at a price of \$9.00 per Subscription Receipt, for gross proceeds of \$32.0 million. Issuance costs, net of tax of \$8.9 million and a subscription receipt adjustment payment of \$6.2 million were incurred, resulting in net proceeds of \$279.8 million.

The Class B Non-Voting Shares underlying the Subscription Receipts were issued on April 1, 2016 in connection with the completion of the Acquisition and the net proceeds from the Equity Offering and the Concurrent Private Placement (including accrued interest thereon) were applied by Corus to partially fund the cash consideration for the Acquisition.

**Earnings per share**

The following is a reconciliation of the numerator and denominator (in thousands) used for the computation of the basic and diluted earnings per share amounts:

**CORUS ENTERTAINMENT INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**August 31, 2017**

(in thousands of Canadian dollars, except per share information)

|                                                                    | Three months ended |         | Year ended     |         |
|--------------------------------------------------------------------|--------------------|---------|----------------|---------|
|                                                                    | August 31,         |         | August 31,     |         |
|                                                                    | 2017               | 2016    | 2017           | 2016    |
| <b>Net income attributable to shareholders (numerator)</b>         | <b>28,919</b>      | 25      | <b>191,665</b> | 125,931 |
| <b>Weighted average number of shares outstanding (denominator)</b> |                    |         |                |         |
| Weighted average number of shares outstanding - basic              | <b>202,256</b>     | 194,792 | <b>201,065</b> | 131,783 |
| Effect of dilutive securities                                      | <b>472</b>         | 210     | <b>304</b>     | 75      |
| <b>Weighted average number of shares outstanding - diluted</b>     | <b>202,728</b>     | 195,002 | <b>201,369</b> | 131,858 |

The calculation of diluted earnings per share for both the three months and year ended August 31, 2017 excluded 2,399 and 2,487, respectively (2016 – 2,493 and 2,509, respectively), weighted average Class B Non-Voting Shares issuable under the Company's Stock Option Plan because these options were not "in-the-money".

**Share-based compensation**

The following table provides additional information on the employee stock options, Performance Share Units ("PSUs"), Deferred Share Units ("DSUs"), and Restricted Share Units ("RSUs") as at :

|                                    | August 31, 2017  | August 31, 2016 |
|------------------------------------|------------------|-----------------|
| Outstanding employee stock options | <b>5,256,850</b> | 3,753,873       |
| Exercisable employee stock options | <b>2,282,125</b> | 1,637,123       |
| Outstanding PSUs                   | <b>1,236,831</b> | 1,025,934       |
| Outstanding DSUs                   | <b>1,141,741</b> | 1,002,367       |
| Outstanding RSUs                   | <b>406,700</b>   | 237,483         |

Share-based compensation expense recorded for the three months and year ended August 31, 2017 in respect of these plans was \$2,589 and \$8,266 (2016 – \$1,269 and \$4,085). As at August 31, 2017, the carrying value of the liability for PSU, DSU and RSU units was \$22,068 (August 31, 2016 – \$27,742).

**11. DIRECT COST OF SALES, GENERAL AND ADMINISTRATIVE EXPENSES**

|                                               | Three months ended |         | Year ended       |         |
|-----------------------------------------------|--------------------|---------|------------------|---------|
|                                               | August 31,         |         | August 31,       |         |
|                                               | 2017               | 2016    | 2017             | 2016    |
| <b>Direct cost of sales</b>                   |                    |         |                  |         |
| Amortization of program rights <sup>(1)</sup> | <b>119,707</b>     | 114,514 | <b>510,716</b>   | 313,300 |
| Amortization of film investments              | <b>7,181</b>       | 8,800   | <b>23,958</b>    | 22,690  |
| Other cost of sales                           | <b>9,605</b>       | 8,622   | <b>27,614</b>    | 22,450  |
| <b>General and administrative expenses</b>    |                    |         |                  |         |
| Employee costs                                | <b>85,801</b>      | 84,742  | <b>324,898</b>   | 232,583 |
| Other general and administrative              | <b>51,317</b>      | 62,418  | <b>213,739</b>   | 169,277 |
|                                               | <b>273,611</b>     | 279,096 | <b>1,100,925</b> | 760,300 |

<sup>(1)</sup> Certain of Corus' Pay Television business ("Pay TV") assets and liabilities were reclassified as held for disposal effective November 19, 2015. The Pay TV operating results remained in operations, however, amortization of program rights ceased on that date and as a consequence, amortization is lower for the year ended August 31, 2016 by \$15.6 million.

**CORUS ENTERTAINMENT INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**August 31, 2017**

(in thousands of Canadian dollars, except per share information)

**12. INTEREST EXPENSE**

|                                           | Three months ended |        | Year ended |         |
|-------------------------------------------|--------------------|--------|------------|---------|
|                                           | August 31,         |        | August 31, |         |
|                                           | 2017               | 2016   | 2017       | 2016    |
| Interest on long-term debt                | 25,313             | 26,690 | 103,054    | 63,340  |
| Imputed interest on long-term liabilities | 12,324             | 12,523 | 51,519     | 45,429  |
| Other                                     | 484                | 575    | 2,143      | 2,093   |
|                                           | 38,121             | 39,788 | 156,716    | 110,862 |

**13. OTHER EXPENSE (INCOME), NET**

|                           | Three months ended |       | Year ended |       |
|---------------------------|--------------------|-------|------------|-------|
|                           | August 31,         |       | August 31, |       |
|                           | 2017               | 2016  | 2017       | 2016  |
| Interest income           | (110)              | (145) | (1,045)    | (827) |
| Foreign exchange gain     | (19,568)           | (377) | (12,157)   | (339) |
| Equity loss of associates | 510                | 936   | 2,624      | 5,933 |
| Impairment (recovery)     | 5,250              | 58    | 5,250      | (822) |
| Venture fund distribution | (2,904)            | —     | (2,904)    | (533) |
| Other                     | 348                | 1,244 | (721)      | 5,340 |
|                           | (16,474)           | 1,716 | (8,953)    | 8,752 |

In the fourth quarter of 2017, the Company received cash proceeds of \$4,122 relating to the disposed investment, of which \$1,218 related to a return of capital, resulting in a gain of \$2,904. In the prior year, the Company received cash proceeds of \$1,684 relating to the disposed investment, of which \$1,151 related to a return on capital, resulting in a gain of \$533.

**14. INCOME TAXES**

The reconciliation of income taxes attributable to operations computed at the statutory rates to income tax expense for fiscal 2017 and 2016 is as follows:

|                                                                | Year ended      |        | Year ended      |         |
|----------------------------------------------------------------|-----------------|--------|-----------------|---------|
|                                                                | August 31, 2017 |        | August 31, 2016 |         |
|                                                                | \$              | %      | \$              | %       |
| Income tax at combined federal and provincial rates            | 81,259          | 26.5%  | 48,998          | 26.5%   |
| Differences from statutory rates relating to:                  |                 |        |                 |         |
| (Income) loss subject to tax at less than statutory rates      | (27)            | (0.0%) | 8               | 0.0%    |
| Non-deductible (non-taxable) portion of capital losses (gains) | 843             | 0.3%   | (27,945)        | (15.1%) |
| Goodwill related to disposition                                | —               | —%     | 14,402          | 7.8%    |
| Transaction costs                                              | (440)           | (0.1%) | 4,445           | 2.4%    |
| Increase of various tax reserves                               | 953             | 0.3%   | 235             | 0.1%    |
| Miscellaneous differences                                      | (90)            | (0.0%) | 1,432           | 0.8%    |
|                                                                | 82,498          | 26.9%  | 41,575          | 22.5%   |

**CORUS ENTERTAINMENT INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**August 31, 2017**

(in thousands of Canadian dollars, except per share information)

**15. BUSINESS SEGMENT INFORMATION**

The Company's business activities are conducted through two segments: Television and Radio.

**Television**

The Television segment is comprised of 45 specialty television networks, pay television services (ceased operations February 29, 2016), 15 conventional television stations, and the Corus content business, which includes the production and distribution of films and television programs, merchandise licensing, book publishing, animation software, and technology and media services. Revenues are generated from advertising, subscribers and the licensing of proprietary films and television programs, merchandise licensing, book publishing, animation software, and technology and media service sales.

**Radio**

The Radio segment comprises 39 radio stations, situated primarily in high-growth urban centres in English Canada, with a concentration in the densely populated area of Southern Ontario. Revenues are derived from advertising aired over these stations.

Corporate results represent the incremental cost of corporate overhead in excess of the amount allocated to the other operating segments.

Management evaluates each division's performance based on revenues less direct cost of sales, general and administrative expenses. Segment profit excludes depreciation and amortization, interest expense, debt refinancing costs, business acquisition, integration and restructuring costs, impairments, gains or losses on dispositions, and certain other income and expenses.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies of the most recent annual audited consolidated financial statements.

**Revenues and segment profit**

| Three months ended August 31, 2017                        | Television     | Radio        | Corporate      | Consolidated   |
|-----------------------------------------------------------|----------------|--------------|----------------|----------------|
| Revenues                                                  | 346,008        | 35,204       | —              | 381,212        |
| Direct cost of sales, general and administrative expenses | 238,755        | 26,902       | 7,954          | 273,611        |
| <b>Segment profit (loss)</b>                              | <b>107,253</b> | <b>8,302</b> | <b>(7,954)</b> | <b>107,601</b> |
| Depreciation and amortization                             |                |              |                | 22,807         |
| Interest expense                                          |                |              |                | 38,121         |
| Business acquisition, integration and restructuring costs |                |              |                | 13,265         |
| Other income, net                                         |                |              |                | (16,474)       |
| <b>Income before income taxes</b>                         |                |              |                | <b>49,882</b>  |

| Three months ended August 31, 2016                        | Television     | Radio        | Corporate      | Consolidated   |
|-----------------------------------------------------------|----------------|--------------|----------------|----------------|
| Revenues                                                  | 347,283        | 37,184       | —              | 384,467        |
| Direct cost of sales, general and administrative expenses | 240,466        | 28,675       | 9,955          | 279,096        |
| <b>Segment profit (loss)</b>                              | <b>106,817</b> | <b>8,509</b> | <b>(9,955)</b> | <b>105,371</b> |
| Depreciation and amortization                             |                |              |                | 33,585         |
| Interest expense                                          |                |              |                | 39,788         |
| Business acquisition, integration and restructuring costs |                |              |                | 19,559         |
| Other expense, net                                        |                |              |                | 1,716          |
| <b>Income before income taxes</b>                         |                |              |                | <b>10,723</b>  |

**CORUS ENTERTAINMENT INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**August 31, 2017**

(in thousands of Canadian dollars, except per share information)

| Year ended August 31, 2017                                | Television     | Radio         | Corporate       | Consolidated   |
|-----------------------------------------------------------|----------------|---------------|-----------------|----------------|
| Revenues                                                  | 1,529,792      | 149,216       | —               | 1,679,008      |
| Direct cost of sales, general and administrative expenses | 965,425        | 109,689       | 25,811          | 1,100,925      |
| <b>Segment profit (loss)</b>                              | <b>564,367</b> | <b>39,527</b> | <b>(25,811)</b> | <b>578,083</b> |
| Depreciation and amortization                             |                |               |                 | 91,750         |
| Interest expense                                          |                |               |                 | 156,716        |
| Business acquisition, integration and restructuring costs |                |               |                 | 31,983         |
| Other income, net                                         |                |               |                 | (8,953)        |
| <b>Income before income taxes</b>                         |                |               |                 | <b>306,587</b> |

| Year ended August 31, 2016                                | Television     | Radio         | Corporate       | Consolidated   |
|-----------------------------------------------------------|----------------|---------------|-----------------|----------------|
| Revenues                                                  | 1,015,609      | 155,705       | —               | 1,171,314      |
| Direct cost of sales, general and administrative expenses | 611,384        | 119,546       | 29,370          | 760,300        |
| <b>Segment profit (loss)</b>                              | <b>404,225</b> | <b>36,159</b> | <b>(29,370)</b> | <b>411,014</b> |
| Depreciation and amortization                             |                |               |                 | 73,969         |
| Interest expense                                          |                |               |                 | 110,862        |
| Gain on disposition                                       |                |               |                 | (86,151)       |
| Debt refinancing                                          |                |               |                 | 61,248         |
| Business acquisition, integration and restructuring costs |                |               |                 | 57,198         |
| Other expense, net                                        |                |               |                 | 8,752          |
| <b>Income before income taxes</b>                         |                |               |                 | <b>185,136</b> |

Revenues are derived from the following areas:

|                                       | Three months ended<br>August 31, |                | Year ended<br>August 31, |                  |
|---------------------------------------|----------------------------------|----------------|--------------------------|------------------|
|                                       | 2017                             | 2016           | 2017                     | 2016             |
| Advertising                           | 227,028                          | 226,250        | 1,080,929                | 661,818          |
| Subscriber fees                       | 127,110                          | 128,179        | 506,666                  | 405,728          |
| Merchandising, distribution and other | 27,074                           | 30,038         | 91,413                   | 103,768          |
|                                       | <b>381,212</b>                   | <b>384,467</b> | <b>1,679,008</b>         | <b>1,171,314</b> |

## 16. CONSOLIDATED STATEMENT OF CASH FLOWS

Interest paid, interest received and income taxes paid and classified as operating activities are as follows:

|                   | Three months ended<br>August 31, |        | Year ended<br>August 31, |        |
|-------------------|----------------------------------|--------|--------------------------|--------|
|                   | 2017                             | 2016   | 2017                     | 2016   |
| Interest paid     | 25,814                           | 27,080 | 105,694                  | 66,722 |
| Interest received | 110                              | 145    | 1,045                    | 827    |
| Income taxes paid | 34,642                           | 15,769 | 66,249                   | 42,788 |

**CORUS ENTERTAINMENT INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**August 31, 2017**

(in thousands of Canadian dollars, except per share information)

**17. BUSINESS COMBINATIONS AND DIVESTITURES**

**Disposition of 29% interest in the Cooking Channel**

On December 12, 2016, the Company sold a 29% interest in 7202377 Canada Inc. (the "Cooking Channel"), a subsidiary, to Scripps Network LLC for \$7,500, the fair value at the date of the sale. Cash proceeds of \$5,250 were received upon closing. Control of this subsidiary did not change, therefore a business combination did not occur. As such, the Company continues to consolidate the Cooking Channel, but the transaction did give rise to a non-controlling interest in the Cooking Channel. In accordance with IFRS 10 - *Consolidated Financial Statements*, an adjustment has been made to the carrying amounts of the non-controlling interests in these interim condensed consolidated financial statements related to the reallocation of equity interest to reflect the underlying carrying value of the net assets of the Cooking Channel.

**Acquisition of Shaw Media Inc.**

On April 1, 2016, the Company acquired the shares of Shaw Media Inc. from Shaw Communications Inc. The acquisition was a business combination between entities under common control and was accounted for by the Company using the acquisition method. Final valuations of certain items were completed, therefore the purchase price allocation was finalized as at February 28, 2017. In the third quarter of fiscal 2017, the Company received a payment of \$3,000 from Shaw Communications Inc., payment which related to the finalization of working capital amounts on the purchase of Shaw Media.

**Disposition of Certain Pay Television Assets ("Pay TV")**

On November 19, 2015, the Company entered into an agreement with BCE Inc. ("Bell") to discontinue operation of its Pay TV business (Movie Central, Encore and HBO Canada) and facilitate certain contractual and other arrangements, and take certain other actions, that are necessary or desirable in connection with Bell's intent to expand the Bell premium pay television services so that they are available on a national basis.

On November 19, 2015, the Company determined that the carrying value of certain programming assets, broadcast licenses, and goodwill, along with some directly associated program rights liabilities formed a disposal group, whose value would not be recovered principally through continuing use. Accordingly, at that date the disposal group was presented separately in the statement of financial position as held for sale in accordance with IFRS 5 - *Non-current Assets Held for Sale and Discontinued Operations*, measured at the lower of carrying value and the fair value less costs to sell, and amortization of intangible assets ceased. As a result, amortization in the Television segment for the year ended August 31, 2016 is lower by \$15,585 than it would have been had these assets continued to be amortized.

The results of the operations of the Company's Pay TV business were included in the Television segment until February 29, 2016. A gain of \$86,151 was recorded resulting from cash proceeds of \$211,000 less the carrying value of the disposal group.

**18. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS**

The comparative interim condensed consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2017 interim condensed consolidated financial statements.

**19. SUBSEQUENT EVENTS**

On October 17, 2017, the Company announced that it had entered into an agreement with Bell Media Inc. ("Bell") to dispose of its 100% interests in the French-language specialty channels, Historia and Séries+ s.e.nc. ("H&S"). This transaction requires approval from the Competition Bureau and the Canadian Television and Telecommunications Commission ("CRTC"). The total purchase price to be paid by Bell, subject to certain working capital adjustments is \$200.0 million.