



# corus.

## **Third Quarter 2018 Report to Shareholders**

For the Three and Nine months ended May 31, 2018 (unaudited)



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## FINANCIAL HIGHLIGHTS

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

(In thousands of Canadian dollars except per share amounts)	Three months ended		Nine months ended	
	2018	May 31, 2017	2018	May 31, 2017
<b>Revenues</b>				
Television	402,990	422,324	1,154,676	1,183,784
Radio	38,420	39,304	113,587	114,012
	441,410	461,628	1,268,263	1,297,796
<b>Segment profit<sup>(1)</sup></b>				
Television	160,803	171,294	433,051	457,114
Radio	11,447	11,598	31,851	31,225
Corporate	(1,829)	(7,079)	(3,835)	(17,857)
	170,421	175,813	461,067	470,482
Net income (loss) attributable to shareholders	(935,899)	66,719	(818,184)	162,746
Adjusted net income attributable to shareholders <sup>(1)</sup>	78,112	70,141	198,877	176,544
Basic earnings (loss) per share	(\$4.49)	\$0.33	(\$3.94)	\$0.81
Adjusted basic earnings per share <sup>(1)</sup>	\$0.37	\$0.35	\$0.96	\$0.88
Diluted earnings (loss) per share	(\$4.49)	\$0.33	(\$3.94)	\$0.81
<b>Free cash flow<sup>(1)</sup></b>	87,753	82,527	253,041	212,458

<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, explanations and reconciliations see discussion under the Key Performance Indicators section of the Fiscal 2018 Report to Shareholders.

## SIGNIFICANT EVENTS IN THE QUARTER

- On March 12, 2018, the Company announced that its programming, original productions and content received a total of 16 Canadian Screen Awards (CSA), including Best News Special for Global Edmonton's "*Fort McMurray: The Road Back*"; Best Direction in a Drama Series for *Mary Kills People* on Global; and Best Animated Program or Series for *Cloudy with a Chance of Meatballs* on YTV.
- On March 29, 2018, 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 April 4, 2018, the Company's Corus Studios expanded its global footprint, announcing new international sales for its original lifestyle content ahead of MIPTV. Sales highlights include: *Backyard Builds* sold to Quebecor Media's CASA in Canada and an undisclosed buyer for the Pan-Asian region; *Worst to First* sold to Digicast's Dove in Italy, NBCUniversal International Networks for Bravo New Zealand and an undisclosed buyer for the Pan-Asian region; *Masters of Flip* sold to NBCUniversal International Networks which picked up Season 3 for Bravo New Zealand; *Cheer Squad* sold to Bell Media's VRAC in Canada; and *Home to Win* sold to Israel's Talit Communications for Season 1 and 2 and Quebecor Media's CASA in Canada for Season 2.
- On April 24, 2018, the Company's Global News and Corus Radio outlets received 28 Radio Television Digital News Association (RTDNA) Awards honouring national and regional journalism in TV, web and radio. In addition, Global News received 11 regional Edward R. Murrow Awards in Alberta, B.C. and Saskatchewan for outstanding achievement in electronic journalism.
- On April 26, 2018, the Company's Nelvana subsidiary acquired global distribution, licensing and merchandising rights outside of Greater China for *Super BOOMi*, the hit animated Chinese series and IP created by Trevor Lai, CEO and founder of Up Studios. Nelvana and Up Studios will work together with leading Chinese technology and media giant Tencent, and its extensive network of partners to launch the show's content and licensing program internationally.
- On April 30, 2018, 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 May 1, 2018, the Company's Global Television subsidiary announced the launch of its Global Go app on Chromecast. As the first among Corus' suite of apps to add Chromecast support for both live streaming (once authenticated) and on demand content, Global Go enables viewers to now live stream the network's full slate of original and acquired series, view full length episodes, clips and exclusives, as well as catch up and binge on their favourite shows on demand from any iOS or Android device.
- On May 7, 2018, the Company's Nelvana subsidiary announced a new Canadian licensing and broadcasting partnership with Sesame Workshop, the non-profit educational organization behind the world-renowned children's program, *Sesame Street*. Nelvana will exclusively broadcast *Sesame Street* and Sesame Studios' content in Canada on Corus' Treehouse, and across the network's non-linear platforms. Nelvana will also represent *Sesame Street* within the Canadian licensed consumer products community.
- On May 7-13, 2018, the Company's radio stations were recognized at the Canadian Music Week Industry Awards which celebrates the best and brightest in all fields of the Canadian music and broadcast industries. Taking home awards for Corus were: Country 105 (Calgary), FM96 (London), FM96 (London)'s Mark Cameron, Country 104 (Woodstock/London), and 102.1 the Edge (Toronto).
- On May 15, 2018, the Company's Nelvana subsidiary announced new deals for its original preschool adventure series, *Ranger Rob*, including first-rate consumer products licensees (J Corp, Black & White, Jellyfish), world-class broadcast partners (MediaCorp -Singapore, TVNZ - New Zealand, Tiny Pop - U.K., Clan TVE - Spain, Frisbee - Italy and Hulu - U.S.), and an adventure-filled new app expected to launch this summer.
- On May 29, 2018, the Company's radio station CHQT-AM was relaunched as Global News Radio 880 Edmonton, becoming the seventh AM station to join the Global News portfolio.
- On May 30, 2018, the Company and Bell Media agreed to terminate their Share Purchase Agreement for French-language specialty channels Historia and Séries+. This followed the May 28, 2018 announcement that the Commissioner of Competition did not approve the sale by Corus of these channels to Bell Media.
- On May 31, 2018, 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 May 31, 2018, the Company and Twitter announced a partnership to create a number of new short-form series tailored to a millennial audience. Focusing on trends across food, entertainment and pop culture, the new series marry premium content with social conversation and engagement.

- On May 31, 2018, the CRTC published *Harnessing Change: The Future of Programming Distribution in Canada*, a digital report on the future of programming in Canada. The report proposes to the government new tools and regulatory approaches to support the production and promotion of audio and video content made by and for Canadians.
- During the third quarter of fiscal 2018, the Company performed impairment testing of intangible assets for accounting purposes, resulting in broadcast license and goodwill impairment charges of \$1,013.7 million. The impairment charges are non-cash items and adjust the carrying values at May 31, 2018 to current market values.

## SIGNIFICANT EVENTS SUBSEQUENT TO THE QUARTER

- On June 4, 2018, the Company announced its programming lineup of new and returning Canadian original hits for its 2018/2019 schedule. Commissioning nearly 40 series to date for the broadcast year, Corus is dedicated to developing extraordinary Canadian content across its suite of premium networks. This year, Corus Studios introduces a diverse range of programming including *Fire Masters*, *Ultimate Food Bucket List* (working title), and previously announced series *Island of Bryan*, *Backyard Builds*, *Save My Reno*, *Rust Valley Restorers*, *Big Rig Warriors*, *History Erased* (formerly *World Without*) and *STITCHED*. In the kids space, Nelvana, a leading producer and global distributor of children's animated content, ushers in four new original series including *Bravest Warriors*, *Esme and Roy*, *Corn and Peg* and *Miss Persona*, and returning show *Max & Ruby*, which are set to premiere on Corus' kids networks in 2018/2019. This slate of Corus Studios and Nelvana content is also available for international sale.
- On June 4, 2018, the Company announced its content slate for the 2018/2019 broadcast year across its collection of premium specialty networks. Corus' specialty programming offerings include four new drama series *All American*, *Charmed*, *Pretty Little Liars: The Perfectionists* and *Roswell*, *New Mexico* and returning hits *Outlander* and *The Good Fight* on W Network; new series *Legacies* and returning favourites *Supergirl* and *Marvel's Runaways* on Showcase; newly greenlit series such as the first-ever version of *Iron Chef Canada* on Food Network; and new original series *Go Away Unicorn* on YTV, *Esme and Roy* and *Bravest Warriors* on TELETOON.
- On June 4, 2018, the Company's Global subsidiary unveiled its 2018/2019 primetime lineup featuring seven new, highly sought-after series including dramas *New Amsterdam* and *FBI*; and four new comedies *The Neighborhood*, *Happy Together*, *I Feel Bad* and *Abby's*. These new properties join the network's 20 returning hits, including *Survivor*, the *NCIS* franchise, *Saturday Night Live*, *SWAT*, *9-1-1* and originals *Big Brother Canada*, *Mary Kills People* and *Private Eyes*, with the fall schedule also including 17 hours of simulcast.
- On June 5, 2018, the Government of Canada announced the launch of a review of the *Broadcasting Act*, the *Telecommunications Act*, and the *Radiocommunication Act*. Led by an appointed panel of external experts, the review will address competition and affordability for internet and mobile wireless, and examine how to best support the creation, production and distribution of Canadian content in the digital age. The review will be guided by the principle of net neutrality and will explore opportunities to further enshrine in legislation the principles of net neutrality in the provision and carriage of all telecommunication services. The panel is expected to engage with the industry, creators and Canadians.
- On June 27, 2018, the Company announced a new dividend framework with respect to its revised Capital Allocation Policy. The new dividend policy is as follows:
  - Effective September 1, 2018, Corus' annual dividend rate will be adjusted to \$0.24 per Class B Share and \$0.235 per Class A Share, in line with both the Company's long-term goal of maintaining a dividend yield in excess of 2.5% and current industry peer benchmarks.
  - The dividend payment schedule will be changed from monthly to quarterly to be more consistent with industry practices, with a projected quarterly rate of \$0.06 per Class B Share and \$0.5875 per Class A Share. The new payment schedule is expected to commence in December 2018 (in respect of fiscal Q1 2019), subject to approval by the Board of Directors in October 2018.
  - As permitted under Corus' Dividend Reinvestment Plan (the "Plan"), in lieu of issuing new shares, Corus will satisfy its share delivery obligation under the Plan by purchasing Class B Shares on the open market. In addition, Corus will move to a 0% discount for shares delivered under the plan.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis of the financial position and results of operations for the three and nine months ended May 31, 2018 is prepared at June 26, 2018. 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, 2017 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 INFORMATION

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 information"). 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, and can generally be identified by the use of the 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 may be considered forward-looking information. Although Corus believes that the expectations reflected in such forward-looking information are reasonable, such information involves assumptions and risks and uncertainties and undue reliance should not be placed on such statements. Certain material factors or assumptions are applied with respect to the forward-looking information, including without limitation: factors and assumptions regarding the general market conditions and general outlook for the industry, interest rates, stability of the advertising, distribution, merchandise and subscription markets, operating and capital costs and tariffs, taxes and fees, our ability to source desirable content and our capital and operating results being consistent with our expectations. Actual results may differ materially from those expressed or implied in such information. 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 cable 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 or regulations 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 any forward-looking information may be found under the heading "Risks and Uncertainties" in the Management's Discussion and Analysis for the year ended August 31, 2017 and this document and under the heading "Risk Factors" in our Annual Information Form. Corus cautions that the foregoing list of important assumptions and factors that may affect future results is not exhaustive. When relying on our forward-looking information to make decisions with respect to Corus, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Unless otherwise specified, all forward-looking information in this document speaks as of the date of this document. Unless otherwise required by applicable securities laws, Corus disclaims any intention or obligation to publicly update or revise any forward-looking information 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 2017, we refer you to the Company's Annual Report for the year ended August 31, 2017, filed on SEDAR on December 11, 2017.

## **OVERVIEW OF CONSOLIDATED RESULTS**

### **REVENUES**

Consolidated revenues for the third quarter of fiscal 2018 of \$441.4 million decreased 4% compared to \$461.6 million in the prior year. On a consolidated basis, merchandising, distribution and other revenues decreased 18%, advertising revenues decreased 4%, while subscriber revenues decreased 1%. Revenues decreased in Television by 5% and Radio by 2% in the third quarter compared to the prior year.

For the nine months ended May 31, 2018, consolidated revenues of \$1,268.3 million decreased 2% from \$1,297.8 million in the prior year. On a consolidated basis, advertising revenues decreased 3%, merchandising, distribution and other revenues decreased by 1%, while subscriber revenues were flat. Revenues decreased by 2% in Television and were flat in Radio on a year-to-date basis compared to the prior year. Further analysis of revenues is provided in the discussion of segmented results.

### **DIRECT COST OF SALES, GENERAL AND ADMINISTRATIVE EXPENSES**

Direct cost of sales, general and administrative expenses for the third quarter of fiscal 2018 of \$271.0 million decreased 5% from \$285.8 million in the prior year. On a consolidated basis, direct cost of sales, employee costs and other general and administrative expenses decreased by 3%, 9% and 5%, respectively. The decrease in direct cost of sales resulted from decreases in both amortization of program rights and of film investments, offset by higher other cost of sales. The decrease in employee costs was primarily due to a reduction in share-based compensation expense.

For the nine months ended May 31, 2018, direct cost of sales, general and administrative expenses of \$807.2 million decreased 2% from \$827.3 million in the prior year. On a consolidated basis, direct cost of sales decreased 1%, employee costs decreased 6%, and other general and administrative expenses decreased 2%. Further analysis of expenses is provided in the discussion of segmented results.

### **SEGMENT PROFIT**

Consolidated segment profit for the third quarter of fiscal 2018 was \$170.4 million, a decrease of 3% from \$175.8 million in the prior year. Segment profit margin for the third quarter of fiscal 2018 was 39%, up from 38% in the prior year.

For the nine months ended May 31, 2018, consolidated segment profit was \$461.1 million, a decrease of 2% from \$470.5 million in the prior year. Segment profit margin of 36% for the nine months ended May 31, 2018 was consistent with the prior year. Further analysis is provided in the discussion of segmented results.

### **DEPRECIATION AND AMORTIZATION**

Depreciation and amortization expense for the three and nine months ended May 31, 2018 was \$20.4 million and \$62.0 million, respectively, a decrease from \$23.4 million and \$68.9 million in the same comparable periods in the prior year. The decrease in the quarter and the year-to-date of fiscal 2018 arises primarily from lower capital expenditures in the current year.

### **INTEREST EXPENSE**

Interest expense for the three and nine months ended May 31, 2018 was \$32.5 million and \$96.3 million, respectively, a decrease from \$39.9 million and \$118.6 million in the same comparable periods in the prior year. The decrease in the quarter and year-to-date results from lower interest on bank debt of \$2.6 million and \$11.7 million, respectively, due to a lower interest rate margin resulting from reduced leverage, and to lower bank debt in the current year. Imputed interest was also lower by \$3.0 million and \$5.9 million, respectively, than the prior year as a result of the reduction of long-term liabilities associated with program rights, trade marks, and Canadian Radio-television and Telecommunications Commission ("CRTC") benefit obligations.

The effective interest rate on bank loans for the three and nine months ended May 31, 2018 was 4.5% and 4.3%, respectively compared to 4.8% and 4.7%, respectively in the prior year. The decrease in the effective rate for the third quarter and year-to-date results from a lower interest rate margin resulting from reduced leverage.

### **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. In the third quarter of fiscal 2018, management identified indicators of impairment at the enterprise level, notably a significant decline in the Company's share price from August 31, 2017, which resulted in the Company's carrying value being significantly greater than its current market enterprise value. Accordingly, interim goodwill impairment testing was required for both the Television and Radio cash generating units ("CGUs"). As a result of these tests, the Company recorded a

non-cash goodwill impairment charge of \$1,000.0 million in the Television operating segment in the third quarter of fiscal 2018. No goodwill impairment was identified on the Radio operating segment CGU (refer to note 9 of the interim condensed consolidated financial statements for further details).

In addition, certain Radio markets had actual results and revised financial projections that fell short of previous estimates, indicating that interim broadcast license impairment testing was required. As a result of these tests, the Company recorded non-cash broadcast license impairment charges of \$13.7 million in the Radio segment (refer to note 9 of the interim condensed consolidated financial statements for further details).

### **BUSINESS ACQUISITION, INTEGRATION AND RESTRUCTURING COSTS**

For the three and nine months ended May 31, 2018, the Company incurred \$5.3 million and \$9.4 million, respectively of business acquisition, integration and restructuring costs, compared to \$4.6 million and \$18.7 million in the same comparable periods in the prior year. The current fiscal year costs were related to restructuring costs associated with employee exits as well as costs associated with the denial of the sale of Historia and Séries+ and shutdown of the Sundance Channel. The prior year costs were attributable to ongoing integration activities, as well as an onerous premise lease provision of approximately \$8.0 million for the previous Shaw Media offices in Toronto, which were fully vacated during the first quarter of fiscal 2017. These charges are excluded from the determination of segment profit.

### **OTHER EXPENSE, NET**

Other expense for three month period ended May 31, 2018 was \$1.0 million, compared to \$4.6 million in the prior year. The decrease in the quarter reflects lower foreign exchange losses of \$2.9 million and a decrease in equity loss from investees of \$0.4 million. In the second quarter of fiscal 2018, the Company entered into a series of forward foreign exchange contracts totalling \$98.0 million USD, to fix the foreign exchange rate and therefore cash flows related to a portion of USD denominated long-term liabilities. This resulted in unrealized foreign exchange gains of \$1.2 million in the quarter and \$3.7 million year-to-date, which offset foreign exchange losses recorded related to the period end revaluation of USD denominated liabilities. Further discussion of this can be found in the *Liquidity and Capital Resources* section of this report under the heading *Derivative Financial Instruments*.

Other expense for the nine months ended May 31, 2018 was \$5.1 million compared to \$7.5 million in the prior year. The prior year included the recovery of certain disputed regulatory fees and the benefit of miscellaneous interest and other income.

### **INCOME TAX EXPENSE**

The Company's statutory tax rate for both the three and nine months ended May 31, 2018 was 26.5%. The Company's effective income tax rates for the three and nine months ended May 31, 2018 were negative 2.9% and a positive 10.0%, respectively. The significant difference between the statutory rates and effective tax rates result from the impairment recorded on goodwill in the television operating segment in the third quarter. The effective income tax rate for the three and nine months ended May 31, 2017 was 26.7% and 26.6%, respectively, consistent with the Company's statutory income tax rate.

### **NET INCOME (LOSS) ATTRIBUTABLE TO SHAREHOLDERS AND EARNINGS (LOSS) PER SHARE**

Net loss attributable to shareholders for the third quarter of fiscal 2018 was \$935.9 million (\$4.49 loss per share basic), as compared to net income attributable to shareholders of \$66.7 million (\$0.33 income per share basic) in the prior year. Net loss attributable to shareholders for the current fiscal quarter includes radio broadcast license and television goodwill impairment charges of \$1,013.7 million (\$4.84 per share) and business acquisition, integration and restructuring costs of \$5.3 million (\$0.02 per share). Adjusting for the impact of these items results in an adjusted net income attributable to shareholders of \$78.1 million (\$0.37 per share basic) in the quarter. Net income attributable to shareholders for the prior year quarter includes business acquisition, integration and restructuring costs of \$4.6 million (\$0.02 per share). Adjusting for the impact of this item results in an adjusted net income attributable to shareholders of \$70.1 million (\$0.35 per share basic) in the prior year quarter.

Net loss attributable to shareholders for the nine months ended May 31, 2018 was \$818.2 million (\$3.94 loss per share basic), as compared to net income attributable to shareholders of \$162.7 million (\$0.81 income per share basic) in the prior year. Net loss attributable to shareholders for fiscal 2018 year-to-date includes radio broadcast license and television goodwill impairment charges of \$1,013.7 million (\$4.87 per share) and business acquisition, integration and restructuring costs of \$9.4 million (\$0.03 per share). Adjusting for the impact of these items results in an adjusted net income attributable to shareholders of \$198.9 million (\$0.96 per share). Net income attributable to shareholders for the nine months ended May 31, 2017 includes business acquisition,

integration and restructuring costs of \$18.7 million (\$0.07 per share basic). Adjusting for the impact of this item results in an adjusted net income attributable to shareholders of \$176.5 million (\$0.88 per share) for the prior fiscal year-to-date.

The weighted average number of basic shares outstanding for the three and nine months ended May 31, 2018 was 208,624,000 and 207,508,000, respectively, compared to 202,297,000 and 199,827,000, 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.

#### **OTHER COMPREHENSIVE INCOME (LOSS), NET OF INCOME TAX**

Other comprehensive income for the three months ended May 31, 2018 was \$4.6 million, compared to a loss of \$7.1 million in the prior year. For the three months ended May 31, 2018, comprehensive income includes an actuarial gain on post-employment benefit plans of \$5.0 million, an unrealized gain of foreign currency translation adjustment of \$0.2 million, offset by an unrealized loss on the fair value of cash flow hedges of \$0.5 million and an unrealized loss on the fair value of available-for-sale investments of \$0.1 million. The prior year comprehensive income includes an actuarial loss on post-employment benefit plans of \$3.8 million, an unrealized loss associated with remeasurement of fair value of cash flow hedges of \$3.3 million, an unrealized loss in the fair value of a venture fund investment of \$0.3 million and an unrealized gain from foreign currency translation adjustments of \$0.2 million.

Other comprehensive income for the nine months ended May 31, 2018 was \$17.9 million, compared to \$19.5 million in the prior year. For the nine months ended May 31, 2018, comprehensive income includes an unrealized gain on the fair value of cash flow hedges of \$13.3 million, an actuarial gain on post-employment benefit plans of \$4.1 million and an unrealized gain from foreign currency translation adjustments of \$0.6 million, offset by an unrealized loss on the fair value of available-for-sale investments of \$0.1 million. The prior year comprehensive income includes an unrealized gain associated with remeasuring the fair value of cash flow hedges of \$10.1 million, an actuarial gain on post-employment benefit plans of \$9.3 million and an unrealized gain from foreign currency translation adjustments of \$0.4 million, offset by an unrealized loss in the fair value of a venture fund investment of \$0.3 million.

#### **TELEVISION**

The Television segment is comprised of 44 specialty television services (45 services prior to February 28, 2018), 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.

#### **FINANCIAL HIGHLIGHTS**

(thousands of Canadian dollars)	Three months ended		Nine months ended	
	2018	May 31, 2017	2018	May 31, 2017
<b>Revenues</b>				
Advertising	254,664	267,411	717,071	746,042
Subscriber fees	126,164	127,539	379,427	379,556
Merchandising, distribution and other	22,162	27,374	58,178	58,186
Total revenues	402,990	422,324	1,154,676	1,183,784
Expenses	242,187	251,030	721,625	726,670
Segment profit <sup>(1)</sup>	160,803	171,294	433,051	457,114
Segment profit margin <sup>(1)</sup>	40%	41%	38%	39%

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

Revenues decreased by 5% in the third quarter of fiscal 2018 as a result of a 5% decrease in advertising revenues, a 1% decrease in subscriber revenues and a 19% decrease in merchandising, distribution and other revenues. The decline in advertising revenues was largely driven by continued soft television advertising market conditions and lower audience levels. The decrease in subscriber revenues is attributable to one-time retroactive adjustments related to certain broadcast distribution units recorded in the prior year, as well as the shut-down of the Sundance Channel in the current year. The decrease in merchandising, distribution and other revenues is primarily attributable to lower subscription video-on-demand revenues in the current year.

For the nine months ended May 31, 2018, total revenues decreased 2% from the prior year as a result of a 4% decrease in advertising revenues, while subscriber and merchandising, distribution and other revenues remained relatively flat. Television advertising revenues were soft year-to-date as a result of soft television advertising market conditions, lower audience levels and the negative impact of the 2018 Winter Olympics which was broadcast on competitor services.

Total expenses in the third quarter of fiscal 2018 decreased by 4%. Direct cost of sales (which includes amortization of program rights and film investments, and other cost of sales) decreased 3% from the prior year. Amortization of program rights decreased in the quarter, due primarily to timing and delayed programming start dates on Global, as well as lower film amortization expense at Nelvana. General and administrative expenses decreased 4% from the prior year, primarily reflecting focused cost control.

For the nine months ended May 31, 2018, total expenses decreased by 1% as a result of a 1% decrease in direct cost of sales and a 1% decrease in general and administrative expenses. The decrease in direct cost of sales reflects lower amortization of program rights due to timing of program start dates, as well as lower film amortization expense at Nelvana. The decrease in general and administrative expenses year-to-date reflects continued cost focus, offset by incremental investment in Advanced Advertising initiatives and higher costs for Global's morning shows, which were previously covered by CRTC benefit spending obligations that ceased as of August 31, 2017.

Segment profit<sup>(1)</sup> decreased 6% in the third quarter of fiscal 2018. Segment profit margin<sup>(1)</sup> for the quarter and year-to-date was 40% and 38%, respectively compared to the prior year at 41% and 39%, respectively for the same comparable periods.

For the spring 2018 season-to-date, Global grew its ranker position from last year with 10 of the Top 20 shows compared to 8 last spring. New series *911*, and *Big Brother Celebrity* ranked in the Top 20 shows nationally for Adults 25-54, along with returning shows *Survivor*, *Bull*, *NCIS*, and all three airings of *Big Brother Canada* performing in the Top 20<sup>(2)</sup>.

Corus owns 13 of the Top 20 Canadian Entertainment Specialty Channels for Adults 25-54. Twelve of Corus' specialty programs are in the Top 20 for Adults 25-54, up from 9 in the Top 20 last Spring. The Top 5 kids networks for children 2 - 11 this Spring were Corus networks<sup>(2)</sup>.

In the third quarter of fiscal 2018, the Company recorded a non-cash goodwill impairment of \$1,000.0 million with respect to the Television segment. The impairment charge resulted from the recoverable amount being lower than the carrying amount. The non-cash goodwill impairment charge is excluded from the determination of segment profit (refer to note 9 of the interim condensed consolidated financial statements for further details).

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

<sup>(2)</sup> Based on Numeris PPM Data, Total Canada, Conventional Spring 2018 (Jan 1 - May 27, 2018) versus Spring 2017 (Jan 1, - May 28, 2017) based on 3+ airings excluding NFL/NHL Playoffs and Olympics, Canadian Commercial Specialty networks Spring (Jan 1 - May 27, 2018) versus (Jan 1 - May 28, 2017), exc. Sports stations and programs ranker based on 3+ airings, and Kids networks weeks 27 - 39 each year, Canadian English Specialty stations only, 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		Nine months ended	
	2018	2017	2018	2017
(thousands of Canadian dollars)				
Revenues	<b>38,420</b>	39,304	<b>113,587</b>	114,012
Expenses	<b>26,973</b>	27,706	<b>81,736</b>	82,787
Segment profit <sup>(1)</sup>	<b>11,447</b>	11,598	<b>31,851</b>	31,225
Segment profit margin <sup>(1)</sup>	<b>30%</b>	30%	<b>28%</b>	27%

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

Revenues were down 2% in the third quarter of fiscal 2018 and flat year-to-date. Overall, the Ontario markets experienced a strong quarter, with continued growth in Toronto and Ottawa while Vancouver, Calgary and Edmonton were challenged.

Direct cost of sales, general and administrative expenses decreased 3% in the third quarter of fiscal 2018 and 1% year-to-date. The quarterly and year-to-date decrease in selling, general and administrative costs reflects an overall continued focus on cost containment and synergies.

Radio's segment profit decreased 1% in the third quarter of fiscal 2018 and increased 2% year-to-date. Segment profit margin for the quarter and year-to-date was 30% and 28%, respectively compared to 30% and 27%, respectively for the same comparable periods in the prior year.

In the third quarter of fiscal 2018, the Company recorded non-cash impairment charges in broadcast licenses of \$13.7 million with respect to three Radio markets where revised financial projections fell short of previous estimates; thereby, causing the recoverable amounts to be lower than the carrying amounts at each of the CGUs. The non-cash broadcast license impairment charges are excluded from the determination of segment profit (refer to note 9 of the interim condensed consolidated financial statements for further details).

## 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

(thousands of Canadian dollars)	Three months ended		Nine months ended	
	2018	May 31, 2017	2018	May 31, 2017
Share-based compensation	(949)	2,204	(6,054)	5,677
Other general and administrative costs	2,778	4,875	9,889	12,180
	1,829	7,079	3,835	17,857

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 decrease in share-based compensation expense in the third quarter of fiscal 2018 and the year-to-date is due to the decline in share price from the prior year.

Other general and administrative costs in the third quarter of fiscal 2018 and year-to-date was lower compared to the prior year, reflecting continued focus on cost containment.

## QUARTERLY CONSOLIDATED FINANCIAL INFORMATION

### SEASONAL FLUCTUATIONS

As discussed in Management's Discussion and Analysis for the year ended August 31, 2017, 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 May 31, 2018. 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, 2017.

(thousands of Canadian dollars, except per share amounts)

	Revenues	Segment profit <sup>(1)</sup>	Net income (loss) attributable to shareholders	Adjusted net income attributable to shareholders	Earnings per share		
					Basic	Diluted	Adjusted basic
<b>2018</b>							
3rd quarter	441,410	170,421	(935,899)	78,112	\$ (4.49)	\$ (4.49)	\$ 0.37
2nd quarter	369,465	112,759	40,042	41,880	\$ 0.19	\$ 0.19	\$ 0.20
1st quarter	457,388	177,887	77,673	78,885	\$ 0.38	\$ 0.38	\$ 0.38
<b>2017</b>							
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
<b>2016</b>							
4th quarter	384,467	105,371	25	14,535	\$ —	\$ —	\$ 0.07

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

### SIGNIFICANT ITEMS CAUSING VARIATIONS IN QUARTERLY RESULTS

- Net income attributable to shareholders for the third quarter of fiscal 2018 was negatively impacted by non-cash radio broadcast license and television goodwill impairment charges of \$1,013.7 million (\$4.84 per share) and business acquisition, integration and restructuring costs of \$5.3 million (\$0.02 per share).
- Net income attributable to shareholders for the second quarter of fiscal 2018 was negatively impacted by business acquisition, integration and restructuring costs of \$2.5 million (\$0.01 per share).
- Net income attributable to shareholders for the first quarter of fiscal 2018 was negatively impacted by business acquisition, integration and restructuring costs of \$1.6 million (\$nil per share).
- 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).

### RISKS AND UNCERTAINTIES

The significant risks and uncertainties affecting the Company and its business are discussed in the Company's August 31, 2017 Annual Report under the "Risks and Uncertainties" section. There have been no material changes in the risks or uncertainties facing the Company since the date of our Annual Report, except for as follows:

#### PROPOSED PROHIBITIONS ON FOOD ADVERTISING TO CHILDREN

Over the last quarter, Bill S-228 (the "Bill"), proposed federal legislation that limits unhealthy food and beverage advertising directed at children, moved forward in Parliament. The Bill passed the important House of Commons ("House") Committee stage in May, and the Report Stage in the House in June. Parliament broke for its summer recess on June 20, 2018 and will reconvene on September 17, 2018. Shortly after Parliament returns, the Bill is expected to pass Third Reading in the House, and receive Royal Assent soon thereafter. Upon receipt of Royal Assent, the Bill will become law. The law will not come into force until two years after it passes, which means that new restrictions will not come into force until September 2020, at the earliest. At the same time as Parliament has been considering the Bill, Health Canada began the process of drafting the regulations that will accompany the law. Health Canada has launched a public consultation on its proposal, with deadline for comments of July 17, 2018. Corus is working closely with other large broadcasters to coordinate activities on the file, including the submission of a joint response in the Health Canada consultation under the auspices of the Canadian

Association of Broadcasters. Detailed proposed regulations are expected from Health Canada later this year. It remains to be seen what final form the legislation and related regulations will take. As such, the impact is not determinable at this time.

## FINANCIAL POSITION

Total assets at May 31, 2018 were \$5.0 billion compared to \$6.1 billion at August 31, 2017. The following discussion describes the significant changes in the consolidated statements of financial position since August 31, 2017.

Current assets at May 31, 2018 were \$572.1 million, up \$46.7 million from August 31, 2017.

Cash and cash equivalents decreased by \$8.0 million from year end. Refer to the discussion of cash flows in the next section.

Accounts receivable increased \$51.5 million from year end. The accounts receivable balance is subject to seasonal trends. Typically, the balance is higher at the end of the first and third quarters and lower at the end of 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 increased \$4.2 million from year end as a result of accruals relating to film productions exceeding tax credit receipts.

Investments and other assets increased \$4.5 million from year end, primarily as a result of unrealized gains relating to interest rate swaps and forward foreign exchange contracts, offset by net cash proceeds of \$24.6 million on interest rate swaps which were terminated on November 28, 2017. In the second quarter of fiscal 2018, the Company entered into a series of forward foreign exchange contracts totalling \$98.0 million USD, to fix the foreign exchange rate and therefore cash flows related to a portion of the Company USD denominated long-term liabilities. Further discussion of this can be found in the *Liquidity and Capital Resources* section of this report under the heading *Derivative Financial Instruments*.

Property, plant and equipment decreased \$27.7 million from year end as a result of depreciation expense exceeding additions.

Program and film rights decreased \$82.7 million from year end, as additions of acquired rights of \$312.8 million were offset by amortization of \$393.3 million and impairment charges of \$2.1 million resulting from the shutdown of the Sundance Channel.

Film investments increased \$5.9 million from year end, as film spending (net of tax credit accruals) of \$16.1 million was offset by film amortization of \$10.2 million.

Intangibles decreased \$38.2 million from year end, primarily as a result of impairment charges recorded on certain Radio broadcast licenses of \$13.7 million and as a result of amortization of finite life intangibles exceeding additions. Goodwill decreased \$1,000.0 million as a result of impairment charges related to the Television segment in the third quarter.

Accounts payable and accrued liabilities increased \$63.2 million from year end, as a result of higher accruals for program rights, offset by lower accrued liabilities and accruals for film production. The decrease in accrued liabilities relate primarily to the reduction in short-term compensation accruals, capital asset purchases, the short-term portion of tangible benefits and CRTC fees, offset by other working capital accruals.

Provisions, including the long-term portion, at May 31, 2018 were \$18.2 million compared to \$27.5 million at August 31, 2017. The decrease of \$9.3 million from year end is primarily a result of restructuring related payments exceeding additions.

Long-term debt, including the current portion, as at May 31, 2018 was \$2,010.0 million compared to \$2,091.6 million as at August 31, 2017. As at May 31, 2018, the \$106.4 million classified as the current portion of long-term debt reflects the mandatory repayments on the debt in the next twelve months. During the nine months ended May 31, 2018, the Company repaid bank loans of \$81.5 million, deferred \$4.1 million of financing fees and amortized \$3.9 million of deferred financing charges.

Other long-term liabilities decreased \$135.8 million from year end, primarily from decreases in long-term program rights payable, trade marks payable, post-employment benefit plans, and long-term employee obligations, offset by an increase in intangible liabilities.

Share capital increased \$29.3 million, primarily as a result of the issuance of shares from treasury under the Company's dividend reinvestment plan. Contributed surplus increased \$0.5 million due to share-based compensation expense.

## LIQUIDITY AND CAPITAL RESOURCES

### CASH FLOWS

Overall, the Company's cash and cash equivalents position increased by \$5.3 million in the third quarter of fiscal 2018 and decreased by \$8.0 million in the nine months ended May 31, 2018. Free cash flow for the third quarter was \$87.8 million compared to \$82.5 million last year. On a year-to-date basis, free cash flow was \$253.0 million compared to \$212.5 million last 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 and nine months ended May 31, 2018 was \$92.9 million and \$265.1 million, respectively compared to \$84.7 million and \$209.0 million in the comparable periods of the prior year. The increase in the current quarter of \$8.3 million arises principally from higher cash flow from operations and lower cash used in working capital. The increase in the year-to-date cash flow from operations of \$56.1 million arises from net proceeds of \$24.6 million from termination of interest rate swaps, lower CRTC benefit payments of \$16.3 million, lower cash used in working capital of \$25.5 million, and lower payments on program rights of \$4.5 million, offset by higher payments related to film investments of \$13.4 million.

Cash used in investing activities for the three and nine months ended May 31, 2018 was \$6.1 million and \$14.2 million, respectively compared to cash provided of \$0.5 million and cash used of \$10.1 million in the comparable periods of the prior year. The current quarter includes additions to property, plant and equipment of \$2.3 million and net cash outflows for intangible investments and other assets of \$3.8 million. The prior year benefitted from the receipt of \$3.0 million from Shaw Communications Inc. related to the finalization of working capital adjustments on the purchase of Shaw Media. The year-to-date includes additions to property, plant and equipment of \$7.3 million, offset by proceeds of \$0.5 million on the disposal of surplus land, and net cash outflows for intangibles, investments and other assets of \$7.5 million. The prior year includes additions to property, plant and equipment of \$13.6 million, and net cash outflows for intangibles, investments and other assets of \$4.7 million, offset by proceeds of \$5.3 million on the sale of a minority interest in the Cooking Channel and receipt of \$3.0 million from Shaw Communications Inc..

Cash used in financing activities in the three and nine months ended May 31, 2018 was \$81.6 million and \$258.9 million, respectively compared to \$62.9 million and \$192.3 million in the comparable periods of the prior year. The increase in the current quarter and year-to-date of \$18.7 million and \$66.6 million respectively, is primarily due to the increase in dividends paid during the fiscal 2018 year.

### 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) below 3.0 times, which is revised from the previous target of 3.0 to 3.5 times, and to maintain a dividend yield in excess of 2.5%, which is unchanged. 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. As at May 31, 2018, the Company's leverage ratio was 3.36 times net debt to segment profit. The Company is currently focused on deleveraging towards 3.0 times net debt to segment profit. However, the Company expects that this goal will not be reached by the end of fiscal 2018, as previously anticipated.

On June 27, 2018, the Company announced a new dividend framework with respect to its revised Capital Allocation Policy. The new dividend policy is as follows:

- Effective September 1, 2018, Corus' annual dividend rate will be adjusted to \$0.24 per Class B Share and \$0.235 per Class A Share, in line with both the Company's long-term goal of maintaining a dividend yield in excess of 2.5% and current industry peer benchmarks.
- The dividend payment schedule will be changed from monthly to quarterly to be more consistent with industry practices, with a projected quarterly rate of \$0.06 per Class B Share and \$0.5875 per Class A Share.

The new payment schedule is expected to commence in December 2018 (in respect of fiscal Q1 2019), subject to approval by the Board of Directors in October 2018.

- As permitted under Corus' Dividend Reinvestment Plan (the "Plan"), in lieu of issuing new shares, Corus will satisfy its share delivery obligation under the Plan by purchasing Class B Shares on the open market. In addition, Corus will move to a 0% discount for shares delivered under the plan.

On November 30, 2017, the Company's credit facilities with a syndicate of banks were amended. The principal amendments were the extension of the maturity dates to November 30, 2021 for the Revolving Facility and Term Facility Tranche 2, to November 30, 2022 for the Term Facility Tranche 1, and the fixing of mandatory repayments on the Term Facility to 1.25% per quarter. Interest rates on the Company's facilities fluctuate with Canadian bankers' acceptances and LIBOR.

As at May 31, 2018, the Company had a net cash balance of \$85.7 million and had available approximately \$300.0 million under the Revolving Facility, all of which could be drawn, and was in compliance with all loan covenants. 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.

For further details on the credit facilities amended on November 30, 2017 refer to note 11 of the Company's interim condensed consolidated financial statements in the Third Quarter 2018 Report to Shareholders, filed on SEDAR at [www.sedar.com](http://www.sedar.com).

### **NET DEBT TO SEGMENT PROFIT**

As at May 31, 2018, net debt was \$1,924.3 million, down from \$1,997.9 million at August 31, 2017. Net debt to segment profit at May 31, 2018 was 3.38 times compared to 3.46 times at August 31, 2017. Further discussion on this is contained in the Key Performance Indicators section.

### **TOTAL CAPITALIZATION**

As at May 31, 2018, total capitalization was \$3,573.7 million compared to \$4,597.4 million, a decrease of \$1,023.7 million from August 31, 2017. The decrease is primarily attributable to the decrease in retained earnings (deficit) in the current quarter arising from broadcast license and goodwill impairment charges, as well as the issuance of \$29.3 million shares from treasury under the Company's dividend reinvestment plan, offset by lower net debt resulting from the repayment of debt of \$81.6 million, and by a reduction in cash of \$8.0 million.

### **DERIVATIVE FINANCIAL INSTRUMENTS**

On November 28, 2017, the Company terminated the swap agreements that fixed the interest rate on an initial \$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. As a result, the Company received \$24.6 million, net of interest, in cash upon settlement of these swaps, which was the fair value upon termination. The fair value of \$24.6 million was recorded in other comprehensive income and is being amortized as non-cash interest income in the interim consolidated statements of income (note 14).

On November 28, 2017, the Company entered into new interest 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 May 31, 2018 was \$21.3 million, which has been recorded in the interim condensed consolidated statements of financial position as a long-term asset (note 4).

On January 5, 2018, the Company entered into a series of forward foreign exchange contracts totalling \$98.0 million USD, to fix the foreign exchange rate and therefore cash flows related to a portion of the Company's USD denominated long-term liabilities. The forward contracts are not designated as hedges for accounting purposes; they are measured at fair value at each reporting date by reference to prices provided by the counterparty. The counterparty of the forward contracts is a highly rated financial institution and the Company does not anticipate any non-performance. The estimated fair value of future cash flows of the USD forward contract derivatives change with fluctuations in the foreign exchange rate of USD to Canadian dollars. The estimated fair value of these agreements as at May 31, 2018 was \$3.7 million, which has been recorded in the interim condensed consolidated statements of financial position as a long-term asset (note 4), and within other expense (income), net in the interim consolidated statements of income (note 15). The Company has the following undiscounted contractual obligations related to remaining forward currency contracts in Canadian dollars:

(thousands of Canadian dollars)	<b>Total</b>	<b>Within 1 year</b>	<b>2 - 3 years</b>	<b>4 - 5 years</b>	<b>More than 5 years</b>
Contractual CDN cash outflows	115,568	24,304	50,840	40,424	—
Contractual USD cash inflows	93,200	19,600	41,000	32,600	—

## 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, 2017, including a discussion as to their relevance, definitions, calculation methods and underlying assumptions.

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:

### 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		Nine months ended	
	<b>2018</b>	<b>May 31, 2017</b>	<b>2018</b>	<b>May 31, 2017</b>
Cash provided by (used in):				
Operating activities	<b>92,947</b>	84,672	<b>265,126</b>	209,019
Investing activities	<b>(6,101)</b>	457	<b>(14,194)</b>	(10,058)
	<b>86,846</b>	85,129	<b>250,932</b>	198,961
Add back: cash used for (provided from) business combinations and strategic investments <sup>(1)</sup>	<b>907</b>	(2,602)	<b>2,109</b>	13,497
<b>Free cash flow</b>	<b>87,753</b>	82,527	<b>253,041</b>	212,458

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

### 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

(thousands of Canadian dollars, except per share amounts)	Three months ended		Nine months ended	
	2018	May 31, 2017	2018	May 31, 2017
<b>Net income (loss) attributable to shareholders</b>	<b>(935,899)</b>	66,719	<b>(818,184)</b>	162,746
<b>Adjustments, net of income tax:</b>				
Broadcast license and goodwill impairment charges	<b>1,010,061</b>	—	<b>1,010,061</b>	—
Business acquisition, integration and restructuring costs	<b>3,950</b>	3,422	<b>7,000</b>	13,798
<b>Adjusted net income attributable to shareholders</b>	<b>78,112</b>	70,141	<b>198,877</b>	176,544
<b>Basic earnings (loss) per share</b>	<b>\$(4.49)</b>	\$0.33	<b>\$(3.94)</b>	\$0.81
<b>Adjustments, net of income tax:</b>				
Broadcast license and goodwill impairment charges	<b>\$4.84</b>	—	<b>\$4.87</b>	—
Business acquisition, integration and restructuring costs	<b>\$0.02</b>	0.02	<b>\$0.03</b>	0.07
<b>Adjusted basic earnings per share</b>	<b>\$0.37</b>	\$0.35	<b>\$0.96</b>	\$0.88

### 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.

(thousands of Canadian dollars)	As at May 31, 2018	As at August 31, 2017
Total bank loans, net of unamortized financing fees	<b>2,009,952</b>	2,091,580
Cash and cash equivalents	<b>(85,700)</b>	(93,701)
<b>Net debt</b>	<b>1,924,252</b>	<b>1,997,879</b>

### 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 May 31, 2018	As at August 31, 2017
Net debt (numerator)	<b>1,924,252</b>	1,997,879
Segment profit (denominator) <sup>(1)</sup>	<b>568,668</b>	578,083
<b>Net debt to segment profit</b>	<b>3.38</b>	3.46

<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 May 31, 2018, net debt was \$1,924.3 million, down from \$1,997.9 million as at August 31, 2017. Net debt to segment profit as at May 31, 2018 was 3.38 times compared to 3.46 times as at August 31, 2017. Segment profit for the net debt to segment profit calculation reflects aggregate amounts as reported by the Company for the most recent four quarters.

## **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, 2017 consolidated financial statements and note 3 in the Company’s May 31, 2018 interim condensed 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 and nine months ended May 31, 2018 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**

(unaudited - in thousands of Canadian dollars)	As at May 31, 2018	As at August 31, 2017
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	85,700	93,701
Accounts receivable	459,943	408,443
Income taxes recoverable	—	1,388
Prepaid expenses and other assets	26,454	21,870
<b>Total current assets</b>	<b>572,097</b>	<b>525,402</b>
Tax credits receivable	22,354	18,172
Investments and other assets (note 4)	69,085	64,559
Property, plant and equipment	232,413	260,068
Program rights (note 5)	565,675	648,346
Film investments (note 6)	46,611	40,728
Intangibles (note 7)	2,007,646	2,045,813
Goodwill (note 8)	1,387,652	2,387,652
Deferred income tax assets	65,396	77,104
	<b>4,968,929</b>	<b>6,067,844</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	478,908	415,661
Current portion of long-term debt (note 11)	106,375	172,500
Provisions (note 10)	11,081	15,791
Income taxes payable	8,359	—
<b>Total current liabilities</b>	<b>604,723</b>	<b>603,952</b>
Long-term debt (note 11)	1,903,577	1,919,080
Other long-term liabilities	306,503	442,349
Provisions (note 10)	7,072	11,707
Deferred income tax liabilities	497,653	491,235
<b>Total liabilities</b>	<b>3,319,528</b>	<b>3,468,323</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 12)	2,321,084	2,291,814
Contributed surplus	11,956	11,449
Retained earnings (deficit)	(877,636)	114,492
Accumulated other comprehensive income	36,687	22,938
Total equity attributable to shareholders	1,492,091	2,440,693
Equity attributable to non-controlling interest	157,310	158,828
<b>Total shareholders' equity</b>	<b>1,649,401</b>	<b>2,599,521</b>
	<b>4,968,929</b>	<b>6,067,844</b>

See accompanying notes

**CORUS ENTERTAINMENT INC.**  
**CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)**

	Three months ended		Nine months ended	
	May 31,		May 31,	
(unaudited - in thousands of Canadian dollars, except per share amounts)	2018	2017	2018	2017
Revenues	441,410	461,628	1,268,263	1,297,796
Direct cost of sales, general and administrative expenses (note 13)	270,989	285,815	807,196	827,314
Depreciation and amortization	20,432	23,390	62,022	68,943
Interest expense (note 14)	32,500	39,918	96,341	118,595
Broadcast license and goodwill impairment	1,013,692	—	1,013,692	—
Business acquisition, integration and restructuring costs	5,285	4,638	9,368	18,718
Other expense, net (note 15)	1,002	4,626	5,083	7,521
Income (loss) before income taxes	(902,490)	103,241	(725,439)	256,705
Income tax expense (note 16)	26,253	27,551	72,584	68,330
Net income (loss) for the period	(928,743)	75,690	(798,023)	188,375
<b>Other comprehensive income (loss), net of income taxes:</b>				
<b>Items that may be reclassified subsequently to income (loss):</b>				
Unrealized foreign currency translation adjustment	177	191	607	404
Unrealized change in fair value of available-for-sale investments	(118)	(271)	(118)	(271)
Unrealized change in fair value of cash flow hedges	(459)	(3,253)	13,260	10,063
	(400)	(3,333)	13,749	10,196
<b>Items that will not be reclassified to income (loss):</b>				
Actuarial gain (loss) on employee post-employment benefits	4,997	(3,756)	4,129	9,309
	4,597	(7,089)	17,878	19,505
<b>Comprehensive income (loss) for the period</b>	<b>(924,146)</b>	<b>68,601</b>	<b>(780,145)</b>	<b>207,880</b>
<b>Net income (loss) attributable to:</b>				
Shareholders	(935,899)	66,719	(818,184)	162,746
Non-controlling interest	7,156	8,971	20,161	25,629
	(928,743)	75,690	(798,023)	188,375
<b>Comprehensive income (loss) attributable to:</b>				
Shareholders	(931,302)	59,630	(800,306)	182,251
Non-controlling interest	7,156	8,971	20,161	25,629
	(924,146)	68,601	(780,145)	207,880
<b>Earnings (loss) per share attributable to shareholders:</b>				
Basic	\$(4.49)	\$0.33	\$(3.94)	\$0.81
Diluted	\$(4.49)	\$0.33	\$(3.94)	\$0.81

See accompanying notes

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

(unaudited - in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total equity attributable to shareholders	Non-controlling interest	Total equity
As at August 31, 2017	2,291,814	11,449	114,492	22,938	2,440,693	158,828	2,599,521
Comprehensive income (loss)	—	—	(818,184)	17,878	(800,306)	20,161	(780,145)
Dividends declared	—	—	(178,073)	—	(178,073)	(21,729)	(199,802)
Issuance of shares under dividend reinvestment plan (note 12)	29,185	—	—	—	29,185	—	29,185
Issuance of shares under stock option plan (note 12)	85	—	—	—	85	—	85
Actuarial loss on post-retirement benefit plans	—	—	4,129	(4,129)	—	—	—
Share-based compensation expense	—	507	—	—	507	—	507
Funding of equity interest	—	—	—	—	—	50	50
<b>As at May 31, 2018</b>	<b>2,321,084</b>	<b>11,956</b>	<b>(877,636)</b>	<b>36,687</b>	<b>1,492,091</b>	<b>157,310</b>	<b>1,649,401</b>
As at August 31, 2016	2,168,543	10,444	142,499	(3,569)	2,317,917	158,430	2,476,347
Comprehensive income	—	—	162,746	19,505	182,251	25,629	207,880
Dividends declared	—	—	(172,264)	—	(172,264)	(27,125)	(199,389)
Issuance of shares under dividend reinvestment plan	92,236	—	—	—	92,236	—	92,236
Actuarial gain on post-retirement benefit plans	—	—	9,309	(9,309)	—	—	—
Share-based compensation expense	—	632	—	—	632	—	632
Reallocation of equity interest	—	—	4,500	—	4,500	3,000	7,500
As at May 31, 2017	2,260,779	11,076	146,790	6,627	2,425,272	159,934	2,585,206
See accompanying notes							

**CORUS ENTERTAINMENT INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Three months ended		Nine months ended	
		May 31,		May 31,
(unaudited - in thousands of Canadian dollars)	2018	2017	2018	2017
<b>OPERATING ACTIVITIES</b>				
Net income (loss) for the period	(928,743)	75,690	(798,023)	188,375
Adjustments to reconcile net income (loss) to cash flow from operations:				
Amortization of program rights (notes 5 and 13)	134,259	136,598	393,334	391,009
Amortization of film investments (notes 6 and 13)	4,362	7,815	10,217	16,777
Depreciation and amortization	20,432	23,390	62,022	68,943
Broadcast license and goodwill impairment	1,013,692	—	1,013,692	—
Deferred income taxes	11,641	8,584	11,739	15,798
Share-based compensation expense	151	178	507	632
Imputed interest (note 14)	10,452	13,442	33,330	39,195
Proceeds from termination of interest rate swap (note 11)	—	—	24,644	—
Payment of program rights	(133,073)	(132,557)	(371,442)	(375,919)
Net spend on film investments	(10,646)	(11,106)	(30,927)	(17,534)
CRTC benefit payment	(376)	(5,609)	(1,273)	(17,581)
Other	(2,546)	893	(5,274)	2,235
<b>Cash flow from operations</b>	<b>119,605</b>	<b>117,318</b>	<b>342,546</b>	<b>311,930</b>
Net change in non-cash working capital balances related to operations	(26,658)	(32,646)	(77,420)	(102,911)
<b>Cash provided by operating activities</b>	<b>92,947</b>	<b>84,672</b>	<b>265,126</b>	<b>209,019</b>
<b>INVESTING ACTIVITIES</b>				
Additions to property, plant and equipment	(2,338)	(2,160)	(7,297)	(13,567)
Proceeds from sale of property	—	—	545	—
Business combinations, net of acquired cash	—	3,000	—	3,000
Proceeds from disposition of non-controlling interest (note 19)	—	—	—	5,250
Net cash flows for intangibles, investments and other assets	(3,763)	(383)	(7,442)	(4,741)
<b>Cash (used in) provided by investing activities</b>	<b>(6,101)</b>	<b>457</b>	<b>(14,194)</b>	<b>(10,058)</b>
<b>FINANCING ACTIVITIES</b>				
Decrease in bank loans	(26,724)	(28,144)	(81,451)	(85,616)
Deferred financing costs	—	—	(4,088)	—
Issuance of shares under stock option plan	—	—	85	—
Dividends paid	(48,853)	(25,716)	(148,220)	(78,600)
Dividends paid to non-controlling interest	(5,541)	(8,540)	(21,729)	(27,125)
Other	(444)	(495)	(3,530)	(972)
<b>Cash used in financing activities</b>	<b>(81,562)</b>	<b>(62,895)</b>	<b>(258,933)</b>	<b>(192,313)</b>
Net change in cash and cash equivalents during the period	5,284	22,234	(8,001)	6,648
Cash and cash equivalents, beginning of the period	80,416	55,777	93,701	71,363
<b>Cash and cash equivalents, end of the period</b>	<b>85,700</b>	<b>78,011</b>	<b>85,700</b>	<b>78,011</b>
Supplemental cash flow disclosures (note 18)				
See accompanying notes				

**CORUS ENTERTAINMENT INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**May 31, 2018**

(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; 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, 2017, 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, 2017, 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 financial statements of the Company for the three and nine months ended May 31, 2018 were authorized for issue in accordance with a resolution of the Company's Board of Directors on June 26, 2018.

**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**

There are no changes in accounting policies in the current period.

**PENDING ACCOUNTING CHANGES**

**IFRS 9 – Financial Instruments**

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. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

**CORUS ENTERTAINMENT INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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**IFRS 15 – Revenue from Contracts with Customers**

In May 2014, the IASB issued IFRS 15 – *Revenue from Contracts with Customers*, which replaces IAS 18 – *Revenue* 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 has progressed through the initial implementation plan steps of scoping, identifying its unique revenue streams and has commenced reviewing its significant customer contracts. In addition, the Company continues to assess the impact of required disclosures around revenue recognition in the notes to the consolidated financial statements and any necessary policy and process changes, in preparation for adoption. The Company has not yet concluded on the impact of this standard 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 associates	Other assets	Total
Balance - August 31, 2017	10,558	54,001	64,559
Increase (decrease) in investments	(1,255)	5,781	4,526
<b>Balance - May 31, 2018</b>	<b>9,303</b>	<b>59,782</b>	<b>69,085</b>

**5. PROGRAM RIGHTS**

Balance - August 31, 2017	648,346
Net additions	312,789
Impairment charges	(2,126)
Amortization	(393,334)
<b>Balance - May 31, 2018</b>	<b>565,675</b>

**6. FILM INVESTMENTS**

Balance - August 31, 2017	40,728
Net additions	16,100
Amortization	(10,217)
<b>Balance - May 31, 2018</b>	<b>46,611</b>

**7. INTANGIBLES**

	Broadcast licenses <sup>(1)</sup>	Other <sup>(2)</sup>	Total
Balance - August 31, 2017	984,889	1,060,924	2,045,813
Additions	—	6,469	6,469
Impairments (note 9)	(13,692)	—	(13,692)
Amortization	—	(30,944)	(30,944)
<b>Balance - May 31, 2018</b>	<b>971,197</b>	<b>1,036,449</b>	<b>2,007,646</b>

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

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

**CORUS ENTERTAINMENT INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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**8. GOODWILL**

	<b>Total</b>
Balance - August 31, 2017	2,387,652
Impairment (note 9)	(1,000,000)
<b>Balance - May 31, 2018</b>	<b>1,387,652</b>

Goodwill is located primarily in Canada.

**9. IMPAIRMENT TESTING**

At each reporting date, the Company is required to assess its indefinite life intangible assets and goodwill for potential indicators of impairment, such as an adverse change in business climate that may indicate that these assets may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset or cash generating unit ("CGU") and compares it to the carrying value. In addition, irrespective of whether there is any indication of impairment, the Company is required to test intangible assets with an indefinite useful life and goodwill for impairment at least annually.

For long-lived assets other than goodwill, the Company is also required to assess, at each reporting date, whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased.

The Company completes its annual testing during the fourth quarter of each fiscal year. In the third quarter of fiscal 2018, management identified indicators of impairment at the enterprise level, notably a significant decline in the Company's share price from August 31, 2017, which resulted in the Company's carrying value being significantly greater than its current market enterprise value. Accordingly, interim goodwill impairment testing was required for both the Television and Radio group of CGUs. In addition, certain Radio markets had actual results and revised financial projections that fell short of previous estimates, indicating that interim broadcast license impairment testing was required.

The test for impairment of either an intangible asset or goodwill is to compare the recoverable amount of the asset or CGU to the carrying value. The recoverable amount is the higher of an asset's or CGU's fair value less costs to sell ("FVLCS") and its value in use ("VIU"). The recoverable amount is determined for an individual asset unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets (such as broadcast licenses and goodwill) and the asset's VIU cannot be determined to equal its FVLCS. If this is the case, the recoverable amount is determined for the CGU to which the asset belongs.

For the goodwill and broadcast license impairment tests conducted in the third quarter of fiscal 2018 for the Television and Radio CGUs, the Company has determined the VIU calculation is higher than FVLCS and, therefore, the recoverable amount for all CGUs or groups of CGUs is based on the VIU.

The VIU calculation uses cash flow projections, generally for a five-year period, and a terminal value. The terminal value is the value attributed to the CGU's operations beyond the projected period using a perpetuity growth rate. The key assumptions in the VIU calculations are segment profit growth rates (for periods within the cash flow projections and in perpetuity for the calculation of the terminal value) and discount rates.

Segment profit growth rates are based on management's best estimates considering historical and expected operating plans, strategic plans, economic considerations and the general outlook for the industry and markets in which the CGU operates. The projections are prepared separately for each of the Company's CGUs to which the individual assets are allocated and are based on the Company's most recent financial projections. The terminal growth rate is based on management's best estimates considering the industry, operating income trends and growth prospects for that specific CGU or group of CGUs.

- The discount rate applied to each asset, CGU or group of CGUs to determine VIU is a pre-tax rate that reflects an optimal debt-to-equity ratio and considers the risk-free rate, market equity risk premium, size premium and the risks specific to each asset or CGU's cash flow projections.
- In calculating the VIU, the Company uses an appropriate range of discount rates in order to establish a range of values for each CGU or group of CGUs.

**CORUS ENTERTAINMENT INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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(in thousands of Canadian dollars, except per share information)

The pre-tax discount and growth rates used by the Company for the purpose of its VIU calculations performed for each of the following groups of CGUs in the third quarter of fiscal 2018 were:

	<b>May 31, 2018</b>
Television	
Managed brands	
Pre-tax discount rate	<b>10.1% — 12.7%</b>
Earnings growth rate	<b>-7.4% — 0.3%</b>
Terminal growth rate	<b>0.0% — 1.0%</b>
Radio	
Pre-tax discount rate	<b>13.6% — 16.2%</b>
Earnings growth rate	<b>0.8% — 9.8%</b>
Terminal growth rate	<b>1.0% — 3.0%</b>

As a result of the broadcast license impairment test of certain Radio CGUs, the Company determined that there were broadcast license impairments in two Radio CGUs in Ontario and one in Manitoba. For each of the three Radio CGUs, the Company used VIU to determine the recoverable amount, which resulted in an impairment charge of \$13.7 million, that reduced the carrying value of broadcast licenses within these CGUs to their recoverable amount.

As a result of the goodwill impairment testing in the third quarter of fiscal 2018, the Company recorded a goodwill impairment charge of \$1,000.0 million in the Television segment. No goodwill impairment was identified on the Radio groups of CGUs.

***Sensitivity to changes in assumptions***

An increase of 50 basis points in the pre-tax discount rate, a decrease of 50 basis points in the earnings growth rate each year, or a decrease of 50 basis points in the terminal growth rate, each used in isolation to perform the Radio broadcast license and Television goodwill impairment tests, would not have resulted in a material change in the broadcast license impairment in the Radio segment, however would have resulted in an additional incremental goodwill impairment charge in the Television operating segment between \$10.0 million and \$190.0 million.

The carrying amount of goodwill allocated to each CGU and/or group of CGUs are set out in the following tables:

	<b>May 31, 2018</b>	August 31, 2017
<b>Broadcast licenses (note 7)</b>		
Television		
Managed brands	<b>852,905</b>	852,905
Other	<b>7,424</b>	7,424
Radio		
Calgary	<b>31,341</b>	31,341
Edmonton	<b>21,851</b>	21,851
Toronto	<b>21,775</b>	21,775
Vancouver	<b>21,303</b>	21,303
Other <sup>(1)</sup>	<b>14,598</b>	28,290
	<b>971,197</b>	984,889

**CORUS ENTERTAINMENT INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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	May 31, 2018	August 31, 2017
<b>Goodwill (note 8)</b>		
Television	1,320,553	2,320,553
Radio	67,099	67,099
	<b>1,387,652</b>	<b>2,387,652</b>

<sup>(1)</sup> Broadcast licenses for Other consist of all other Radio CGUs combined. There is no individual Radio CGU that comprises more than 10% of the Company's broadcast license total.

**10. PROVISIONS**

The continuity of provisions is as follows:

	Restructuring	Onerous lease obligation	Asset retirement obligation	Other	Total
Balance - August 31, 2017	15,614	2,892	8,407	585	27,498
Additions (reductions)	6,761	(1,329)	—	—	5,432
Interest	—	161	291	—	452
Payments	(13,645)	(1,344)	(240)	—	(15,229)
<b>Balance - May 31, 2018</b>	<b>8,730</b>	<b>380</b>	<b>8,458</b>	<b>585</b>	<b>18,153</b>
Current	7,480	380	2,636	585	11,081
Long-term	1,250	—	5,822	—	7,072
<b>Balance - May 31, 2018</b>	<b>8,730</b>	<b>380</b>	<b>8,458</b>	<b>585</b>	<b>18,153</b>

**11. LONG-TERM DEBT**

	May 31, 2018	August 31, 2017
Bank loans	2,025,864	2,107,299
Unamortized financing fees	(15,912)	(15,719)
	<b>2,009,952</b>	2,091,580
Less: current portion of bank loans	(106,375)	(172,500)
	<b>1,903,577</b>	1,919,080

Interest rates on the bank loans fluctuate with Canadian bankers' acceptances and/or LIBOR. As at May 31, 2018, the weighted average interest rate on the outstanding bank loans was 4.5% (2017 – 4.7%). Interest on the bank loans averaged 4.5% and 4.3% for the third quarter and year-to-date, respectively (2017 – 4.8% and 4.7%).

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 May 31, 2018.

**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 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.

**CORUS ENTERTAINMENT INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
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(in thousands of Canadian dollars, except per share information)

Effective November 30, 2017, the Company's credit agreement with a syndicate of banks was amended. The principal amendments effected were the extension of the maturity for the Revolving Facility and Term Facility Tranche 2 to November 30, 2021, for the Term Facility Tranche 1 to November 30, 2022, and fixing the mandatory repayment on the Term Facility to 1.25% per quarter effective November 30, 2017.

***Term Facility***

The Term Facility consists of two tranches, with the first tranche being in the amount of \$700.3 million and having a maturity of November 30, 2022, and the second tranche being in the amount of \$1,400.6 million and having a maturity of November 30, 2021.

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.

***Revolving Facility***

The \$300.0 million Revolving Facility matures on November 30, 2021. 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 May 31, 2018, all of the Revolving Facility was available and could be drawn.

**SWAP AGREEMENTS**

On November 28, 2017, the Company terminated the Canadian interest rate swap agreements that fixed 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. As a result, the Company received a cash payment, net of accrued interest of \$24.6 million in settlement of these interest rate swaps, which was the fair value upon termination. The fair value of \$24.6 million was recorded in other comprehensive income (loss) and is being amortized over the life of the original swap agreements as non-cash interest income in the interim consolidated statements of income (loss) and comprehensive income (loss) (note 14).

On November 28, 2017, the Company entered into Canadian interest rate swap agreements to fix the interest rate on \$1,101.0 million and \$600.0 million of its outstanding term loan facilities at 1.947% and 2.004%, respectively, plus applicable margins to August 31, 2021 and August 31, 2022. 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 (loss). The estimated fair value of these agreements as at May 31, 2018 is \$21.3 million, which has been recorded in the interim consolidated statement of financial position as a long-term

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asset. The effectiveness of the hedging relationship is reviewed on a quarterly basis.

**FORWARD CONTRACTS**

On January 5, 2018, the Company entered into a series of forward foreign exchange contracts totalling \$98.0 million USD, to fix the foreign exchange rate and therefore cash flows related to a portion of the Company's USD denominated long-term liabilities. The forward contracts are not designated as hedges for accounting purposes; they are measured at fair value at each reporting date. The counterparty of the forward contracts is a highly rated financial institution and the Company does not anticipate any non-performance. The estimated fair value of future cash flows of the USD forward contract derivatives change with fluctuations in the foreign exchange rate of USD to Canadian dollars. The estimated fair value of these agreements as at May 31, 2018 was \$3.7 million, which has been recorded in the interim consolidated statements of financial position as a long-term asset (note 4) and within other expense (income), net in the interim consolidated statements of income (loss) and comprehensive income (loss) (note 15). The Company has the following undiscounted contractual obligations related to forward foreign exchange contracts in Canadian dollars:

(thousands of Canadian dollars)	Total	Within 1 year	2 - 3 years	4 - 5 years	More than 5 years
Contractual CDN cash outflows	115,568	24,304	50,840	40,424	—
Contractual USD cash inflows	93,200	19,600	41,000	32,600	—

**12. 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, 2017	3,421,792	26,498	202,835,501	2,265,316	2,291,814
Conversion of Class A Voting Shares to Class B Non-Voting Shares	(2,400)	—	2,400	—	—
Issuance of shares under stock option plan	—	—	7,975	85	85
Issuance of shares under dividend reinvestment plan	—	—	3,510,246	29,185	29,185
<b>Balance - May 31, 2018</b>	<b>3,419,392</b>	<b>26,498</b>	<b>206,356,122</b>	<b>2,294,586</b>	<b>2,321,084</b>

**EARNINGS (LOSS) PER SHARE**

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

	Three months ended		Nine months ended	
	2018	May 31, 2017	2018	May 31, 2017
<b>Net income (loss) attributable to shareholders (numerator)</b>	<b>(935,899)</b>	66,719	<b>(818,184)</b>	162,746
<b>Weighted average number of shares outstanding (denominator)</b>				
Weighted average number of shares outstanding - basic	208,624	202,297	207,508	199,827
Effect of dilutive securities	—	352	—	237
<b>Weighted average number of shares outstanding - diluted</b>	<b>208,624</b>	202,649	<b>207,508</b>	200,064

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The calculation of diluted earnings (loss) per share for the three and nine months ended May 31, 2018 excluded 6,319,639 and 6,385,873, respectively (2017 – 2,478,517 and 2,660,494, 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:

	<b>May 31, 2018</b>	August 31, 2017
Outstanding employee stock options	<b>6,157,375</b>	5,256,850
Exercisable employee stock options	<b>2,985,550</b>	2,282,125
Outstanding PSUs	<b>1,446,547</b>	1,236,831
Outstanding DSUs	<b>1,139,424</b>	1,141,741
Outstanding RSUs	<b>537,674</b>	406,700

Share-based compensation expense (recovery) recorded for the third quarter and the year-to-date of fiscal 2018 in respect of these plans was \$(949) and \$(6,054) (2017 – \$2,204 and \$5,677). As at May 31, 2018, the carrying value of the liability for PSU, DSU and RSU units at the end of the quarter was \$7,162 (August 31, 2017 – \$18,243).

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

	Three months ended		Nine months ended	
	<b>May 31,</b>		<b>May 31,</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
<b>Direct cost of sales</b>				
Amortization of program rights	<b>134,259</b>	136,598	<b>393,334</b>	391,009
Amortization of film investments	<b>4,362</b>	7,815	<b>10,217</b>	16,777
Other cost of sales	<b>7,868</b>	7,257	<b>19,713</b>	18,009
<b>General and administrative expenses</b>				
Employee costs	<b>73,800</b>	80,764	<b>225,234</b>	239,097
Other general and administrative	<b>50,700</b>	53,381	<b>158,698</b>	162,422
	<b>270,989</b>	285,815	<b>807,196</b>	827,314

**14. INTEREST EXPENSE**

	Three months ended		Nine months ended	
	<b>May 31,</b>		<b>May 31,</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
Interest on long-term debt	<b>23,227</b>	25,862	<b>66,024</b>	77,741
Imputed interest on long-term liabilities	<b>10,452</b>	13,442	<b>33,330</b>	39,195
Amortization of deferred gain on settled interest rate swap	<b>(2,441)</b>	—	<b>(4,943)</b>	—
Other	<b>1,262</b>	614	<b>1,930</b>	1,659
	<b>32,500</b>	39,918	<b>96,341</b>	118,595

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**15. OTHER EXPENSE, NET**

	Three months ended		Nine months ended	
	2018	May 31, 2017	2018	May 31, 2017
Foreign exchange loss	1,202	4,195	4,125	7,411
Equity loss of associates	463	871	1,256	2,114
Other income	(663)	(440)	(298)	(2,004)
	<b>1,002</b>	<b>4,626</b>	<b>5,083</b>	<b>7,521</b>

**16. INCOME TAXES**

The reconciliation of income taxes attributable to operations computed at the statutory rates to income tax expense is as follows:

	Nine months ended		Nine months ended	
	May 31, 2018		May 31, 2017	
	\$	%	\$	%
Income tax at combined federal and provincial rates	(192,340)	26.5%	68,057	26.5%
(Income) loss subject to tax at less than statutory rates	(258)	0.0%	(7)	(0.0%)
Non-taxable portion of capital gains	(52)	0.0%	—	—%
Goodwill impairment	265,136	(36.5%)	—	—%
Transaction costs	(257)	0.0%	(302)	(0.1%)
Increase of various tax reserves	367	0.0%	339	0.1%
Miscellaneous differences	(12)	0.0%	243	0.1%
	<b>72,584</b>	<b>(10.0%)</b>	<b>68,330</b>	<b>26.6%</b>

**17. BUSINESS SEGMENT INFORMATION**

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

**TELEVISION**

The Television segment is comprised of 44 specialty television networks, 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.

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**REVENUES AND SEGMENT PROFIT**

<b>Three months ended May 31, 2018</b>	<b>Television</b>	<b>Radio</b>	<b>Corporate</b>	<b>Consolidated</b>
Revenues	402,990	38,420	—	441,410
Direct cost of sales, general and administrative expenses	242,187	26,973	1,829	270,989
<b>Segment profit (loss)</b>	<b>160,803</b>	<b>11,447</b>	<b>(1,829)</b>	<b>170,421</b>
Depreciation and amortization				20,432
Interest expense				32,500
Broadcast license and goodwill impairment				1,013,692
Business acquisition, integration and restructuring costs				5,285
Other expense, net				1,002
<b>Loss before income taxes</b>				<b>(902,490)</b>

<b>Three months ended May 31, 2017</b>	<b>Television</b>	<b>Radio</b>	<b>Corporate</b>	<b>Consolidated</b>
Revenues	422,324	39,304	—	461,628
Direct cost of sales, general and administrative expenses	251,030	27,706	7,079	285,815
<b>Segment profit (loss)</b>	<b>171,294</b>	<b>11,598</b>	<b>(7,079)</b>	<b>175,813</b>
Depreciation and amortization				23,390
Interest expense				39,918
Business acquisition, integration and restructuring costs				4,638
Other expense, net				4,626
<b>Income before income taxes</b>				<b>103,241</b>

<b>Nine months ended May 31, 2018</b>	<b>Television</b>	<b>Radio</b>	<b>Corporate</b>	<b>Consolidated</b>
Revenues	1,154,676	113,587	—	1,268,263
Direct cost of sales, general and administrative expenses	721,625	81,736	3,835	807,196
<b>Segment profit (loss)</b>	<b>433,051</b>	<b>31,851</b>	<b>(3,835)</b>	<b>461,067</b>
Depreciation and amortization				62,022
Interest expense				96,341
Broadcast license and goodwill impairment				1,013,692
Business acquisition, integration and restructuring costs				9,368
Other expense, net				5,083
<b>Loss before income taxes</b>				<b>(725,439)</b>

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Nine months ended May 31, 2017	Television	Radio	Corporate	Consolidated
Revenues	1,183,784	114,012	—	1,297,796
Direct cost of sales, general and administrative expenses	726,670	82,787	17,857	827,314
<b>Segment profit (loss)</b>	457,114	31,225	(17,857)	470,482
Depreciation and amortization				68,943
Interest expense				118,595
Business acquisition, integration and restructuring costs				18,718
Other expense, net				7,521
<b>Income before income taxes</b>				256,705

Revenues are derived from the following areas:

	Three months ended		Nine months ended	
	May 31,		May 31,	
	2018	2017	2018	2017
Advertising	291,040	304,550	824,914	853,901
Subscriber fees	126,164	127,539	379,427	379,556
Merchandising, distribution and other	24,206	29,539	63,922	64,339
	441,410	461,628	1,268,263	1,297,796

The following tables present further details on the operating segments within the Television and Radio segments:

**SEGMENT ASSETS AND LIABILITIES**

	May 31, 2018	August 31, 2017
<b>Assets</b>		
Television	4,468,038	5,462,897
Radio	245,571	260,573
Corporate	255,320	344,374
	4,968,929	6,067,844
<b>Liabilities</b>		
Television	1,140,375	1,184,239
Radio	34,325	50,989
Corporate	2,144,828	2,233,095
	3,319,528	3,468,323

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**18. CONSOLIDATED STATEMENTS OF CASH FLOWS**

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

	Three months ended		Nine months ended	
	May 31,		May 31,	
	2018	2017	2018	2017
Interest paid	<b>24,422</b>	26,411	<b>68,122</b>	79,880
Interest received	<b>491</b>	184	<b>809</b>	935
Income taxes paid	<b>23,351</b>	10,687	<b>48,330</b>	31,607

**19. 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. A further \$2,176 was received in fiscal 2018. 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.

**20. SUBSEQUENT EVENTS**

On June 27, 2018, the Company announced a new dividend framework with respect to its revised Capital Allocation Policy. The new dividend policy is as follows:

- Effective September 1, 2018, Corus' annual dividend rate will be adjusted to \$0.24 per Class B Share and \$0.235 per Class A Share, in line with both the Company's long-term goal of maintaining a dividend yield in excess of 2.5% and current industry peer benchmarks.
- The dividend payment schedule will be changed from monthly to quarterly to be more consistent with industry practices, with a projected quarterly rate of \$0.06 per Class B Share and \$0.5875 per Class A Share. The new payment schedule is expected to commence in December 2018 (in respect of fiscal Q1 2019), subject to approval by the Board of Directors in October 2018.
- As permitted under Corus' Dividend Reinvestment Plan (the "Plan"), in lieu of issuing new shares, Corus will satisfy its share delivery obligation under the Plan by purchasing Class B Shares on the open market. In addition, Corus will move to a 0% discount for shares delivered under the plan.