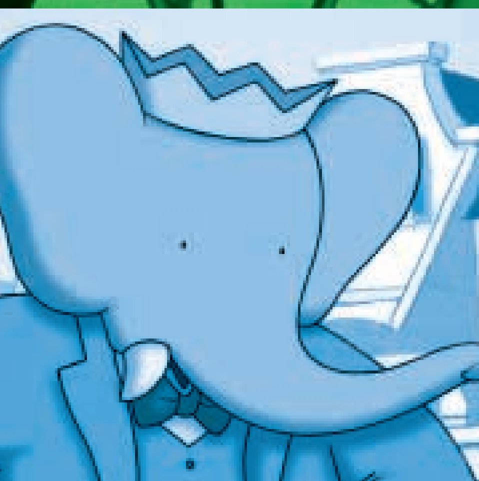







enter


corus ENTERTAINMENT

2001 ANNUAL REPORT


A Child's Treasury of NURSERY RHYMES
tain me
building on our strengths

Corus Entertainment has become a leading Canadian vertically integrated media and entertainment company in just two years. Since its creation on September 1, 1999, Corus has established a solid foundation, built on the strength of three core business divisions – Radio, Television and Content.

Entertaining audiences is the purpose and the passion of Corus Entertainment and the company is clearly poised to realize its vision of being globally recognized as Canada's most influential entertainment company. More than 15 million Canadians tune in or turn on a Corus radio or specialty television property each week and that number is growing.

A number of key transactions and events highlighted a successful year for Corus Entertainment:

- Corus and four U.S. radio broadcasters create first international network of local lifestyle Web portals.
- Corus is awarded 19 licences for new digital pay and specialty television services. The first five digital services are launched in September.
- Corus acquires Nelvana Limited, one of the world's largest producers of animated children's programming and a leading book publisher and merchandise licensor.
- Corus acquires Metromedia Broadcasting of Montreal, adding six radio stations to its stable including Canada's largest station, a French-language FM rock frequency in Montreal.
- Corus sells its 50% interest in Family Channel and acquires Women's Television Network (subject to CRTC approval), an analog specialty television service available in more than six million homes.
- Corus launches MOJO Radio, the world's first all men's talk radio station.
- Nelvana's animated series Braceface premieres in the number one slot with girls 9 – 14 on Fox Family, beating Nickelodeon, Disney and the Cartoon Network.
- Nelvana reaches agreement with Hasbro for the toy and game rights to the high-tech Medabots robot brand. The deal puts Nelvana at the forefront of the boys' action figure category.
- Corus increases its voting interest in TELETOON Canada Inc. from 20% to 40%.
- Corus announces the creation of the Corus Entertainment Production Initiative which will oversee the distribution of $5,000,000 for the production of Canadian family feature films and $2,650,000 in financing for quality Canadian youth drama series
- Nelvana takes best prime time animated series award for Bob and Margaret series at the eighth World Animation Celebration.

financial highlights

Year ended August 31 (THOUSANDS OF CANADIAN DOLLARS EXCEPT PER SHARE DATA)	2001	2000	1999
results of operations			
Revenues	**556,825**	229,230	162,379
Operating income before interest, taxes, depreciation, amortization, and other (EBITDA)	**129,137**	65,536	49,041
Net Income	**132,775**	155,984	7,375
Cash flow derived from operations	**159,156**	54,304	42,263
Capital expenditures	**37,045**	9,975	6,535
per share data			
Cash flow per share	**3.83**	1.63	
Earnings per share	**3.20**	4.67	
Weighted average shares outstanding	**41,539,000**	33,379,000	
financial position			
Total assets	**2,278,530**	1,429,003	862,537
Long-term debt	**620,801**	297,355	300,000
Shareholders' equity	**1,172,215**	826,678	–
Net investment by Shaw	**–**	–	470,839
Net debt/EBITDA	**4.81**	(1.14)	6.11

TOTAL REVENUE
(in $ millions)

TOTAL CASH FLOW DERIVED FROM OPERATIONS
(in $ millions)

EBITDA
(in $ millions)

TOTAL OPERATING MARGIN
(in percentages)

The late Kurt Cobain of the group Nirvana threw down the gauntlet for a whole generation when he said: 'Here we are now, entertain us.'

Corus Entertainment has accepted that challenge. Through its versatile and inventive programming and content, Corus has established a connection to its audiences, capturing their hearts, minds and imaginations.

Terri Clark, Canadian Country Music Artist

sing to me...

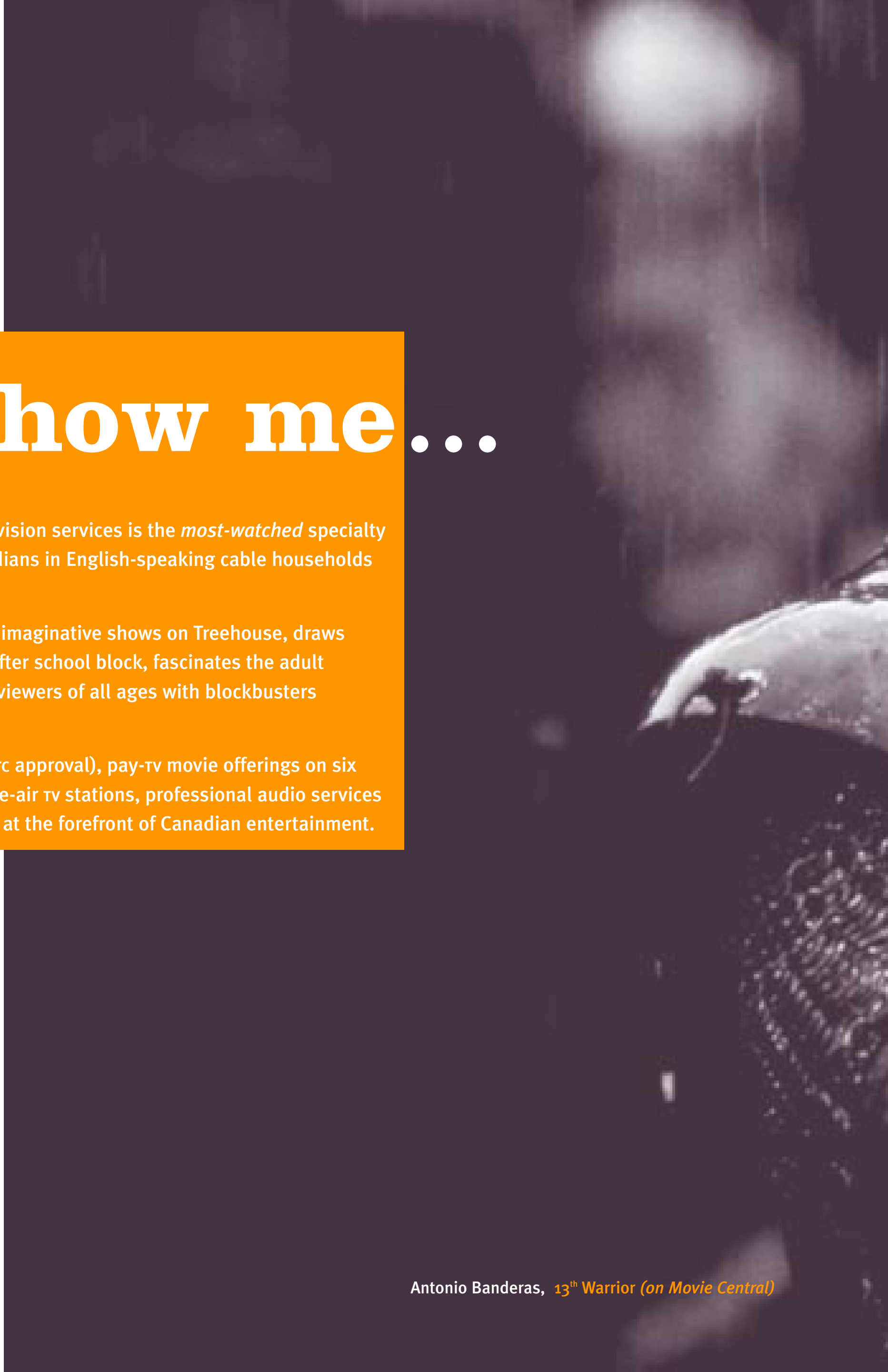
Corus is this country's largest radio operator, boasting ownership of 52 stations (pending CRTC approval) covering major markets from Vancouver to Montreal. Each day, Corus ignites the airwaves with the best music from an array of genres such as rock, country, contemporary and alternative. It also keeps listeners informed and involved with many of Canada's finest news/talk radio stations. Each week, more than 8 million Canadians tune in to Corus Radio – 28% more than the closest competitor.

show me...

Corus Entertainment's stable of specialty television services is the *most-watched* specialty group in Canada. Every week, 3 out of 4 Canadians in English-speaking cable households tune into a Corus specialty television service.

Corus Television captivates preschoolers with imaginative shows on Treehouse, draws tweens into The Zone, Canada's number one after school block, fascinates the adult with The Documentary Channel, and delights viewers of all ages with blockbusters on Movie Central.

Ten specialty television networks (pending CRTC approval), pay-TV movie offerings on six thematic channels, three conventional over-the-air TV stations, professional audio services and innovative digital advertising place Corus at the forefront of Canadian entertainment.



Antonio Banderas, 13th Warrior *(on Movie Central)*

Franklin the Turtle, Nelvana Limited

tell me...

Corus' Content Division is home to some of the world's most enduring animated characters including Franklin, Little Bear and Babar. Corus is blazing new trails in animation, creating a legacy with award-winning programs like Bob and Margaret, Pecola and John Callahan's QUADS! Entertainment is a universal language and Corus speaks it in 160 countries around the world through animated television productions, books, merchandise and music publishing.

message to shareholders

Your company made meaningful progress in its second year of operation, building on the strength of its assets by completing important strategic acquisitions and enhancing its operating effectiveness.

We now have three substantial divisions – Radio, Television and Content – each with exciting growth potential and all highly synergistic. Our revenue base is diverse with 45% of our revenue derived from advertising and 55% from subscriptions, licence fees and retail sales.

RADIO

Corus Entertainment is Canada's leading radio operator in both revenue and tuning. We are well positioned with leading clusters in most of Canada's major markets.

Throughout the past year, we have aggressively tackled the job of integrating numerous acquisitions, including consolidating sales organizations, renovating and building facilities to originate our clusters of stations and, in many cases, changing formats to reflect our understanding of the opportunities for growth in each of the markets in which we compete. Worthy of note are the creation of Canada's first "superstation", the Energy Radio network; our amalgamation of four radio stations in southern Ontario; and the launch of MOJO Radio, North America's first all men's talk radio station.

To attract a broader audience, we've extended the reach of many of our radio stations. First, we secured distribution on Star Choice, one of Canada's national satellite distributors. Second, through our involvement in LMiV (Local Market Internet Venture), a joint venture among five of North America's leading radio broadcasters, we've created the first international network of local lifestyle portals. Corus has four radio brands among the top 14 radio Web sites in North America.

We also completed the acquisition of Metromedia, a Quebec-based broadcaster with six radio stations in Montreal, Canada's second largest market.

We are committed to revenue growth in excess of market growth and margins in excess of 30%.

TELEVISION

Soaring revenues and a number of significant strategic initiatives characterized the past year in our Television Division. We successfully re launched our pay television business in Western Canada, with a major re-branding and a significant investment in programming – including the award-winning Sopranos. These moves contributed to rapid subscriber growth throughout the year.

Corus also acquired WTN (Women's Television Network), subject to CRTC approval. We feel there are significant synergies and tremendous revenue and ratings potential in WTN, particularly when we compare it to the performance of Lifetime, a similarly positioned television network in the U.S. Almost coincidental with this purchase, we divested our 50% interest in Family Channel as requested by the CRTC and Viewer's Choice, our pay-per-view franchise in Western Canada. The proceeds from these two sales largely funded the acquisition of WTN.

Our minority positions in TELETOON and Telelatino expanded to 40% and 50.5% (pending CRTC approval) respectively, a positive move as both networks possess outstanding growth potential.

CONTENT

Finally, this year we established our Content Division, the third pillar of our company, with the purchase of Nelvana, one of the leading producers of animation and children's programming in the world. Nelvana has an expansive library and a successful track record in acquiring rights and co-producing content with broadcasters around the world. Nelvana has 24 programs on the air in the United States today, more than any other single producer of children's animation. Here at home, 33 television programs on Canadian networks are Nelvana productions.

We believe our capability to both produce and package content positions Corus to participate in the development of children's programming and animation-oriented networks in emerging markets throughout Asia, Latin American and Europe.

Nelvana and our Television Division have committed to significant expansion of Corus-owned intellectual property on our various networks, thus creating additional synergistic benefits from this important acquisition.

In two short years of existence, Corus has established a vibrant new presence on the global media and entertainment scene. We now have:

- *strong positions in two of Canada's leading growth segments – radio and specialty television;*
- *content that is sold in over 160 countries around the world that is both evergreen and highly synergistic with our core television assets;*
- *eight successive quarters of record revenue and earnings;*
- *eight acquired companies and approximately 4,000 people successfully assimilated within the Corus family.*

We have a compelling vision and core values embraced by each of our employees. We enjoy the support and commitment of our controlling shareholders, the Shaw family.

Despite this impressive track record, our share price has declined about 30% this past year. A significant part of this erosion is due to an overall sectoral decline of 16% since September 11th, (Corus has declined 18%, from $32 down to $26). The reduction in share price is attributable to investor concerns over recent declines in advertising. While we appreciate these concerns, we do not believe Canadian advertising revenues will be impacted to the extent they have been in the U.S.

However, your management has embarked on a program of renewal to ensure that we remain competitive and innovative. We have committed to a three-step program:

1st To reduce our debt to EBITDA coverage from 4.8 x to 3.5 x.

2nd To improve our EBITDA margins to 30% by reducing costs, improving ad sales effectiveness and divesting of under-performing assets.

3rd Focusing our efforts over the next 12 months on maximizing the operational effectiveness and performance of our existing assets.

Our commitment to increasing shareholder value is unwavering. Our promise is twofold. First, we will continue to entertain, enlighten and inform our audiences through our diverse portfolio of assets, and second, we will delight our shareholders with our commitment to deliver superior operating results across all of our divisions.

John M. Cassaday
PRESIDENT & CHIEF EXECUTIVE OFFICER

Heather A. Shaw
EXECUTIVE CHAIR

overview of businesses

RADIO

Corus' radio business operates stations in high growth urban centres in Canada and is the country's largest radio operator in terms of revenue and audience tuning.

Revenue is derived primarily from advertising and has grown through acquisitions and internal growth from approximately $52 million in fiscal 1999 to approximately $192 million in fiscal 2001. In addition to being an important source of revenue, radio provides opportunities for cross-marketing with other operations such as the specialty television business.

Corus' goal is to continue growth of its radio business by increasing ratings and share of market ad revenue in each of its current markets and through strategic acquisitions in areas with favourable demographics. In this regard, Corus radio stations aim to be rated number one or two in the prime demographic for their relevant markets.

Corus has also adopted a clustering strategy pairing AM and FM radio stations in certain markets to improve operating performance by increasing coverage of the market and providing the Company with a higher share of the available advertising dollars. Clustering also provides opportunities to share costs between radio stations, thereby improving operating margins.

Corus' near-term strategy is focused on strengthening its position in the major metropolitan markets in Canada. The company has stations in eight of Canada's top 10 markets and will pursue acquisition opportunities in these markets to expand its audience reach, subject to CRTC limits on ownership.

As well, the Corus radio stations have invested in the Local Media Internet Venture (LMiV), which provides custom Web sites and Internet streaming capacity for its member stations. Corus considers the Internet to be a logical marketing extension of its radio stations.

TELEVISION

Corus has built a strong and successful specialty television group that offers outstanding programming for Canadians of all ages. At August 31, 2001 (and pending CRTC approval of certain acquisitions), Corus held full or majority ownership of five analog specialty networks, and five digital specialty television networks in Canada. These include YTV, Treehouse TV, Country Music Television, the Women's Television Network, Telelatino, The Documentary Channel, Country Canada, Discovery Kids, Edge TV and Scream.

Corus also holds minority interests in several specialty television networks, including: a 29.9% interest in The Comedy Network; a 40% interest in TELETOON; and a 19.9% ownership interest in Food Network Canada.

Revenue from specialty television has grown from approximately $8 million in fiscal 1996, (the first partial year of such revenues), to approximately $106 million in fiscal 2001. This increase is attributable both to selective acquisitions and to internally generated growth of the business.

Corus is also the exclusive license provider of pay television movie services in Western Canada through Movie Central's six thematic channels serving over 586,000 subscribers. Revenue from pay television has experienced tremendous growth: 118% from $33 million in fiscal 1997 to $72 million in fiscal 2001 as a result of increased DTH and digital cable subscribers and a dramatic relaunch and re-branding of the services.

In fiscal 2001, the Company also operated four conventional television stations – three popular CBC affiliates in Ontario and one television affiliate in Carleton, Quebec which was sold in February 2001.

The Television Division also includes the operations of Digital ADventure, a highly successful cable advertising service, and DMX, a fast-growing digital audio service available to homes and businesses.

Corus intends to provide growth, diversification and synergistic benefits in its television business by expanding its presence in the Canadian specialty television and broadcasting market. Corus will also focus on generating higher audience ratings and new revenue streams from its existing networks.

To allow for the strategic development and integration of Corus' television assets, the various specialty television networks will be organized under two categories for the purpose of management. Management responsible for adult-targeted programming will develop strategies for integrating operations where possible, as well as cross-promotion and marketing opportunities and joint sales initiatives. The kids' programming group will consider shared programming, cross-promotion and value-added content opportunities.

CONTENT

The Content Division includes: the production and distribution operations of Nelvana Limited, a world leader in the development, production and distribution of children's animated television programming; Nelvana's merchandising business; and the publishing operations of Kids Can Press, the largest Canadian-owned English language publisher of children's books, and Klutz, one of the leading branded children's book publishers in the United States.

Nelvana's Toronto production facility houses the latest in 2D and 3D animation technology. From here, programming is distributed to over 160 countries around the world through five sales/distribution offices. Over the past five years, Nelvana has grown its proprietary production deliveries from 116 half-hour episodes in 1997 to 242 in the 12 months ended August 31, 2001, a compounded annual growth rate of 20%.

At August 31, 2001, Nelvana's cumulative program library totaled 1,834 half-hour equivalent episodes comprising 49 animated television series, eight specials, nine animated feature length films and 10 live action series.

Some of Nelvana's most popular characters, including Little Bear, Franklin, Babar and Rupert, have achieved worldwide recognition. Nelvana's merchandising efforts focus on marketing popular brands and co-ordinating with leading retailers to promote its character merchandise in North America and around the world.

In publishing, Kids Can Press owns a broad and growing backlist of titles including the well-known Franklin book series, which has sold over 36 million books worldwide. Klutz is one of the largest publishers in the "books plus" category, an industry term for their popular craft and hobby books which are sold with related merchandise. Klutz is a leader in this publishing category with a catalog of over 125 books, crafts, guides and toys designed with customer price points suited for the gift market.

Corus' strategy is to build and manage its classic and contemporary children's brands, to acquire new brands, and to exploit those brands across established and new distribution channels and outlets.

management's discussion and analysis

Management's Discussion and Analysis is a review of activities and results for the fiscal year ended August 31, 2001 as compared to the previous year, and a review of activities and results for the fiscal year ended August 31, 2000 as compared to the previous year. Comments relate to and should be read in conjunction with the audited financial statements. Certain statements in this report may constitute forward-looking statements. Such forward-looking statements involve risks, uncertainties and other factors which may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievement expressed or implied by such forward-looking statements. All amounts are stated in Canadian dollars unless otherwise noted.

CREATION OF CORUS ENTERTAINMENT INC.

Corus commenced operations on September 1, 1999. On that date, pursuant to a statutory plan of arrangement, Corus was separated from Shaw Communications Inc. ("Shaw") as an independently operated, publicly traded company and assumed ownership of Shaw's radio broadcasting, specialty television, digital audio services and cable advertising services businesses, as well as certain investments held by Shaw.

RESULTS OF OPERATIONS

Corus manages its business in three operating groups: Radio Broadcasting, Television and Content. Generally, Corus' financial results depend on a number of factors, including the strength of the Canadian national economy and the local economies of Corus' served markets, local market competition from other radio stations and other advertising media, government regulation and Corus' ability to continue to provide popular programming.

(a) Radio Broadcasting ("Radio")

The Radio group is comprised of 52 radio stations (2000: 43 stations), subject to CRTC approval, situated primarily in high growth urban centres in Canada including Vancouver, Calgary, Edmonton, Winnipeg, Toronto and Montreal. Revenues are derived from advertising aired over these stations.

(b) Television

The Television group consists of the following: specialty television networks YTV, Treehouse TV and Corus' 80% interest in CMT (Country Music Television); Corus Premium Pay Services of Movie Central and Viewer's Choice; three conventional television stations; Corus' 80% interest in DMX, a digital audio service; and Digital ADventure, a cable advertising service. Revenues for specialty television networks and digital audio services are generated from affiliate subscriber fees and advertising. Revenues for pay television and pay-per-view services are generated from affiliate subscriber fees. Revenues for the conventional television stations and cable advertising are derived from advertising sales.

(c) Content

The Content group consists of the production and distribution of film and television programs, merchandise licensing and publishing businesses of Nelvana which were acquired in fiscal 2001. Revenues are generated from licensing of proprietary films and television programs, merchandise licensing and publishing.

Operating, general and administrative expenses include amortization of program and film rights (cost of programming costs purchased from third parties), amortization of film investments (costs associated with internally produced programming), employee remuneration, regulatory license fees, cost of goods sold relating to publishing, marketing (research and advertising costs), selling, general administration and overhead costs. Cost of goods sold relating to publishing include the material cost of the product, printing, freight, customs and duties and royalties to authors and illustrators based upon sales.

Approximately 32% and 37% of operating, general and administrative expenses in fiscal 2001 (2000 – 32% and 24% respectively) were comprised of employee remuneration and programming costs respectively.

The following table sets forth certain financial information for each of the years ended August 31:

consolidated summary of the company's operating groups

for the year ended August 31 (CDN $MILLIONS EXCEPT FOR %'S)	2001	% [2]	2000	% [2]	1999	% [2]	% Increase (decrease) 2001 over 2000	2000 over 1999
Revenues								
Radio	**191.8**	**34.4**	86.2	37.6	51.6	31.8	122.5	67.0
Television	**228.7**	**41.0**	143.0	62.4	110.8	68.2	60.0	29.1
Content	**137.4**	**24.6**	–	–	–	–	–	–
Eliminations	**(1.1)**	**–**	–	–	–	–	–	–
	556.8	**100.0**	229.2	100.0	162.4	100.0	143.0	41.1
Operating Expenses								
Radio	**143.7**	**25.8**	59.5	26.0	34.1	21.0	141.5	74.5
Television	**155.0**	**27.8**	100.2	43.7	79.2	48.7	54.7	26.5
Content	**120.1**	**21.6**	–	–	–	–	–	–
Corporate	**9.5**	**1.7**	4.0	1.7	–	–	135.9	–
Eliminations	**(0.6)**	**–**	–	–	–	–	–	–
	427.7	**76.8**	163.7	71.4	113.3	69.7	161.3	44.5
EBITDA [1]								
Radio	**48.1**	**8.6**	26.7	11.6	17.5	10.8	80.1	52.6
Television	**73.7**	**13.2**	42.8	18.7	31.6	19.4	72.2	35.4
Content	**17.3**	**3.1**	–	–	–	–	–	–
Corporate	**(9.5)**	**(1.7)**	(4.0)	(1.7)	–	–	135.9	–
Eliminations	**(0.5)**	**–**	–	–	–	–	–	–
	129.1	**23.2**	65.5	28.6	49.1	30.2	97.1	33.4
Depreciation	**20.0**	**3.6**	9.0	3.9	6.0	3.7	122.2	50.0
Amortization	**45.7**	**8.2**	13.4	5.8	7.4	4.5	241.0	81.1
Interest expense	**47.3**	**8.5**	30.4	13.2	27.0	16.6	55.6	12.6
Gains on sale of investments	**(103.1)**	**–**	(197.7)	–	–	–	–	–
Other income	**(6.9)**		(8.3)		–		(16.9)	–
Dividend income	**(2.1)**		(1.2)		(2.0)		75.0	(40.0)
Income before taxes	**128.2**		219.9		10.7		(41.7)	1,955
Income taxes	**(2.3)**		65.8		4.7		(103.5)	1,300
Income before equity earnings & minority interests	**130.5**		154.1		6.0		(15.3)	2,468
Equity earnings	**2.6**		2.1		1.5		23.8	40
Minority interest	**(0.3)**		(0.2)		(0.1)		–	–
Net income	**132.8**		156.0		7.4		(14.9)	2,008

Notes: (1) EBITDA is defined as income before interest, taxes, depreciation, amortization and other.
(2) Expressed as a percentage of total revenues for the year.

fiscal highlights

- 2000
- 2001

OPERATIONS

2000

- Revenue from operations increased by 41% to $229 million in 2000.
- EBITDA increased by 33.4% to $65.5 million in 2000.
- EBITDA margins were 28.6% in 2000 compared to 30.2% in 1999.
- The cumulative weekly audience for Corus radio stations increased from 2.7 million listeners to 6.5 million, an increase of 141%.
- The number of subscribers for Treehouse TV increased to approximately 4 million, an increase of 10%.

2001

- Revenue from operations increased by 143% to $557 million in 2001.
- EBITDA increased by 97% to $129 million in 2001.
- EBITDA margins were 23.2% in 2001 compared to 28.6% in 2000.
- The cumulative weekly audience for Corus radio stations increased from 6.5 million to 8.1 million listeners, an increase of 25%, therefore making Corus the largest operator in terms of audience tuning and revenues in Canada.
- Pro-forma EBITDA for Television increased 23% over fiscal 2000, reflecting strong organic growth.
- Nelvana delivered 242 episodes in the 12 months ended August 31, 2001, a 22% increase over the 199 episodes delivered in the prior year.

ACQUISITIONS/DIVESTITURES

2000

- 17 radio and four television stations were acquired in Ontario and Quebec from Power Broadcasting Inc. for $114 million.
- The 48% ownership position in Headline Sports was sold to Alliance Atlantis Communications for a pre-tax gain of $11.3 million.
- Completed the purchase of the radio and pay television assets from WIC.
- Acquired a 29.9% interest in Belcand Mount Royal Holdings Inc., which indirectly owns 5 radio stations in Montreal and one in the Laurentians, and entered into an agreement to acquire the remaining 70.1% interest subject to CRTC approval.

2001

- Acquired 100% of Nelvana Limited (“Nelvana”), an international producer and distributor of children’s programming and products for $561 million. Nelvana operates as a new business segment called “Content”.
- Completed the acquisition of six radio stations in Quebec from Metromedia CMR Broadcasting Inc. for $170 million.
- Disposed of the Quebec television station CHAU-TV.
- Acquired an additional 50% interest in Balmur Corus Music Inc., for a total ownership interest of 100%.
- Disposed of its 50% interest in The Family Channel Inc. including its direct 40% ownership interest in TELETOON Canada Inc. resulting in a pre-tax gain of $102 million.
- Agreed to sell Corus VC Ltd. to Shaw for $35 million, subject to CRTC approval.
- Agreed to acquire the Women’s Television Network (“WTN”) for $205 million from Moffat Communications Ltd., subject to CRTC approval.
- Agreed to increase the Company’s total interest in Telelatino Network Inc. to 50.5% for $11 million, subject to CRTC approval.
- Agreed to acquire Tri-Co Broadcasting Limited, a company that owns and operates three radio stations in Cornwall, Ontario for approximately $4 million, subject to CRTC approval.

FINANCIAL

2000

- Liberty Media acquired 7,125,000 Class B Non-Voting shares on March 31 for $199 million as part of the purchase of assets by the Company from WIC.
- The sale of Liberty Digital Inc., and CTV INC. shares generated a pre-tax gain of $187 million.

2001

- Acquired 2,029,000 Class A Non-Voting and 145,600 Class B subordinate voting shares of Astral Media Inc. from Shaw for $110 million. Subsequently, Corus monetized 2,000,000 Class A Non-Voting shares with a financial institution for $89.5 million.
- Increased the Company’s credit facilities by $150 million.
- Issued 5,047,532 Corus Class B Non-Voting shares to complete the Nelvana acquisition.

REGULATORY

2001

- During the year, a landmark decision was announced by the CRTC removing a general prohibition against cable companies or their affiliates owning specialty and pay television channels distributed on analog channels. The CRTC decision removes a growth constraint for Corus, as Corus was viewed by the CRTC as an affiliate of a cable company.

fiscal 2001 compared to fiscal 2000

Revenues for fiscal 2001 were $556.8 million, up 143% from $229.2 million last year. Through acquisition and organic growth, all divisions contributed to the strong growth in revenues. On a pro-forma basis, revenues increased 9% from $511.2 million last year.

Operating, general and administrative expenses increased from $163.7 million to $427.7 million, an increase of 162%. Expenses were also impacted by the Company's acquisitions during the year. On a pro-forma basis, operating, general and administrative expenses increased 10% from $387.1 million last year. The increase is a direct result of increased revenues and is mainly due to higher programming costs associated with specialty/pay television and increased productions at Nelvana.

EBITDA was $129.1 million, an increase of 97% over the same period last year. The Radio and Television divisions achieved EBITDA growth of 80% and 72% respectively. Year-to-date EBITDA also included $17.3 million from the November 2000 acquisition of Nelvana. On a pro-forma basis, EBITDA was up 4% from $124.1 million last year. EBITDA as a percentage of revenues was 23% in 2001 and 29% in 2000.

RADIO

Radio revenues increased 122% from $86.2 million in 2000 to $191.8 million in 2001, reflecting an increase from 14 stations to 49 stations at August 31, 2001. The 122% growth in revenues is 121% from acquisitions and 1% from organic growth. Strong growth was experienced in the key markets of Toronto, Edmonton and Calgary of 7% on a pro-forma basis. The gains were offset however, by the start-up related impact of numerous stations reformatted for long-term growth. Specifically CKLG, a soft AC format in Vancouver was relaunched as NW2, a 24-hours news wheel; Talk 640 in Toronto was reformatted to North America's first "guy talk" radio station branded as MOJO; and Barrie's leading radio station CHAY-FM was reformatted to the youthful Energy Radio Network as a HIT radio station. As well, two "all news" stations were launched in Quebec. Revenues were also affected by the continued impact of a new competitor in Vancouver and new stations launched in Barrie, London, Hamilton and Kingston.

Operating expenses increased from $59.5 million in 2000 to $143.7 million in 2001, an increase of 142%. The increase was driven by the increase in the number of stations.

EBITDA was $48.1 million, up from $26.7 million in 2000. EBITDA as a percentage of revenues was 25% in 2001, compared to 31% in 2000, reflecting the impact of increased competition and the investment in numerous format challenges. Excluding the reformatted stations, EBITDA as a percentage of revenues was 29%.

TELEVISION

Television revenues grew from $143 million in 2000 to $228.7 million in 2001, an increase of 60%. The 60% growth in revenues is 46% from acquisitions and 14% from organic growth. Growth in affiliate revenues continued as a result of increased DTH and digital cable subscribers. In addition, the reformatting of Superchannel to the six thematic channels of Movie Central fueled further affiliate revenue growth. At August 31, 2001, Movie Central had 586,000 subscribers, a 47% increase over a year ago. Advertising revenues for the specialty television stations and conventional television stations grew 11% and 8% respectively.

Operating expenses increased from $100.2 million to $155.0 in 2001, an increase of 55%. The increase is a direct result of increased revenues and increased programming costs associated with the launch of Movie Central.

EBITDA was $73.7 million, up from $42.8 million in 2000. EBITDA as a percentage of revenues was 32% in 2001, compared to 30% in 2000 reflecting the strong growth in the specialty and pay television businesses.

CONTENT

Content includes the operating results of Nelvana since November 14, 2000. Content revenues were $137.4 million in 2001, an increase of 13% on a pro-forma basis. This growth reflects a 31% increase in Production and Distribution revenue, a 6% decrease in Merchandise revenue and a 5% decrease in Publishing revenue.

The significant increase in Production and Distribution revenue reflects: (I) an increase of 54% in current revenue to $56.5 million; (II) a 5% decrease in library revenue to

$21.1 million; and (III) a 6% increase in music royalties to $3.1 million. Current production revenue growth is a direct result of the ramp-up in proprietary production deliveries which increased 22% in the twelve months ended August 31, 2001 to 242 episodes compared to 199 episodes the previous year. For the same period, current revenue per episode also increased from $230,000/episode last year to $295,000/episode in 2001. The decrease in library revenue is due to the fact that Nelvana completed a large library bulk sale in the prior year. Large library bulk deals do not necessarily repeat on an annual basis.

The decrease in Merchandise revenue is due to a weak retail environment. In fiscal 2001, a master toy license agreement was secured with Hasbro Inc. for the successful Japanese animated show Medabots which is expected to generate significant royalties over the next 3 to 5 years.

The Publishing business has been significantly affected by the weakness of the retail market, especially the specialty book retail segment in the U.S., and the merger of Chapters and Indigo in Canada. Despite the turmoil in the Canadian publishing market, Kids Can Press continues to show revenue growth of 4% over a year ago. In the U.S., Klutz was impacted by the financial difficulties and bankruptcies being experienced by several of its customers resulting in a decrease in revenues of 8% compared to the prior year. Given the softness of the specialty retail segment, management is actively pursuing expanding its channels of distribution.

Operating expenses increased from $101.6 million in 2000, on a pro-forma basis, to $118.6 million in 2001. The 17% increase reflects the increased volume of proprietary production, higher marketing expenses to support the growth of the merchandise business and increased bad debt provisions of over $1.5 million to reflect financial difficulties experienced by Klutz customers.

EBITDA decreased from $19.1 million in 2000, on a pro-forma basis, to $18.2 million in 2001 and EBITDA as a percentage of revenues was 15% in 2001. The decrease in EBITDA reflects the softness in the merchandising and publishing businesses.

CORPORATE OVERHEAD

Corporate overhead in fiscal 2001 was $9.5 million compared to $4.0 million in 2000. Corporate overhead is the incremental cost that is not allocated to the operating divisions. The increase is due to higher infrastructure costs necessary to support the acquisitions made in 2000 and 2001, mainly in the area of information technology and includes approximately $2.5 million in incremental one-time costs for recruitment and professional fees.

DEPRECIATION

Depreciation increased from $9.0 million in 2000 to $19.8 in 2001, an increase of 120%. The increase is a result of the increase in the capital asset base from acquisitions made in fiscal 2000 and 2001.

AMORTIZATION

Amortization was $45.8 million, up from $13.4 million last year. The majority of the increase was from amortization of goodwill and broadcast licenses which increased from $11.4 million in the prior year to $42.0 million as a result of various acquisitions.

INTEREST EXPENSE

Interest was $47.3 million up from $30.4 million last year reflecting an increase in long-term debt as a result of various acquisitions. Our effective interest rate for the period was 8.7% compared to 10.2% in the prior year.

GAIN ON SALE OF INVESTMENTS

For the year ended August 31, 2001, the gain on sale of investments of $103.1 million resulted from the disposal of Corus' interest in The Family Channel Inc. and CHAU-TV. In the prior year, the pre-tax gain of $197.7 million resulted from the disposal of Corus' interests in Headline Sports Television, Liberty Digital Inc. and CTV INC.

OTHER INCOME

Other income was $6.9 million, down from $8.3 million in the prior year due to higher interest income from short-term investments in 2000. As well, the current year included a pre-tax write-down of $1.5 million for the investment in COOLeh.com.

DIVIDEND INCOME

Dividend income was $ 2.1 million, up from $1.2 million due to higher dividends received from TELETOON and The Family Channel Inc. in fiscal 2001.

INCOME TAXES

Fiscal 2001 included a future income tax recovery of $42 million resulting from a re-measurement of future income tax assets and liabilities due to reduced income tax rates enacted from federal and provincial legislation. Income taxes (excluding the future tax recovery) as a percentage of earnings before taxes and amortization of broadcast licenses and goodwill were 25% in 2001 compared to 30% last year. The decrease in the tax rate is due to a lower effective tax rate for Nelvana and a lower effective tax rate on capital gains relating to sale of investments in fiscal 2001.

EQUITY EARNINGS FROM INVESTEES

Equity earnings from investees increased from $2.1 million to $2.6 million, primarily due to improved earnings from TELETOON.

NET INCOME

Net income for fiscal 2001 was $132.8 million, compared to $156.0 million last year. Earnings per share were $3.20 basic ($3.14 fully diluted) compared with $4.67 basic ($4.59 fully diluted) last year. The higher earnings per share in the prior year is due to the gain from disposal of investments.

fiscal 2000 compared to fiscal 1999

Revenues increased from $162.4 million to $229.2 million, an increase of 41.1% reflecting the exceptional growth in Television and the additional revenue from acquisitions during the year. Operating, general and administrative expenses increased from $113.3 million to $163.7 million, an increase of 44.5%. Expenses were also impacted by the Company's acquisition program. EBITDA increased to $65.5 million from $49.1 million last year, an increase of 33.4%. Our EBITDA margins were 28.6% compared to 30.2% last year.

RADIO

Radio revenues grew from $51.6 million in 1999 to $86.2 million in 2000, an increase of 67%. In 1999 Corus owned 11 radio stations. The number increased to 43 stations by the end of the fiscal year with the addition of three stations in London, Ontario in September 1999, 17 stations in April 2000 in Ontario (11) and Quebec (6) through the Power Broadcasting acquisition and 12 more stations across Canada with the WIC acquisition in July 2000. The 67% growth in revenues is 62% from acquisitions and 5% from organic growth. Expenses increased from $34.1 million in 1999 to $59.5 million in 2000, an increase of 74.5%. The increase was driven by the increase in the number of stations. EBITDA as a per cent of revenues was 31% in 2000 and 33.9% in 1999.

TELEVISION

Television revenues grew from $110.8 million in 1999 to $143.0 million in 2000, an increase of 29%. All of the television services contributed to the strong growth. The growth was due to acquisitions as well as increased affiliate revenue from the increase in DTH (Direct To Home) subscribers and increased advertising revenue. The results also include 12 months of Treehouse TV revenues in fiscal 2000 compared to 10 months in fiscal 1999. Expenses were $100.2 million compared to $79.2 million last year, an increase of 26.5%. EBITDA profit and margins increased from $31.6 million to $42.8 million and 28.5% to 30.0%, respectively, reflecting the increase in revenue and the control of expenses.

CORPORATE OVERHEAD

Corporate overhead in fiscal 2000 was $4.0 million compared to nil in 1999. Corporate overhead is the incremental cost that is not allocated to the operating divisions and is the cost that is now incurred by Corus to operate as a stand-alone entity and not as a division of Shaw.

DEPRECIATION

Depreciation increased from $6.0 million in 1999 to $9.0 million in 2000, an increase of 50%. The increase is a result of the increase in the capital asset base from acquisitions made in fiscal 2000.

AMORTIZATION

Amortization increased from $7.4 million in 1999 to $13.4 million in 2000, an increase of 81%. The majority of the increase was from amortization of goodwill and broadcast licenses which increased from $242.6 million in 1999 to $754.8 million in 2000 as a result of the various acquisitions.

INTEREST EXPENSE

Interest expense increased from $27.0 million in 1999 to $30.4 million in 2000. Interest expense includes interest paid on long term debt, commitment fees, and cost of hedging. Our effective interest rate for the year was 10.2%, compared to 9% in 1999.

GAIN ON SALE OF INVESTMENTS

The Company realized a pre-tax gain of $197.7 million in fiscal 2000 on the sale of investments. There were no gains in 1999. The gain consisted of $11.3 million on the sale of Headline Sports, $105.2 million on the sale of the shares of Liberty Digital Inc., and $81.2 million on the sale of the shares of CTV INC.

OTHER/DIVIDEND INCOME

Other revenue consisted of interest income on investments and dividend income. Other revenue in 2000 was $9.5 million compared to $2.0 million last year, an increase of 348%. The effective interest rate on invested cash was 5.63% in fiscal 2000. In 1999, other revenue consisted of dividend income from the investment in WIC.

INCOME TAXES

The effective tax rate in fiscal 2000 was 30% compared to 44% in fiscal 1999. The lower tax rate in fiscal 2000 is a result of the lower effective capital gains rate applied to the sale of investments.

EQUITY EARNINGS FROM INVESTEES

Equity earnings from investees increased from $1.5 million in 1999 to $2.1 million in fiscal 2000 an increase of 40%. The increase was primarily a result of improved earnings from TELETOON.

NET INCOME

Net income increased from $7.4 million in 1999 to $156.0 million in 2000, an increase of 2,008%. The significant increase in net income was a result of the gain on sale of investments.

risks and uncertainties

IMPACT OF REGULATION ON CORUS' RESULTS OF OPERATIONS

Corus' Radio and Television business activities are regulated by the CRTC under the Broadcasting Act and, accordingly, Corus' results of operations may be adversely affected by changes in regulations and decisions by the CRTC. These regulations relate to, among other things, licenses to operate radio and television stations and the rates Corus may charge for its specialty television services if distributed as part of the basic service. Corus' radio stations must also meet technical operating requirements under the Radio Act and regulations there under. Changes in the regulation of Corus' business activities, including decisions by the CRTC affecting Corus' operations (such as the granting or renewal of licenses, decisions as to the subscribers fees Corus may charge its customers, or the granting of additional distribution, broadcasting or programming licenses to competitors in Corus' markets) or changes in interpretations of existing regulations by courts or the CRTC, could materially adversely affect Corus' business and results of operations.

In addition, in order to maintain eligibility under the *Broadcasting Act* and the *Radio Act*, there are limitations on the ownership by non-Canadians of Corus Class A Voting Shares. Under certain circumstances, Corus' Board of Directors may refuse to issue or register the transfer of Corus Class A Voting Shares to any person that is a non-Canadian or may sell the Corus Class A Voting Shares of a non-Canadian as if it were the owner of such Corus Class A Voting Shares.

COMPETITION AND TECHNOLOGICAL CHANGE

Corus encounters aggressive competition in all areas of its business. Corus' failure to compete in these areas could materially adversely affect Corus' results of operations. The financial success of Corus' specialty television business depends on obtaining revenue from advertising as well as from subscription fees. Numerous broadcast and specialty television networks competed with Corus for advertising revenue, and a failure by Corus to obtain its necessary share of such revenue could materially adversely affect Corus' results of operations. In addition, competition among specialty television services in Canada is highly dependent upon the offering of prices, marketing and advertising support and other incentives to cable operators and other distributors for carriage so as to favourably position and package the services to subscribers. As well, the CRTC has licensed a number of specialty services for digital distribution which increases competition. Any failure by Corus to compete effectively in the area of specialty television services could materially adversely affect Corus' results of operations.

The financial success of each of Corus' radio stations is dependent principally upon its share of the overall advertising revenue within its geographic market, its promotional and other expenses incurred to obtain the revenue and the economic strength of its geographic market. Corus' radio advertising revenues are, in turn, highly dependent upon audience share. Other stations may change programming formats to compete directly with Corus' stations for listeners and advertisers or launch aggressive promotional campaigns in support of already existing competitive formats. If a competitor, particularly one with substantial financial resources, were to attempt to compete in either of these fashions, ratings at Corus' affected station could be negatively impacted, resulting in lower net revenues.

Radio broadcasting is also subject to competition from electronic and print media. Potential advertisers can substitute advertising through broadcast television, cable television systems (which can offer concurrent exposure on a number of cable networks to enlarge the potential audience), daily, weekly, and free-distribution newspapers, other print media, direct mail, and on-line computer services for radio advertising. Competing media commonly target the customers of their competitors, and advertisers regularly shift dollars from radio to these competing media and vice versa. Accordingly, there can be no assurance that any of Corus' radio stations will be able to maintain or increase their current audience share and advertising revenue share.

RISKS ASSOCIATED WITH PRODUCTION OF FILM AND TELEVISION PROGRAMS

Each production is an individual artistic work and its commercial success is determined primarily by audience acceptance, which cannot be accurately predicted. Audience acceptance is a factor not only of the response to artistic components of a film or television program, but also to the type and extent of promotion and marketing activities, the quality and acceptance of other competing programs, general economic conditions and other factors, all of which can change rapidly and many of which are beyond Corus' control. Therefore economic success of any production is not assured.

Production of film and television programs require a significant amount of capital. Factors such as labour disputes, technology changes or other disruptions affecting aspects of production may affect Nelvana or its co-production partners and cause cost overruns and delay or hamper completion of a production.

Financial risks exist in productions relating to tax credits and co-production treaties. The aggregate amount of government tax credits a project may receive can constitute a material portion of a production budget and typically can be as much as 20% of total budgeted costs. There is no assurance that government tax credits and industry funding assistance programs will continue to be available at current levels or that Nelvana's production projects will continue to qualify for them. As well, the majority of Nelvana's productions are co-productions involving international treaties which allow Nelvana to access foreign financing and reduce production risk as well as qualify for Canadian government tax credits. If an existing treaty between Canada and the government of one of the current co-production partners were to be abandoned, one or more co-productions currently underway may also need to be abandoned. Losing the ability to rely on co-productions would have a significant adverse effect on Nelvana's production capabilities and production financing.

Results of operations for the production and distribution business for any period are dependent on the number, timing and commercial success of television programs and feature films delivered or made available to various media, none of which can be predicted with certainty. Consequently, current revenue from production and distribution may fluctuate materially from period to period and the results of any one period are not necessarily indicative of results for future periods. Cash flows may also fluctuate and are not necessarily closely correlated with revenue recognition.

Library revenue from production and distribution can vary substantially from year to year, both by geographic territory and by year of production. The timing of Nelvana's ability to sell library product in certain territories will depend on the market outlook in the particular territory and the availability of product by territory which depends on the extent and term of any prior sale in that territory.

RISKS ASSOCIATED WITH PUBLISHING BUSINESS

As is typical in the publishing industry, the sales generated by Klutz and Kids Can Press are seasonal. A substantial portion of sales are made to retailers in anticipation of the Christmas holiday season. Adverse business or economic conditions during this period may adversely affect the results for the full year.

FOREIGN EXCHANGE RISK

A significant portion of revenues and expenses for the Content business is in currencies other than Canadian dollars and, therefore, is subject to fluctuations in exchange rates. Approximately 20% of Corus' total revenues were in foreign currencies, the majority of which were U.S. dollars. The foreign exchange risk is mitigated as the net cash flow from operations is natural hedge against interest on U.S. denominated debt.

INTEREST RATE RISK

Interest rate risk arises from fluctuations in interest rates on drawings under our senior revolving credit facility. Corus has entered into cross-currency interest rate swaps to fix 37% of floating rate debt. Corus does not engage in a speculative trading program.

CONTROL OF CORUS BY THE SHAW FAMILY

JR Shaw and members of his family and the corporations owned and/or controlled by JR Shaw and members of his family (the "JR Shaw Group") currently own approximately 79% of our outstanding Corus Class A Voting Shares. The Corus Class A Voting Shares are the only shares entitled to vote in all circumstances. As long as the JR Shaw Group owns a majority of the Corus Class A Voting Shares, the JR Shaw Group will continue to be able to elect Corus' entire Board of Directors and to remove any director, with or without cause, without calling a special meeting. In addition, the concentration of ownership and voting power may have the effect of delaying or preventing a change of control of Corus that could be otherwise beneficial to holders of Corus Non-Voting Shares. As a result, the JR Shaw Group will control all matters affecting Corus, including:

- *the composition of Corus' Board of Directors and, through it, any determination with respect to Corus' business direction and policies, including the appointment and removal of officers;*
- *the allocation of business opportunities that may be suitable for Corus;*
- *any determinations with respect to mergers or other business combinations;*
- *Corus' acquisition or disposition of assets;*
- *Corus' financing; and*
- *the payment of dividends on Corus' common stock.*

The JR Shaw Group may exercise their control over Corus according to interests that are different from the interests of other investors. For example, the JR Shaw Group may be more interested than other investors in selling Corus to an acquirer, or may want Corus to pursue strategies that are different from the wishes of other investors.

All of the Corus Class A Voting Shares held by the JR Shaw Group are subject to a voting trust agreement entered into by such persons. The voting rights with respect to such Corus Class A Voting Shares are exercised by the representative of a committee of five trustees.

Actions by Corus' Board of Directors may delay or prevent an acquisition of Corus, which could decrease the value of Class B Non-Voting Shares.

Corus' Board of Directors has the authority to issue preferred shares and to determine the designation, rights, conditions, restrictions and limitations including voting and dividend rights, of preferred shares without any further vote or action by shareholders, which could be used to dilute the share ownership of a potential hostile acquirer. The rights of the holders of Corus Non-Voting Shares will be subject to, and may be adversely affected by, the rights of the holders of any preferred shares that may be issued.

liquidity and capital resources

CASH FLOW

Cash flow derived from operations was $159.2 million in fiscal 2001 compared to $54.3 million in fiscal 2000, an increase of 193%. The increase is due to cash flow generated from the various acquisitions in fiscal 2000 and 2001.

Cash used by investing activities in fiscal 2001 was $814.5 million. Cash usage consisted primarily of capital asset additions, payments of program rights, film investment additions, deferred charges, business acquisitions and investments as described below:

- *Capital expenditures amounted to $37.0 million in fiscal 2001 compared to $10.0 million in fiscal 2000. The increase in capital expenditures is a result of our significant acquisition activity in fiscal 2000 and 2001 as well as the normal replacement of, and improvements to, existing property and equipment.*
- *Payment of program rights amounted to $63.9 million in fiscal 2001 and $32.2 million in 2000. Annual expenditures on program rights will vary depending upon availability of materials, cost, length of license agreements, and program success. The expenditures in 2001 increased significantly due to the reformatting of the pay television services to the six thematic channels launched as Movie Central.*
- *Additions to film investment of $95.6 million in 2001 relate to costs of internally produced television and film programs at Nelvana.*
- *Additions to deferred charges of $13.0 million in 2001 relate to start-up costs associated with the launch of 5 digital specialty channels, and reformatting costs for various radio stations and Movie Central.*
- *Cash usage for material business acquisitions and investments in fiscal 2001 amounted to $723 million (2000 - $290 million). The principal business acquisitions consisted of Nelvana ($332 million) and Metromedia ($129 million) and the principal investments consisted of $110 million for Class A & B shares of Astral Media Inc. and a $150 million advance for the acquisition of WTN. In 2000, the principal investments consisted of acquisitions: $114 million for Power Broadcasting, $120.9 million for the assets of WIC, $39.5 million for the purchase of 29.9% of Metromedia, and $15.5 million for the purchase of approximately 5.7% on a fully diluted basis of Nelvana Limited.*

Corus was able to partially fund these new investments from gross proceeds of $136 million that were realized from the sale of CHAU-TV ($8.8 million) and the Family Channel Inc. ($127 million). In 2000, Corus realized gross cash proceeds of $654 million from the sale of its interests in Headline Sports, Liberty Digital Inc./CTV INC. and it's investment in WIC as part of the ultimate purchase of the WIC Assets.

Cash flow from financing activities in fiscal 2001 was $291.9 million. Long-term debt, net of repayments, increased $195 million to complete the acquisitions made during the year and to fund increased production of television and film programs. In addition, Corus entered into a short-term borrowing arrangement for $89.5 million which is collateralized by a portion of the Company's investment in Astral Media. In fiscal 2000, cash flow of $2.9 million was used to repay long-term debt. Corus' cash provided by operations has to date been sufficient to fund its capital expenditures other than acquisitions.

LONG-TERM DEBT

On September 1, 1999 Corus entered into a $600 million revolving/reducing credit facility with a syndicate of Canadian chartered banks. The first tranche of the credit facility consists of a revolving/reducing term loan expiring on August 31, 2006 for up to $600 million less any amount borrowed under the second tranche. The second tranche is a reducing term loan for up to $300 million or the U.S. dollar equivalent. One per cent of the principal of the reducing term loan is due each year for seven years with the balance due on August 31, 2007. Interest rates on both facilities bear interest based on Canadian bankers' acceptance and U.S. Libor rates. Under the credit facility, Corus is required to maintain certain financial covenants, and its ability and that of its subsidiaries to incur debt, grant security interests, dispose of assets, change the nature of its business, enter into business combinations or make certain distributions, is restricted. At August 31, 2001 the revolving/reducing credit facility was fully utilized. Included in the reducing term loan is U.S. $147 million currency that has been hedged at a rate of $1.44 (CDN $211.7 million).

The credit facility bears a weighted average interest rate of 8.7% of which the interest rate on the hedged component has been fixed at 11.4% until August 31, 2005.

In fiscal 2001, Corus secured an additional $150 million senior debt facility with a syndicate of Canadian chartered banks. At August 31, 2001 Corus had total long-term debt outstanding of $621 million reflecting a ratio of long-term debt to EBITDA of 4.8 to 1. Corus had a negative debt to EBITDA ratio at August 31, 2000. The increase in debt is mainly due to acquisitions made during the year. Management considers the current level of long-term debt to be reasonable. On a 12-month pro-forma basis, the long-term debt to EBITDA ratio is 4.1 to 1.

Corus believes that its current credit facilities and earnings from operations are sufficient to fund operations and commitments including CRTC benefits for the foreseeable future.

SHARE CAPITAL

Share capital in fiscal 2001 increased $211.8 million as a result of Corus issuing 5,048,000 Class B Non-Voting shares at $41.81 per share to complete the acquisition of Nelvana and stock options being exercised. In fiscal 2000, Corus issued 7,125,000 Class B Non-Voting shares at $28.05 per share to complete the acquisition of WIC.

recent accounting pronouncements

(a) SOP 00-2 Accounting by producers or distributors of films

In June 2000, the Financial Accounting Standards Board in the United States issued Statement of Position 00-2 (“SOP 00–2”), “Accounting by Producers or Distributors of Films”, which provides guidance on U.S. GAAP to all producers or distributors that own or hold rights to distribute or exploit films. The new standard is effective for financial statements in fiscal years beginning after December 15, 2000. The company will adopt SOP 00-2 commencing September 1, 2001 and estimates that the cumulative effect of changes in accounting principles caused by the adoption of the SOP 00-2 will result in an adjustment to retained earnings, for Canadian GAAP purposes of approximately $5,000,000 – $7,000,000. For U.S. GAAP purposes, the impact would be recorded as a decrease to net income for the year ending August 31, 2001.

(b) CICA Section 3500 – Earnings per share

In January 2001, the Canadian Institute of Chartered Accountants approved the revised standard for the calculation of Earnings per Share. The new standard is effective for the fiscal year beginning September 1, 2001. The Company does not expect that the adoption of the new standard will have a material impact on its financial statements.

(c) CICA Section 1581 – Business Combinations and CICA Section 3062 – Goodwill and other intangible assets

In June 2001, the Canadian Institute of Chartered Accountants (“CICA”) approved final standards on Business Combinations (CICA Section 1581), and Goodwill and Other Intangible Assets (CICA Section 3062). These Standards will initiate changes in accounting for business combinations and goodwill. CICA Section 1581 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Use of the pooling-of-interests method will be prohibited. CICA Section 3062 changes the accounting for goodwill from an amortization method to an impairment-only approach. Thus, amortization of goodwill, including goodwill recorded in the past business combinations, will cease upon adoption of these standards. CICA Sections 1581 and 3062 will be applicable for fiscal years beginning on or after January 1, 2002; however, earlier adoption is permitted for companies with fiscal years beginning on or after April 1, 2001. The Company plans to adopt CICA Sections 1581 and 3062 effective September 1, 2001 and accordingly will cease amortization of broadcast licenses and goodwill. The impact is estimated to be an increase in net income for the year ending August 31, 2002 of $48,000,000 (2001 – $39,000,000). The Company has not yet determined the impact of the change in this accounting policy as it relates to applying the transitional test giving rise to the recognition of any impairment loss as an adjustment to opening retained earnings.

management's responsibility for financial reporting

The accompanying consolidated financial statements of Corus Entertainment Inc. and all the information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with the financial statements.

Corus Entertainment Inc. maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility through its Audit Committee.

The Audit Committee is appointed by the Board, and the majority of its members are outside unrelated directors. The Committee meets periodically with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the annual report, the financial statements and the external auditors' report. The Committee reports its finding to the Board for consideration when approving the financial statements for the issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors.

The financial statements have been audited by Ernst & Young LLP, the external auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. Ernst & Young LLP has full and free access to the Audit Committee.

John M. Cassaday
PRESIDENT & CHIEF EXECUTIVE OFFICER

Thomas C. Peddie
SENIOR VICE PRESIDENT & CHIEF FINANCIAL OFFICER

auditors' report

TO THE SHAREHOLDERS OF CORUS ENTERTAINMENT INC.

We have audited the consolidated balance sheets of **Corus Entertainment Inc.** (the "Company") as at August 31, 2001 and 2000 and the consolidated statements of income, retained earnings and cash flows for the years then ended and the consolidated statements of income, net investment and cash flows of Shaw Communications Inc. – Corus Entertainment Division (the "Division") for the year ended August 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended and the results of its operations and its cash flows of the Division for the year ended August 31, 1999 in accordance with Canadian generally accepted accounting principles.

As more fully described in note 1, the Division comprised the entertainment division of Shaw Communications Inc. The Division had no legal status until September 1, 1999 when it became a separate, publicly traded company bearing the name **Corus Entertainment Inc.**

Toronto, Canada
October, 12, 2001

Ernst & Young LLP
CHARTERED ACCOUNTANTS

consolidated balance sheets

(see basis of presentation – note 1)

As at August 31 (THOUSANDS OF CANADIAN DOLLARS)	2001	2000
assets (note 15)		
CURRENT		
Cash and cash equivalents	–	372,348
Accounts receivable (notes 6 and 24)	175,009	72,076
Prepaid expenses and other	13,995	11,248
Inventories (note 7)	24,731	–
Program and film rights	48,753	30,215
Total current assets	262,488	485,887
Tax credits receivable	30,995	–
Investments and other assets (notes 4 and 8)	319,754	94,345
Capital assets, net (note 9)	104,944	67,401
Program and film rights	14,329	8,049
Film investments (note 10)	160,056	3,494
Deferred charges (note 11)	36,947	15,054
Broadcast licenses and goodwill (note 12)	1,349,017	754,773
	2,278,530	1,429,003
liabilities and shareholders' equity		
CURRENT		
Bank overdraft	6,536	–
Accounts payable and accrued liabilities (notes 13 and 24)	140,302	73,352
Income taxes payable	25,736	12,767
Future tax liability (note 17)	10,687	6,904
Securitized borrowing (note 14)	89,500	–
Current portion of long-term debt (note 15)	6,382	3,000
Total current liabilities	279,143	96,023
Long-term debt (notes 1 and 15)	614,419	294,355
Deferred credits	56,244	39,350
Future tax liability (note 17)	155,053	171,463
Minority interest	1,456	1,134
Total liabilities	1,106,315	602,325
SHAREHOLDERS' EQUITY		
Share capital (note 16)	882,516	670,694
Retained earnings (note 1)	288,759	155,984
Cumulative translation adjustment	940	–
Total shareholders' equity	1,172,215	826,678
	2,278,530	1,429,003

Commitments (notes 15, 16, and 23)

See accompanying notes

On behalf of the Board:

John M. Cassaday DIRECTOR

Heather A. Shaw DIRECTOR

consolidated statements of income, retained earnings/net investment

Years ended August 31 (THOUSANDS OF CANADIAN DOLLARS)	2001	2000	1999
Revenues (notes 22 and 24)	**556,825**	229,230	162,379
Operating, general and administrative expenses (note 24)	**427,688**	163,694	113,288
Operating income before the following	**129,137**	65,536	49,091
Depreciation (note 9)	**19,960**	8,995	6,023
Amortization (notes 11 and 12)	**45,761**	13,383	7,442
Interest on long-term debt (notes 1 and 15)	**47,328**	30,445	27,000
Gain on sale of investments (note 4)	**(103,125)**	(197,679)	–
Other income	**(6,895)**	(8,264)	–
Dividend income from investees	**(2,121)**	(1,190)	(2,077)
Income before income taxes	**128,229**	219,846	10,703
Income tax expense (recovery) (note 17)	**(2,283)**	65,770	4,716
Income before equity earnings from investees and minority interest	**130,512**	154,076	5,987
Equity earnings from investees	**2,585**	2,108	1,507
Minority interest	**(322)**	(200)	(119)
Net income	**132,775**	155,984	7,375
Retained earnings/net investment, beginning of year (note 1)	**155,984**	–	395,255
Investment by Shaw during the year	**–**	–	68,209
Retained earnings/net investment, end of year (note 1)	**288,759**	155,984	470,839
Earnings per share (notes 1 and 2)			
Basic	**$ 3.20**	$ 4.67	–
Fully diluted	**$ 3.14**	$ 4.59	–
Weighted average number of shares outstanding (in thousands)			
Basic	**41,539**	33,379	–
Fully diluted	**42,429**	34,096	–

See accompanying notes

consolidated statements of cash flows

Years ended August 31 (THOUSANDS OF CANADIAN DOLLARS)	2001	2000	1999
operating activities			
Net income	132,775	155,984	7,375
Non-cash items			
Depreciation	19,960	8,995	6,023
Amortization of broadcast licenses and goodwill	42,232	11,431	6,775
Amortization of program and film rights and film investments	117,582	21,141	24,240
Other amortization	3,529	1,952	667
Future income taxes	(53,531)	54,171	(2,309)
Gain on sale of investments	(103,125)	(197,679)	–
Equity earnings from investees, net of dividends received	(2,585)	(2,108)	(627)
Asset write-down	1,529	–	–
Minority interest	322	200	119
Other	468	217	–
Cash flow derived from operations	159,156	54,304	42,263
Net change in non-cash working capital balances related to operations (note 20)	(13,828)	19,747	(6,899)
Other	4,876	–	–
Cash provided by operating activities	150,204	74,051	35,364
investing activities			
Additions to capital assets	(37,045)	(9,975)	(6,535)
Net proceeds from sale of investments	2,273	654,094	–
Net proceeds from business divestitures (note 4)	135,684	–	–
Business acquisitions, net of deposits (notes 3 and 4)	(462,696)	(239,361)	–
Additions of investments	(283,382)	(63,654)	(59,754)
Payment of program and film rights	(63,937)	(32,241)	(26,430)
Additions to film investments	(95,628)	–	–
Additions to deferred charges	(13,022)	(8,907)	(1,624)
Dividends received	400	860	—
Other	2,888	(163)	–
Cash provided by (used in) investing activities	(814,465)	300,653	(94,343)
financing activities			
Increase (decrease) in bank overdraft	6,536	–	(8,969)
Increase in net investment by Shaw	–	–	68,209
Increase in securitized borrowing	89,500	–	–
Increase in long-term debt	308,829	336	–
Repayment of long-term debt	(113,752)	(2,953)	–
Issuance of shares	800	–	–
Cash provided by (used in) financing activities	291,913	(2,617)	59,240
Net increase (decrease) in cash and cash equivalents during the year	(372,348)	372,087	261
Cash and cash equivalents, beginning of year	372,348	261	–
Cash and cash equivalents, end of year	–	372,348	261
Cash flow from operations per share (note 2)			
Basic	$ 3.83	$ 1.63	–
Fully diluted	$ 3.77	$ 1.59	–

Supplementary cash flow disclosures (note 20)

See accompanying notes

notes to consolidated financial statements

1. BASIS OF PRESENTATION

Corus Entertainment Inc. ("Corus" or the "Company") is a diversified Canadian communications and entertainment company. The Company is incorporated under the Canada Business Corporations Act and its shares are listed on the Toronto and New York Stock Exchanges. The consolidated financial statements have been prepared by management on the historical cost basis in accordance with Canadian generally accepted accounting principles ("GAAP").

Until August 31, 1999, Corus had no legal status or existence as it operated as the Corus Entertainment Division (the "Division") of Shaw Communications Inc. ("Shaw").

Effective September 1, 1999, the shareholders of Shaw approved an arrangement (the "Arrangement") to divide Shaw into two separate public corporations, Shaw Communications Inc. and Corus Entertainment Inc. The Arrangement resulted in the transfer of the Division to Corus.

Prior to the Arrangement, all of the Division's debt and financing was provided by Shaw. The cumulative net total of this financing was, exclusive of the $300,000,000 debt described in the following paragraph, represented in the Division's accounts as net investment by Shaw of $470,839,000 as at August 31, 1999. As part of the Arrangement, Shaw's net investment was exchanged for 1,907,665 Class A Voting and 28,492,618 Class B Non-Voting Shares of Corus with an ascribed value of $470,839,000. The Arrangement was accounted for on a continuity of interests basis, whereby the Company's share capital is based on the carrying amount of the Division's net assets. As a consequence of the capitalization of the Company, earnings per share are only applicable for the period subsequent to August 31, 1999.

Upon effecting the Arrangement, Corus drew down $300,000,000 on its own credit facility and repaid the $300,000,000 debt owing to Shaw. Interest was allocated to the Division for fiscal 1999 based on an average of $300,000,000 in debt at Shaw's average cost of borrowing at 9% per annum for the year ended August 31, 1999.

For comparative purposes, the consolidated statements of income, net investment and cash flows of the Division are presented for the year ended August 31, 1999. The divisional financial statements are not necessarily indicative of the results of operations, cash flows or financial position had the Division operated as an independent entity for the date and period presented.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared by management on the historical cost basis in accordance with Canadian GAAP. The effects of differences between the application of Canadian and U.S. GAAP on the financial statements of the Company are described in note 21.

Basis of consolidation

The consolidated financial statements include the accounts of Corus and all of its subsidiaries, all of which are wholly owned except for Country Music Television Ltd. (80% interest), DMX Music Ltd. (80% interest) and DMX Partnership (80% interest). Intercompany transactions and balances are eliminated on consolidation. The results of operations of subsidiaries acquired during the year are included from their respective dates of acquisition.

Use of estimates

The preparation of consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Revenue recognition

Radio, specialty television and other media advertising revenues are recognized in the period in which the advertising is aired under broadcast contracts.

Affiliate subscriber fee revenues are recognized to the extent that the service has been made available under distribution contracts.

Revenue from distribution and the licensing of proprietary exploitation rights for feature films, network television, syndicated television, pay cable television and home video is recognized when the program episode or film is available for delivery, the license period has commenced and certain other conditions have been met. Cash received in advance of the program episode or film being available for delivery is recorded as a deferred credit.

Revenue from merchandise licensing contracts, publishing and other royalties, which may provide for non-refundable advances, is recognized when the license period has commenced and collection is reasonably assured.

Revenue from the sale of books is recognized at the time of shipment, net of an estimated provision for returns. Revenue from the sale of subsidiary book rights, when determinable, is recorded on an accrual basis. When amounts are not determinable, amounts are recorded on receipt of funds. Grants for specific projects are recognized as revenue when awarded.

Cash and cash equivalents

Cash and cash equivalents include cash and short-term deposits with maturities of less than three months.

Inventories

Inventories are valued at the lower of cost and net realizable value, with cost being determined on a first-in, first-out basis. Cost includes the cost of materials, labour and applicable overhead.

Investments

Investments in entities over which the Company exercises significant influence are accounted for using the equity method. Investments in joint ventures and partnerships which the Company jointly controls are accounted for using the proportionate consolidation method of accounting. Other investments are recorded at cost and written down only when there is evidence that a decline in value that is other than temporary has occurred.

Acquisitions subject to the Canadian Radio-television and Telecommunications Commission ("CRTC") approval are recorded at cost until approval is received and then accounted for according to the nature of the investment made.

Capital assets

Capital assets are recorded at cost less accumulated depreciation. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

ASSET	ESTIMATED USEFUL LIFE
Broadcasting head-end equipment	10 years
Production equipment	5 years
Leasehold improvements	lease term
Buildings	20 – 40 years
Computer equipment	3 years
Furniture and fixtures	7 years
Other	4 – 10 years

Program and film rights

Program and film rights represent contract rights acquired from third parties to broadcast television programs and feature films. The assets and liabilities related to these rights are recorded when the cost of the rights is known or reasonably determinable, the program material is accepted by the Company in accordance with the license agreement and the material is available to the Company for airing. These costs are amortized over the contracted exhibition period as the program or feature films are aired. Program and film rights are carried at the lower of cost less accumulated amortization and net recoverable amount.

Amortization of program and film rights is included in operating, general and administrative expenses and has been disclosed separately in the consolidated statements of cash flows.

Film investments

Film investments represent the costs of projects in development, projects in process and the unamortized costs of proprietary films and television programs which have been produced by the Company or for which the Company has acquired distribution rights. Such costs include development and production expenditures, attributable studio and other costs which are expected to benefit future periods.

The individual-film-forecast-computation method is used to determine amortization, whereby capitalized costs and the estimated total costs of participations and residuals, net of anticipated federal and provincial program contributions, production tax credits and co-producers' shares of production costs, are charged to amortization expense on a series or program basis in the ratio that current period revenue bears to management's estimate of total gross revenue to be realized from the series or program and are for periods not exceeding ten years from the date of delivery or acquisition. Estimates of gross revenue can change significantly due to the level of market acceptance of film and television products. Accordingly, revenue estimates are reviewed periodically and amortization is adjusted. Such adjustments could have a material effect on results of operations in future periods.

Film and television program costs are stated at the lower of unamortized costs or estimated net realizable value as determined on a series or program basis. Revenue and cost forecasts for each production are evaluated quarterly in connection with a comprehensive review of the Company's inventory of audiovisual product. Estimated losses, if any, are provided for.

The Company reviews the status of projects in development quarterly. If, in the opinion of management, any such projects will not progress toward production, the accumulated costs are charged to operating expenses.

Amortization of film investments is included in operating, general and administrative expenses.

Deferred charges

Financing costs and credit facility arrangements are amortized on a straight-line basis to income over the term of the debt facility.

Start-up costs for the preparation of new applications to the CRTC are deferred prior to approval by the CRTC. The costs associated with unsuccessful applications are expensed. Start-up costs for licenses of successful applications which are awarded by the CRTC are capitalized from the date they are awarded to the date revenue is generated for the service. Start-up costs are amortized over a period which reflects their expected future benefit, not exceeding the term of the licenses.

Advertising and promotion costs incurred for re-formatting of radio and pay television stations are deferred and amortized on a straight-line basis over a period which reflects their expected future benefit, not exceeding three years. Costs assessed as having no future benefit are written off.

Broadcast licenses and goodwill

The cost of acquiring media broadcasting, production/distribution and publishing businesses is allocated to the fair value of related net identifiable tangible and intangible assets acquired. Net identifiable intangible assets acquired consist primarily of broadcast licenses. The excess of the cost of acquiring these businesses over the fair value of related net identifiable tangible and intangible assets acquired is allocated to goodwill. Amounts allocated to broadcast licenses and goodwill are amortized on a straight-line basis over twenty to forty years. The Company reviews the valuation and amortization periods of goodwill whenever events or changes in circumstances warrant such a review. In doing so, the Company evaluates whether there has been a permanent impairment in the value of unamortized goodwill based on the estimated undiscounted cash flows of each business to which the goodwill relates.

Government financing and assistance

The Company has access to several government programs that are designed to assist film and television production in Canada. Funding from these programs provides a supplement to a series' Canadian license fees and is recorded as revenue when cash has been received. Government assistance with respect to federal and provincial production tax credits is recorded as a reduction of film investments when there is reasonable evidence of realization. Assistance in connection with equity investments is recorded as a reduction in film investments.

Deferred credits

Deferred credits include: (I) a provision for contributions to Canadian broadcasting initiatives that must be made by a purchaser of specialty television, pay television, and radio undertakings in accordance with CRTC policies ("CRTC benefits") associated with acquiring radio and television businesses that will be drawn down when the Company makes eligible payments towards meeting the conditions of license; (II) foreign exchange gains on translating long-term debt; and (III) unearned revenue from the distribution and licensing of rights for feature films and television programs.

Income taxes

The liability method of tax allocation is used in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Foreign currency translation

The assets and liabilities of the Company's self-sustaining operations having a functional currency in U.S. dollars are translated into Canadian dollars using the exchange rate in effect at the balance sheet date and revenues and expenses are translated at the average rate during the year. Exchange gains or losses on translation of the Company's net equity investment in these operations are deferred as a separate component of shareholders' equity.

For the Company's integrated operations which have a functional currency other than Canadian dollars, monetary items are translated into Canadian dollars at exchange rates in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transaction. Foreign exchange gains and losses are included in income.

Long-term debt denominated in U.S. dollars is translated into Canadian dollars at the year-end rate of exchange. Exchange gains or losses on translating long-term debt are deferred and, except for hedged debt, are amortized on a straight-line basis over the remaining term of the debt.

Other exchange gains and losses are included in net income for the year.

Financial instruments

The Company uses derivative financial instruments to manage risks from fluctuations in exchange and interest rates. These instruments include interest rate and cross-currency exchange agreements. All such instruments are only used for risk management purposes. The Company accounts for these financial instruments as hedges and as a result the carrying values of the financial instruments are not adjusted to reflect their current market value. The net receipts or payments arising from financial instruments relating to the management of interest rate risks are recognized in interest expense over the term of the instrument. Foreign exchange gains or losses arising on cross-currency agreements used to hedge U.S. dollar denominated debt are deferred until maturity of the agreement at which time they are offset by the foreign currency hedge.

Stock-based compensation

No compensation expense is recognized for stock options granted under the Company's Stock Option Plan. Consideration paid by employees and senior officers on the exercise of stock options is credited to share capital. Consideration paid by the Company under the Company's Employee Share Purchase Plan is included in operating, general and administrative expenses.

Earnings per share

Basic and fully diluted earnings per share have been calculated on net income using the weighted average number of Class A Voting and Class B Non-Voting Shares outstanding during the year. For purposes of determining fully diluted earnings per share, the current imputed earnings approach is used whereby the weighted average number of Class A Voting and Class B Non-Voting Shares outstanding has been calculated as though all the dilutive options had been exercised at the beginning of the year, or date of issuance, if later.

Basic and fully diluted cash flows from operations per share have been calculated using the cash flow derived from operations before the net change in non-cash working capital balances related to operations.

3. BUSINESS COMBINATIONS

In fiscal 2001 and 2000, the Company completed a number of acquisitions which are summarized below:

Transactions completed in fiscal 2001:

(THOUSANDS OF CANADIAN DOLLARS EXCEPT FOR SHARE AMOUNTS)	Nelvana Limited (a)	Metromedia (b)	Other (c)	Total
Effective date acquired	Nov. 2000	Feb. 2001		
Percentage acquired	100%	100%		
Cash, including transaction costs, net of cash acquired				
– Fiscal 2001	332,138	129,223	1,335	462,696
– Prior years	15,525	39,473	3,500	58,498
Class B Non-Voting Shares of the Company	211,022	–	–	211,022
	558,685	168,696	4,835	732,216
Integration and transaction costs, net of taxes	1,827	1,194	99	3,120
Total consideration after integration and transaction costs	560,512	169,890	4,934	735,336
Assigned value of assets and liabilities acquired				
Capital assets	14,880	3,806	690	19,376
Tax credits receivable	27,003	–	–	27,003
Program and film rights	–	–	3,795	3,795
Film investments	120,329	–	–	120,329
Investments	30,203	–	–	30,203
Goodwill	444,249	162,673	809	607,731
Broadcast licenses	–	38,854	–	38,854
Non-cash working capital	59,154	5,397	869	65,420
Long-term debt	(93,957)	(21,582)	(1,229)	(116,768)
Deferred credits	(3,350)	(9,900)	–	(13,250)
Future tax liability	(37,999)	(9,358)	–	(47,357)
	560,512	169,890	4,934	735,336
Number of Class B Non-Voting Shares issued	5,047,532	–	–	5,047,532

(a) Nelvana Limited

Nelvana Limited ("Nelvana") is an international producer and distributor of children's programming and products. At August 31, 2000, the Company owned approximately a 6.7% interest in Nelvana.

On November 14, 2000, Corus completed the take-up of the outstanding subordinate voting shares of Nelvana tendered to the offer for all Nelvana subordinate voting shares made by Corus and 1421711 Ontario Inc. on October 20, 2000. Upon completion of the offer, Corus and 1421711 Ontario Inc. owned 97.7% of Nelvana's outstanding subordinate voting shares. Effective January 2, 2001, Corus completed the compulsory acquisition of the remaining 2.3% outstanding interest in Nelvana, resulting in Nelvana becoming a wholly owned subsidiary of Corus. The acquisition was accounted for by the purchase method and the results of operations are included in the Company's consolidated financial statements commencing November 15, 2000.

Included in integration costs related to the acquisition of Nelvana is a provision of $2,978,000 for direct acquisition costs and workforce reductions identified at the time of acquisition. The workforce reductions are a result of the Company's plans to consolidate head office related functions as Nelvana ceased to operate as a stand-alone public company. The liabilities included $237,000 for direct acquisition costs, $1,141,000 for penalties on debt extinguishments, and $1,600,000 for workforce reductions of management. During the year ended August 31, 2001, the Company paid and charged against the liability $4,000 in direct acquisition costs, $1,141,000 in penalties and debt extinguishment, and $163,000 for workforce reductions. Consequently, at August 31, 2001, a balance of $1,670,000 remains in the acquisition accrual relating primarily to work reductions which is expected to be substantially drawn down by the fourth quarter of fiscal 2003.

On August 24, 2001, the CRTC granted Corus the right to acquire Nelvana's 20% ownership in TELETOON Canada Inc. Accordingly, this investment has been accounted for at cost until CRTC approval on August 24, 2001 and has been accounted for on the equity basis thereafter.

(b) Metromedia CMR Broadcasting Inc. ("Metromedia")

Metromedia operates six radio stations in Quebec. At August 31, 2000, the Company owned a 29.9% interest in Belcand Mount Royal Holdings Inc. ("Belcand"), the parent company of Metromedia.

Effective February 28, 2001, Corus acquired the remaining 70.1% of Belcand. Upon completion of the transaction, Belcand became a wholly owned subsidiary of Corus. The acquisition was accounted for by the purchase method and the results of operations are included in the Company's consolidated financial statements from the date of acquisition.

Included in integration costs related to the acquisition of Metromedia is a provision of $1,609,000 for direct acquisition costs and workforce reductions identified at the time of acquisition. The workforce reductions are a result of the Company's plans to consolidate facilities, restructure certain functions and integrate operating systems. The liabilities included $459,000 for direct acquisition costs and $1,150,000 for workforce reductions of management and certain sales, marketing, operations, programming and administrative staff. During the year ended August 31, 2001, the Company paid and charged against the liability $27,000 in direct acquisition costs and $343,000 for workforce reductions. Consequently, at August 31, 2001, a balance of $1,239,000 remains in the acquisition accrual which is expected to be substantially drawn down by the fourth quarter of fiscal 2002.

(c) Balmur Corus Music Inc. ("BCM")

BCM is a music and television production business. At August 31, 2000, the Company owned a 50% interest in BCM.

Effective March 31, 2001, Corus acquired the remaining 50% of BCM for $3,725,000. Upon completion of the transaction, BCM became a wholly owned subsidiary of Corus. The acquisition was accounted for by the purchase method and the results of operations are included in the Company's consolidated financial statements from the date of acquisition.

(d) Tri-Co Broadcasting Limited – pending transaction

On July 4, 2001, Corus announced that it had reached an agreement to acquire all of the outstanding shares of Tri-Co Broadcasting Limited, a company that owns and operates three radio stations in Cornwall, Ontario for approximately $4,000,000. The transaction is subject to CRTC approval.

(e) Pro-forma information – unaudited

If the acquisitions and divestitures (see note 4) completed during the year ended August 31, 2001 had occurred on September 1, 1999, the Company's unaudited pro-forma consolidated revenues, net income for the year and basic earnings per share would have been $625,379,000, $133,286,000 and $3.13, respectively for the year ended August 31, 2001 (2000 – $425,615,000, $168,657,000 and $4.39, respectively).

Transactions completed in fiscal 2000:

(thousands of canadian dollars except for share amounts)	Blackburn Broadcasting (restated) (f)	Power Broadcasting Inc. (g)	WIC (restated) (h)	Other	Total
Effective date acquired	Sept. 1999	April 2000	July 2000		
Percentage acquired	(i)	(i)	100%		
Cash, including transaction costs, net of cash acquired					
– Fiscal 2000	403	114,296	120,873	3,789	239,361
– Prior years	41,606	–	–	–	41,606
Class B Non-Voting Shares of the Company	–	–	199,856	–	199,855
	42,009	114,296	320,729	3,789	480,822
Integration and transaction costs, net of taxes	–	–	26,489	–	26,489
Total consideration after integration and transaction costs	42,009	114,296	347,218	3,789	507,311
Assigned value of assets and liabilities acquired					
Investments	–	–	18,168	–	18,168
Capital assets	221	14,795	40,917	79	56,012
Goodwill	2,401	87,485	247,133	3,438	340,457
Broadcast licenses	40,610	22,670	119,844	–	183,124
Non-cash working capital	1,178	5,548	(2,000)	272	4,997
Deferred credits	(2,401)	(8,050)	(24,500)	–	(34,951)
Future tax liability	–	(8,152)	(52,344)	–	(60,496)
	42,009	114,296	347,218	3,789	507,311
Number of Class B Non-Voting Shares issued	–	–	7,125,000	–	7,125,000

(i) *These acquisitions were asset purchases.*

(f) Blackburn Broadcasting

Effective September 1, 1999, the Company acquired London, Ontario radio stations CFPL-AM, CFPL-FM and CFHK-FM ("Blackburn Broadcasting") for $41,606,000 plus a settlement deposit of $403,000.

Subsequent to August 31, 2000, it was determined through further analysis that the allocation of the purchase price of the Blackburn Broadcasting assets needed to be adjusted by $2,400,000, representing a provision for CRTC benefits associated with the acquisition. Consequently, goodwill has been increased by $2,400,000. The balance sheet at August 31, 2000 has been restated to reflect these reallocations.

(g) Power Broadcasting Inc.

Effective March 31, 2000, the Company acquired seventeen radio stations and four television stations in the provinces of Ontario and Quebec of Power Broadcasting Inc. for $24,146,000 plus redeemable preference shares of $90,150,000. The redeemable preference shares were redeemed for cash on July 17, 2000.

(h) WIC Western International Communications Ltd. ("WIC")

Effective July 6, 2000, the Company received CRTC approval to complete the acquisition of the radio broadcasting stations, certain pay and specialty television undertakings and certain other related assets of WIC for a total consideration after integration costs of $347,218,000, of which $199,856,000 was satisfied through the issuance of 7,125,000 Class B Non-Voting Shares of the Company at a price of $28.05 per share and the balance in cash. This transaction was undertaken in two steps. First, Corus sold its interest in WIC to CanWest Global Communications Corp. ("CanWest") for a cash purchase price of $424,770,000. Corus then acquired the shares of United Broadcast Sales Ltd. and WIC Premium Corporation which included (i) the radio broadcasting stations formerly owned by WIC Radio Ltd. and, (ii) the pay and specialty undertakings formerly owned by WIC Premium Television Ltd. The Class B Non-Voting Shares of the Company issued to a subsidiary of CanWest were subsequently sold to the Liberty Media Group for $199,856,000. These shares represent approximately 19% of the outstanding Class B Non-Voting Shares of the Company. The transaction closed on March 31, 2000 and the assets were being managed under a trust agreement until CRTC approval was granted.

The CRTC did not grant Corus the right to acquire WIC's 50% ownership in The Family Channel Inc. and its direct 40% ownership interest in TELETOON Canada Inc. Accordingly, these investments have been accounted for at cost.

Subsequent to August 31, 2000, it was determined through further analysis that $18,200,000 million of the purchase price of the WIC assets was required to be allocated to the underlying fair value of the shares in The Family Channel Inc. In addition, other refinements resulted in adjustments to liabilities of $12,800,000. The net impact on goodwill related to these allocations was a reduction of $5,000,000. The balance sheet at August 31, 2000 has been restated to reflect these reallocations.

Included in integration costs related to the acquisition of WIC is a provision of $26,489,000 for direct acquisition costs, workforce reductions and costs to exit certain activities identified at the time of acquisition. These costs are a result of the Company's plans to consolidate facilities, restructure certain functions and integrate operating systems. The liabilities included $14,629,000 for direct acquisition costs, $7,760,000 for workforce reductions of management and certain sales, marketing, operations, programming and administrative staff, and $4,100,000 for lease terminations and office closures. The provision was included in tangible net liabilities of WIC. During the year ended August 31, 2001, the Company paid and charged against the liability $713,000 (2000 - $13,791,000) in direct acquisition costs, $4,710,000 (2000 - nil) for workforce reductions, and $204,000 (2000 – nil) for lease terminations. Consequently, at August 31, 2001, a balance of $7,071,000 remains in the acquisition accrual relating primarily to work reductions and lease termination costs which are expected to be substantially drawn down by the fourth quarter of fiscal 2002.

(i) Pro-forma information – unaudited

If the acquisitions completed during the year ended August 31, 2000 had occurred on September 1, 1999, the Company's unaudited pro-forma consolidated revenues, net income for the year and basic earnings per share would have been $369,969,000, $172,999,000 and $5.18, respectively for the year ended August 31, 2000. No acquisitions were completed during the year ended August 31, 1999.

4. DIVESTITURES

(a) CHAU-TV

Effective February 28, 2001, Corus sold its Quebec conventional television station CHAU-TV for the base price of $7,000,000 plus other consideration and a working capital adjustment of approximately $1,800,000, resulting in a pre-tax gain of approximately $900,000.

(b) The Family Channel Inc.

Effective May 30, 2001, Corus sold its 50% interest in The Family Channel Inc., held by a wholly owned subsidiary, to Astral Media Inc., for $126,900,000 resulting in a pre-tax gain of approximately $102,000,000.

(c) Corus VC Ltd. – pending transaction

On March 8, 2001, Corus announced that it will sell all of its outstanding shares in Corus VC Ltd., which operates the Viewer's Choice Pay-Per-View Service, to Shaw Communications Inc. for cash consideration of $35,000,000. The transaction is subject to CRTC approval.

(d) Headline Sports Television Network

Effective October 27, 1999, the Company disposed of its 47.8% interest in Headline Sports Television Network for proceeds, net of disposition costs, of $16,376,000 which resulted in a pre-tax gain of $11,288,000.

(e) CTV Inc./Liberty Digital Inc./Shaw/Corus Investment Partnership (the "Partnership")

Effective January 28, 2000, the Company acquired Shaw's interest in 4,848,113 common shares of CTV INC., representing approximately 8.37% of the outstanding shares of CTV INC. The aggregate consideration of $117,127,000 was satisfied by a cash payment of $3,218,000 plus the transfer by the Company of 1,400,000 shares of Series A common stock, par value of $0.01 per share, of Liberty Digital Inc. to the Partnership which resulted in a pre-tax gain on the disposition of the Liberty Digital Inc. stock of $105,286,000. The Partnership was established to manage investments in which the Company and Shaw both share common economic interests. The Partnership together with Corus held an aggregate of 5,637,925 CTV INC. shares (representing approximately 9.74% of the outstanding CTV INC. shares) following the completion of the transaction. On April 5, 2000, the Partnership tendered its 9.74% interest in CTV INC. at a price of $38.50 per share to 1406236 Ontario Inc., a corporation wholly owned by BCE INC., resulting in a pre-tax gain of $81,105,000.

5. JOINT VENTURES

The following amounts, included in these consolidated financial statements, represent the Company's proportionate share in joint ventures:

(THOUSANDS OF CANADIAN DOLLARS)	2001
Balance sheet	
Assets	3,092
Liabilities	2,072
Shareholders' equity	1,020
Cash flows	
Assets	(1,954)
Liabilities	1,954

6. ACCOUNTS RECEIVABLE

(THOUSANDS OF CANADIAN DOLLARS)	2001	2000
Trade	168,751	73,053
Receivable from Co-Venturers	2,442	—
Dividends	1,632	—
GST	1,602	—
Other	5,663	1,212
	180,090	74,265
Less allowance for doubtful accounts	5,081	2,189
	175,009	72,076

7. INVENTORIES

(THOUSANDS OF CANADIAN DOLLARS)	2001	2000
Raw materials	5,419	—
Finished goods	19,312	—
	24,731	—

8. INVESTMENTS AND OTHER ASSETS

(THOUSANDS OF CANADIAN DOLLARS)	2001	2000
Shaw/Corus Investment Partnership	2,343	2,343
Investments, at equity		
Telelatino Network Inc. (20% interest)	2,027	1,543
TELETOON Canada Inc. (20% interest until August 24, 2001 and 40% thereafter) (note 3[a])	33,273	20,039
Metromedia CMR Broadcasting Inc. (2000 – 29.9% interest) (note 3 [b])	–	39,474
Balmur Corus Music Inc. (2000 – 50% interest) (note 3 [c])	–	3,500
Investments, at cost		
Women's Television Network	150,079	–
Astral Media Inc. (market value – $99,027)	114,576	–
Local Media Internet Venture LLC (15.5% interest)	6,329	–
The Comedy Network Inc. (14.95% interest)	1	1
The Food Network Inc. (10% interest)	1,120	–
The Family Channel Inc. (50% interest) (note 4 [b])	–	6,832
Nelvana Limited (6.7% interest) (note 3 [a]) (market value – 2000: $22,613)	–	15,530
Employee home relocation mortgages and investment loans	1,104	1,496
Other	8,902	3,587
	319,754	94,345

Women's Television Network ("WTN")

On March 8, 2001, Corus announced that it had reached an agreement to acquire all of the outstanding shares of Lifestyle Television (1994) Limited, which operates WTN, a specialty television network focused on women's programming, from Moffat Communications Ltd. ("Moffat") for cash consideration of $205,000,000. During the year, $150,000,000 was advanced to Moffat against the purchase price. The transaction is subject to CRTC approval.

Astral Media Inc.

During fiscal 2001, Corus, through a wholly owned subsidiary, purchased 2,029,000 Class A Non-Voting shares and 145,600 Class B subordinate voting shares of Astral Media Inc. from Shaw for approximately $110,000,000. These shares have been pledged against the debt as described in note 14.

Local Media Internet Venture LLC ("LMIV")

On September 21, 2000, Corus acquired a 15.5% interest in LMIV, a company aimed at developing an international network of local lifestyle Web portals through radio station Web sites.

Telelatino Network Inc. ("Telelatino") – pending transaction

On March 30, 2001, Corus announced that it will acquire a controlling interest in Telelatino Network Inc., which operates TLN Television, a specialty ethnic channel that provides programming in Italian, Spanish and English. Corus will acquire shares that increase its total interest in Telelatino to 50.5% from 20% for cash consideration of $11,000,000. The transaction is subject to CRTC approval.

9. CAPITAL ASSETS

	2001		2000	
(THOUSANDS OF CANADIAN DOLLARS)	**Cost**	**Accumulated depreciation**	Cost	Accumulated depreciation
			(restated)	
Broadcasting head-end equipment	**43,865**	**24,941**	20,275	7,317
Production equipment	**59,144**	**37,082**	23,917	10,037
Leasehold improvements	**23,229**	**9,743**	9,155	2,039
Buildings	**19,351**	**5,279**	9,585	1,205
Computer equipment	**19,092**	**11,434**	6,507	3,552
Furniture and fixtures	**27,834**	**16,313**	13,092	2,940
Other	**11,899**	**2,933**	4,960	978
	204,414	**107,725**	87,491	28,068
Land	**8,255**	**–**	7,978	–
	212,669	**107,725**	95,469	28,068
Net book value	**104,944**		67,401	

Depreciation provided in the accounts on capital assets amounted to $19,960,000 (2000 – $8,995,000; 1999 – $6,023,000).

10. FILM INVESTMENTS

(THOUSANDS OF CANADIAN DOLLARS)	**2001**	2000
Projects in development, net of advances	**7,287**	–
Projects in process	**30,745**	–
Completed projects and distribution rights	**122,024**	–
Other	**–**	3,494
	160,056	3,494

During fiscal year, the Company reduced its investment in film and television programs by anticipated Federal and Ontario production tax credits amounting to $11,600,000.

The Company also generates revenue from productions which have been fully amortized in prior years and are not valued in the accounts.

11. DEFERRED CHARGES

	2001		2000	
(THOUSANDS OF CANADIAN DOLLARS)	**Cost**	**Accumulated amortization**	Cost	Accumulated amortization
Financing costs and credit facility arrangement fees	**9,932**	**2,392**	7,963	995
Foreign exchange gains on translating long-term debt	**16,288**	**–**	4,678	–
Start-up costs of new specialty programming networks	**9,133**	**2,550**	4,289	1,489
Advertising and promotion costs for re-formatting radio and pay television stations	**6,481**	**151**	–	–
Other	**1,261**	**1,055**	743	135
	43,095	**6,148**	17,673	2,619
Net book value	**36,947**		15,054	

Amortization provided in the accounts on deferred charges amounted to $3,529,000 (2000 $1,952,000; 1999 – $667,000).

12. BROADCAST LICENSES AND GOODWILL

(THOUSANDS OF CANADIAN DOLLARS)	2001 Cost	2001 Accumulated amortization	2000 Cost	2000 Accumulated amortization
Broadcast licenses	**489,849**	**49,755**	454,755	37,550
Goodwill	**941,675**	**32,752**	340,458	2,890
	1,431,524	**82,507**	795,213	40,440
Net book value	**1,349,017**		754,773	

Amortization provided in the accounts on broadcast licenses and goodwill amounted to $42,232,000 (2000 – $11,431,000; 1999 – $6,775,000).

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(THOUSANDS OF CANADIAN DOLLARS)	2001	2000
Trade	**77,237**	41,440
Program rights payable	**34,141**	15,040
Acquisition and integration costs	**10,182**	12,972
Third party participation payments	**5,632**	457
GST payable	**1,057**	839
Other	**12,053**	2,604
	140,302	73,352

14. SECURITIZED BORROWING

During the third quarter of fiscal 2001, Corus entered into a borrowing arrangement with a financial institution for $89,500,000 which is collateralized by 2,000,000 Astral Media Inc. shares ("Astral shares"). The borrowing bears interest that fluctuates with Canadian banker's acceptances and averaged 6.6% for the year. Interest is payable with the principal on October 31, 2001. Under certain circumstances, Corus may satisfy its obligation to pay the principal and interest through the issuance of its Class B Non-Voting Shares.

15. LONG-TERM DEBT

(THOUSANDS OF CANADIAN DOLLARS)	2001	2000
Bank loans	**614,518**	297,030
Other	**6,283**	325
	620,801	297,355
Less current portion	**6,382**	3,000
	614,419	294,355

The Company has a $25,000,000 revolving operating loan facility with interest rates and borrowing options, which are the same as those contained in the credit facilities described below.

A syndicate of banks has provided the Company with various credit facilities (the "facility"), which at August 31, 2001, amounted to $755,000,000, $450,000,000 of which is revolving on a reducing basis until repaid on August 31, 2006. As at August 31, 2001, $140,000,000 of the $450,000,000 portion of the facility was not utilized. The balance of the facility which has been fully drawn, is a non-revolving term loan repayable in annual instalments, such that the loan is repaid by August 31, 2007. Funds are available to the Company in both Canadian and U.S. dollars. At August 31, 2001, the U.S. portion of the bank loans was U.S. $147,000,000 (CDN $228,000,000 translated at the exchange rate at August 31, 2001) (2000 – U.S. $148,500,000; CDN $213,800,000).

The Company has entered into a cross-currency interest rate agreement on U.S. denominated debt of U.S. $147,000,000 to fix the interest rate at 11.4% and liability for interest and principal payments at CDN $212,000,000.

Interest rates on the balance of the bank loans fluctuate with the Canadian bankers' acceptances and LIBOR and averaged 6.8% for the year (2000 – 8.2%).

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 credit agreements. As well, unlimited guarantees are provided by certain subsidiaries. Under the credit facilities, the Company has undertaken to maintain certain financial covenants. The Company was in compliance with the covenants it made under the bank loans at August 31, 2001.

Principal repayments on long-term debt in each of the next five years and thereafter are approximately as follows:

(THOUSANDS OF CANADIAN DOLLARS)	$
2002	6,382
2003	3,700
2004	3,357
2005	3,357
2006	3,357
Thereafter	600,648
	620,801

16. SHARE CAPITAL

Authorized

The Company is authorized to issue an unlimited number of Class A participating shares ("Class A Voting Shares"), Class B Non-Voting participating shares ("Class B Non-Voting Shares"), Class A Preferred Shares, and Class 1 and Class 2 Preferred Shares.

Class A Voting Shares are convertible at any time into an equivalent number of Class B Non-Voting Shares. The Class B Non-Voting Shares are convertible into an equivalent number of Class A Voting Shares in limited circumstances.

The Class A Preferred Shares are redeemable at any time at the demand of Corus and retractable at any time at the demand of a holder of a Class A Preferred Share for an amount equal to the consideration received by Corus at the time of issuance of such Class A Preferred Shares. Holders of Class A Preferred Shares are entitled to receive a non-cumulative dividend at such rate as Corus' Board of Directors may determine on the redemption amount of the Class A Preferred Shares. Each of the Class 1 Preferred Shares, the Class 2 Preferred Shares, the Class A Voting Shares and the Class B Non-Voting Shares rank junior to and are subject in all respects to the preferences, rights, conditions, restrictions, limitations and prohibitions attaching to the Class A Preferred Shares including in connection with the payment of dividends.

The Class 1 and 2 Preferred Shares are issuable in one or more series with attributes designated by the Board of Directors. The Class 1 Preferred Shares rank senior to the Class 2 Preferred Shares.

In the event of liquidation, dissolution or winding up of Corus or other distribution of assets of Corus for the purpose of winding up its affairs, the holders of Class A Preferred Shares are entitled to a payment in priority to all other classes of shares of Corus to the extent of the redemption amount of the Class A Preferred Shares, but will not be entitled to any surplus in excess of that amount. The remaining property and assets will be available for distribution to the holders of the Class A Voting Shares and Class B Non-Voting Shares which shall be paid or distributed equally, share for share, between the holders of the Class A Voting Shares and the Class B Non-Voting Shares respectively, without preference or distinction.

Issued and outstanding

The changes in the Class A Voting and Class B Non-Voting Shares since August 31, 1999 are summarized as follows:

	Class A Voting Shares		Class B Non-Voting Shares		Total
(THOUSANDS OF CANADIAN DOLLARS EXCEPT NUMBER OF SHARES)	#	$	#	$	$
Balance, August 31, 1999	–	–	–	–	–
Issued on completion of the Arrangement (note 1)	1,907,665	29,546	28,492,618	441,293	470,839
Conversion of Class A Voting to Class B Non-Voting Shares	(55,956)	(867)	55,956	867	–
Issued on acquisition of broadcasting assets (note 3)	–	–	7,125,000	199,855	199,855
Balance, August 31, 2000	1,851,709	28,679	35,673,574	642,015	670,694
Conversion of Class A Voting to Class B Non-Voting Shares	(9,032)	(140)	9,032	140	–
Stock Option Plan issuance	–	–	31,060	800	800
Issued on business acquisitions (note 3)	–	–	5,047,532	211,022	211,022
Balance, August 31, 2001	1,842,677	28,539	40,761,198	853,977	882,516

Stock option plan

Under the Company's Stock Option Plan, the Company may grant options to purchase Class B Non-Voting Shares to eligible officers, directors, and employees of or consultants to the Company. The maximum number of shares that can be reserved for issuance under the plan is 2,852,670 shares. All options granted are for terms not to exceed ten years from the grant date. The exercise price of each option equals the market price of the Company's stock on the date of the grant. Options vest 25% on each of the first, second, third and fourth anniversary dates of the date of grant.

A summary of the options outstanding at August 31, 2001 and the changes since August 31, 1999 is presented below:

(THOUSANDS OF CANADIAN DOLLARS EXCEPT FOR SHARE AMOUNTS)	Number of options #	Weighted average exercise price $	Number of options exercisable
Outstanding, August 31, 1999	–	–	–
Granted	950,550	25.48	–
Exercised	–	–	–
Cancelled	(23,300)	25.25	–
Outstanding, August 31, 2000	927,250	25.48	231,813
Granted	970,443	39.94	5,000
Exercised	(31,060)	25.73	(31,060)
Cancelled	(8,700)	35.61	(8,700)
Outstanding, August 31, 2001	1,857,933	32.98	197,053

At August 31, 2001, the outstanding options consist of the following:

Expiry date	Outstanding #	Exercisable #	Range of exercise prices $	Weighted average exercise price $
2005	913,590	197,053	25.27 – 37.00	25.73
2006	944,343	–	34.50 – 44.00	40.00
	1,857,933	197,053		32.98

On September 1, 2001, Corus granted a further 843,015 options for Class B Non-Voting Shares to eligible officers, directors and employees of or consultants to the Company. These options are exercisable at $29.87 per share.

Dividends

The holders of Class A Voting and Class B Non-Voting Shares are entitled to receive such dividends as the Board of Directors determines to declare on a share-for-share basis, as and when any such dividends are declared or paid. The holders of Class B Non-Voting Shares are entitled to receive during each dividend period, in priority to the payment of dividends on the Class A Voting Shares, an additional dividend at a rate of $0.01 per share per annum. This additional dividend is subject to proportionate adjustment in the event of future consolidations or subdivisions of shares and in the event of any issue of shares by way of stock dividend. After payment or setting aside for payment of the additional non-cumulative dividends on the Class B Non-Voting Shares, holders of Class A Voting and Class B Non-Voting Shares participate equally, share for share, as to all subsequent dividends declared.

17. INCOME TAXES

(a) Future income taxes reflect the net tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future tax liabilities and assets as at August 31 are as follows:

(thousands of canadian dollars)	2001	2000
Future tax liability		
Deferred charges deducted for tax capitalized for accounting	6,765	1,706
Capital cost allowance in excess of book depreciation	825	2,017
Deferred gain on sale of investment	–	48,275
Deferred partnership income	5,642	2,661
Differences in tax and accounting cost bases in investments	45,968	12,120
Broadcast licenses and other intangibles	96,342	126,982
Purchase price equation differences	27,539	–
Other, net	3,216	790
Total future tax liability	186,297	194,551
Future tax asset		
Book depreciation in excess of capital cost allowance	1,735	–
Employment obligations recognized on purchase equation	343	4,084
Loss carryforwards, net of valuation allowances	8,821	12,100
Deferred charges deducted for accounting in excess of tax	473	–
Revenue recognition differences between tax and accounting	4,303	–
Purchase price equation differences	4,565	–
Other, net	317	–
Total future tax asset	20,557	16,184
Net future tax liability	165,740	178,367

(b) Significant components of the provision for income taxes attributable to the continuing operations are as follows:

(thousands of canadian dollars)	2001	2000	1999
Current tax expense	51,248	11,599	7,025
Future income tax expense (recovery) relating to origination and reversal of temporary differences	(14,664)	63,508	(2,309)
Future income tax recovery resulting from recognition of losses incurred in the year	(4,986)	(8,007)	–
Future income tax recovery resulting from tax rate changes	(42,258)	(2,032)	–
Other	8,377	702	–
Income tax expense (recovery)	(2,283)	65,770	4,716

(c) The reconciliation of income tax attributable to continuing operations computed at the statutory tax rates to income tax expense is as follows:

	2001		2000		1999	
(thousands of canadian dollars)	Amount $	%	Amount $	%	Amount $	%
Tax at combined federal and provincial tax rates	55,722	42.74	95,658	43.50	4,816	45.0
Differences from statutory rates relating to:						
Amortization of goodwill	14,462	11.1	1,362	0.6	751	7.0
Non-taxable portion of net capital gains on sale of investments	(40,329)	(30.9)	(30,263)	(13.8)	–	–
Reduction in future income taxes resulting from statutory rate reduction	(42,258)	(32.4)	(2,032)	(0.9)	–	–
Other	10,120	7.8	1,045	0.5	(851)	(8.0)
	(2,283)	(0.2)	65,770	29.9	4,716	44.0

(d) The Company recognizes as future tax asset the benefit of investment tax credits and capital loss carryforwards to the extent it is more likely than not that the benefit will be realized. At August 31, 2001, the Company has available loss carryforwards of approximately $27,700,000 (2000 – $35,200,000) which expire between 2002 and 2008. A future tax asset of $10,800,000 (2000 – $12,100,000) has been recognized in respect of these carryforwards. In 2001, a valuation allowance of $2,000,000 (2000 – $3,200,000) has been recorded against the future tax assets related to the unutilized losses.

The available loss carryforwards will expire as follows:

(THOUSANDS OF CANADIAN DOLLARS)	$
2004	800
2005	2,400
2006	5,400
2007	700
2008	8,600
2021	9,800
	27,700

18. BUSINESS SEGMENT INFORMATION

The Company's business activities are conducted through three reportable operating segments:

(a) Radio Broadcasting ("Radio")

The Radio segment is comprised of 52 radio stations subject to CRTC approval (2000 – 43 radio stations), situated primarily in high growth urban centres in Canada. Revenues are derived from advertising aired over these stations.

(b) Television

The Television segment includes interests in several specialty television networks, pay television and pay-per-view services, several conventional television stations, digital audio services and cable advertising services. Revenues are generated from affiliate subscriber fees and advertising.

(c) Content

The Content segment includes the production and distribution of film and television programs, merchandise licensing and publishing businesses which were acquired in fiscal 2001. Revenues are generated from licensing of proprietary films and television programs, merchandise licensing and publishing.

The accounting policies of the segment are the same as those described in the summary of significant accounting policies. Management evaluates the business segments' performance based on revenues and operating income before the following ("EBITDA").

(a) Operating revenues and margin

(THOUSANDS OF CANADIAN DOLLARS)	2001	2000	1999
Revenues			
Radio	191,773	86,241	51,563
Television	228,693	142,989	110,816
Content – production and distribution	81,287	–	–
Content – merchandising	6,430	–	–
Content– publishing	49,689	–	–
Eliminations	(1,047)	–	–
	556,825	229,230	162,379
EBITDA			
Radio	48,063	26,700	17,512
Television	73,728	42,846	31,579
Content – production and distribution	13,730	–	–
Content – merchandising	1,674	–	–
Content – publishing	1,942	–	–
Corporate	(9,461)	(4,010)	–
Eliminations	(539)	–	–
	129,137	65,536	49,091

For the year ended August 31, 2001, expenditures for the Corporate segment of $9,086,000 (2000 - $4,010,000) represents the incremental cost of corporate overhead that is not allocated to the operating segment and is incurred by Corus to operate as a stand-alone entity and not as a division of Shaw.

In fiscal 2001, two customers accounted for approximately 13% and 14% of production and distribution for the Content segment.

Gross revenue is derived from the following geographical sources by location of customer as follows:

	2001 $	2000 $	1999 $
Canada	442,743	229,230	162,379
United States	75,277	—	—
International	38,805	—	—
	556,825	229,230	162,379

(b) Segments assets

(THOUSANDS OF CANADIAN DOLLARS)	2001	2000
Radio	344,170	288,602
Television	470,644	422,157
Content – production and distribution	306,039	–
Content – merchandising	1,151	–
Content – publishing	44,583	–
Corporate	1,112,482	718,244
Eliminations	(539)	–
	2,278,530	1,429,003

(c) Capital expenditures by segment

(THOUSANDS OF CANADIAN DOLLARS)	2001	2000	1999
Radio	10,326	1,534	1,880
Television	20,040	6,396	4,552
Content – production and distribution	2,951	–	–
Content – merchandising	–	–	–
Content – publishing	403	–	–
Corporate	7,379	2,045	103
	41,099	9,975	6,535

Capital assets and goodwill are located primarily within Canada.

19. FINANCIAL INSTRUMENTS

Fair values

The fair values of financial instruments have been determined as follows:

I. **Current assets and current liabilities**

The fair values of financial instruments included in current assets and liabilities approximate their carrying values due to their short-term nature.

II. **Tax credits receivable**

The carrying value of the Company's tax credits receivable approximates their fair value.

III. Investments and other assets

(a) The fair value of publicly traded shares included in this category is determined by the closing market values for those investments.

(b) The fair value of other investments in this category is not determinable.

IV. Long-term debt

The carrying value of the Company's bank loans approximates their fair value because interest charges under the terms of the bank loans are based upon current Canadian bank prime and bankers' acceptance rates and on U.S. bank base and LIBOR rates.

V. Derivative financial instruments

The fair value of cross-currency interest rate and securitized borrowing agreements is based on quotations by the counterparties to the agreements.

The estimated fair values of derivative financial instruments are as follows:

	2001		2000	
(THOUSANDS OF CANADIAN DOLLARS)	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Cross-currency interest rate agreements	–	5,067	–	11,790
Securitized agreements	89,500	90,000	–	–
	89,500	95,067	–	11,790

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Credit risks and concentration

Credit risks associated with interest rate and cross-currency exchange agreements arise from the ability of counterparties to meet the terms of the contracts. In the event of non-performance by the counterparties, the Company's accounting loss would be limited to the net amount that it would be entitled to receive under the contracts and agreements. These risks are mitigated by dealing with major creditworthy financial institutions.

Accounts receivable resulting from advertising and affiliate subscriber fee revenues are not subject to any concentration of credit risk.

Accounts receivable from distribution and licensing of proprietary exploitation rights of feature films and television programs are subject to credit risk. The risk is mitigated because the Company enters into license and distribution contracts with many major international broadcasters and distributors.

Accounts receivable from the Canadian federal government and other government agencies in connection with production on financing represents 15% of total accounts receivable at August 31. The Company believes that there is minimal risk associated with the collection of these amounts.

20. CONSOLIDATED STATEMENTS OF CASH FLOWS

Additional disclosures with respect to the consolidated statements of cash flows are as follows:

I. Net change in non-cash working capital balances related to operations consists of the following:

(THOUSANDS OF CANADIAN DOLLARS)	2001	2000	1999
Accounts receivable	(17,032)	(6,742)	163
Prepaid expenses and other	1,024	1,896	(7,029)
Inventories	(7,690)	—	—
Accounts payable and accrued liabilities	(3,029)	18,851	(33)
Income taxes payable	12,899	5,742	—
	(13,828)	19,747	(6,899)

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

(THOUSANDS OF CANADIAN DOLLARS)	2001	2000	1999
Interest paid	**47,238**	36,102	–
Interest received	**8,313**	9,728	–
Dividends received	**826**	1,190	2,077
Income taxes paid	**35,400**	3,357	–

For the year ended August 31, 1999, Shaw did not allocate interest on debt to its divisions nor does the Division have any separate legal existence for purposes of remitting income taxes. Accordingly, amounts included in the divisional financial statements for interest and income taxes represent allocations only and are included in changes in advances to and from Shaw.

III. Non-cash transactions

The consolidated statements of cash flows exclude the following non-cash transactions:

(THOUSANDS OF CANADIAN DOLLARS)	2001	2000	1999
Common shares issued on acquisitions (note 3)	**211,022**	199,855	–

21. RECONCILIATION OF CANADIAN GAAP TO U.S. GAAP

The consolidated financial statements of the Company are prepared in Canadian dollars in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The following adjustments and disclosures would be required in order to present these consolidated financial statements in accordance with United States generally accepted accounting principles ("U.S. GAAP").

(a) Reconciliation to U.S. GAAP

(THOUSANDS OF CANADIAN DOLLARS)	2001	2000	1999
Net income using Canadian GAAP	**132,775**	155,984	7,375
Add (deduct) adjustments for			
Deferred charges (1)	**(10,134)**	431	(957)
Foreign exchange gains (losses) (2)	**(804)**	4,066	–
Equity in earnings of investees (3)	**1,283**	7,692	–
Dividend income (3)	**(690)**	–	–
Transaction gain (5)	**4,617**	–	–
Reversal of net derivative loss deferred in other comprehensive income	**(1,996)**	–	–
Income tax effect of adjustments	**5,335**	(6,828)	431
Net income using U.S. GAAP	**130,386**	161,345	6,849
Unrealized gains (losses) on investments classified as available for sale, net of tax (4)	**(13,369)**	4,040	18,945
Realized losses on investments classified as available for sale, net of tax	**–**	(19,781)	–
Unrealized loss on derivative contracts (5)	**(16,661)**	–	–
Unrealized foreign exchange gain on translation of self-sustaining foreign operations	**940**	–	–
Comprehensive income using U.S. GAAP	**101,296**	145,604	25,794

(THOUSANDS OF CANADIAN DOLLARS)	2001	2000	1999
Net income per share using U.S. GAAP			
Basic	**3.14**	4.83	–
Fully diluted (6)	**3.09**	4.76	–
Comprehensive income per share using U.S. GAAP			
Basic	**2.44**	4.36	–
Fully diluted	**2.40**	4.30	–

Balance sheet items using U.S. GAAP

(THOUSANDS OF CANADIAN DOLLARS)	2001 Canadian GAAP	2001 U.S. GAAP	2000 Canadian GAAP	2000 U.S. GAAP
Investments and other assets (3)	**319,754**	**312,490**	76,177	90,957
Deferred charges (1)	**36,947**	**14,822**	15,054	12,136
Income taxes payable	**25,736**	**25,736**	12,767	14,723
Deferred credits (2)	**56,244**	**52,982**	36,949	32,883
Securitized borrowing (5)	**89,500**	**90,000**	–	–
Interest rate swap liability (5)	**–**	**5,067**	–	–
Future tax liability	**155,053**	**148,258**	169,898	176,650
Shareholders' equity	**1,172,215**	**1,147,315**	826,678	834,197

The cumulative effect of these adjustments on shareholders' equity is as follows:

(THOUSANDS OF CANADIAN DOLLARS)	2001	2000
Deferred charges (1) and (5)	**(7,570)**	(1,836)
Foreign exchange gains (2)	**2,517**	970
Equity in earnings of investees (3)	**4,758**	4,345
Accumulated other comprehensive income:		
Unrealized gains (losses) on investments (4)	**(9,329)**	4,040
Unrealized loss on derivative contracts (5)	**(15,276)**	–
Unrealized foreign exchange gain on translation of self-sustaining foreign operations	**940**	–
Total cumulative adjustments on Shareholders' equity	**(23,960)**	7,519

Areas of material difference between accounting principles generally accepted in Canada and the United States and their impact on the consolidated financial statements are as follows:

1. Deferred charges

Start-up costs of new specialty programming networks and costs associated with reformatting radio stations are deferred and amortized under Canadian GAAP. Under U.S. GAAP, these costs are expensed as incurred.

2. Foreign exchange gains (losses)

Foreign exchange gains (losses) on translation of long-term debt are amortized on a straight-line basis over the remaining term of the debt under Canadian GAAP. U.S. GAAP requires gains (losses) to be included in income when incurred.

3. Equity in earnings of investees

The earnings of investees determined under Canadian GAAP have been adjusted to reflect U.S. GAAP. Under Canadian GAAP, the investment in Nelvana's 20% interest in TELETOON Canada Inc. in fiscal 2001 and WIC in fiscal 2000 were accounted for using the cost method of accounting until CRTC approval was received for the transactions. When the Company received CRTC approval, the amount in the accounts under the cost method became the basis for the purchase price allocation and equity accounting commenced. Under U.S. GAAP, equity accounting for the investments were done retroactively to the date the Company first acquired shares in Nelvana and WIC.

4. Unrealized gains (losses) on investments

Under U.S. GAAP, equity securities having a readily determinable fair value and not classified as trading securities are classified as "available-for-sale securities" and reported at fair value, with unrealized gains and losses included in comprehensive income and reported as a separate component of shareholders' equity net of related deferred income taxes. Under Canadian GAAP, these investments are carried at cost and written down only when there is evidence that a decline in value that is other than temporary has occurred.

5. Derivative instruments and hedging activities

Under U.S. GAAP, all derivative instruments are to be recorded on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or deferred in other comprehensive income until the hedged item is recognized in earnings.

6. Earnings per share

For U.S. GAAP purposes the Treasury Stock Method has been used, while for Canadian GAAP purposes, the current imputed earnings approach has been used to calculate fully diluted earnings per share.

(b) Consolidated statements of cash flows

Under U.S. GAAP, cash flow from operations per share cannot be reported in the statement of cash flows.

(c) Stock-based compensation

The Company applies Accounting Principles Board Opinion 25 in accounting for common share options granted to employees and officers for U.S. GAAP purposes. Had compensation expense been determined on the basis of the estimated fair values of the options granted in accordance with Financial Accounting Standards Board Statement NO. 123, "Accounting for Stock-Based Compensation", the net income for the year ended August 31, 2001 would have decreased by $5,305,000 to $125,081,000, or $3.01 per share (2000 – would have decreased by $1,930,000 to $159,415,000, or $4.78 per share).

The fair value of stock options granted is estimated as at the grant date using the Black-Scholes option pricing model, using the following assumptions:

Dividend yield	0.0 %
Risk-free interest rate	4.88 %
Expected life	5 years
Expected volatility	44 %

(d) Recent accounting pronouncements

I. In June 2000, the Financial Accounting Standards Board in the United States issued Statement of Position 00-2 ("SOP 00-2"), "Accounting by Producers or Distributors of Films", which provides guidance on U.S. GAAP to all producers or distributors that own or hold rights to distribute or exploit films. The new standard is effective for financial statements in fiscal years beginning after December 15, 2000. The Company will adopt SOP 00-2 commencing September 1, 2001 and estimates that the cumulative effect of changes in accounting principles caused by the adoption of SOP 00-2 will result in a decrease in net income for the year ending August 31, 2002 of $5,000,000 – $7,000,000.

II. In June 2001, the Financial Accounting Standards Board approved Statement NO. 141, Business Combinations ("FAS 141"), and Statement NO. 142, Goodwill and Other Intangible Assets ("FAS 142"). Those statements will initiate changes in accounting for business combinations and goodwill. FAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Use of the pooling-of-interests method will be prohibited. FAS 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Thus, amortization of goodwill, including goodwill recorded in past business combinations, will cease upon adoption of that statement. FAS 142 will be applicable for fiscal years beginning after December 15, 2001; however, earlier adoption is permitted for companies with fiscal years beginning on or after March 15, 2001. The Company plans to adopt FAS 141 and 142 effective September 1, 2001 and accordingly will cease amortization of broadcast licenses and goodwill. The impact is estimated to result in an increase in net income for the year ending August 31, 2002 of $48,000,000 (2001 – $39,000,000). The Company has not yet determined the impact of the change in the accounting policy as it relates to applying the transitional test giving rise to the recognition of any impairment loss as an adjustment to opening retained earnings.

III. In August 2001, the Financial Accounting Standards Board approved Statement NO. 144, Impairment of Long-Lived Assets ("FAS 144"). FAS 144 requires that in cases where undiscounted expected cash flows associated with long-lived assets are less than their carrying value, an impairment provision is recognized in an amount by which the carrying value exceeds the estimated fair value of such assets. FAS 144 will be applicable for fiscal years beginning after December 15, 2001. The Company has not yet determined the impact the adoption of these pronouncements will have on its consolidated financial statements.

22. GOVERNMENT FINANCING AND ASSISTANCE

Revenues include $1,800,000 of production financing obtained from government programs. This financing provides a supplement to a production series' Canadian license fees and is not repayable. As well, revenues include $791,000 of government grants relating to the marketing of books in both Canada and international markets. The majority of the grants are repayable if the average profit margin for the three-year period following receipt of the funds equals or is greater than 10%.

23. COMMITMENTS

The Company has various long-term operating lease agreements for the use of transmission facilities and premises in each of the next five years and thereafter as follows:

(THOUSANDS OF CANADIAN DOLLARS)	$
2002	13,987
2003	12,585
2004	11,415
2005	7,610
2006	5,627
Thereafter	27,326
	78,550

Acquisition commitments are outlined in note 3 to these consolidated financial statements. Rental expenses recognized in operating, general and administrative expenses are $10,433,000 (2000 – $3,556,000; 1999 – $2,470,000).

24. RELATED PARTY TRANSACTIONS

The Company has transacted business in the normal course of business with entities which are subject to common voting control and with entities over which the Company exercises significant influence. These transactions, measured at the exchange amount which is the amount of consideration established and agreed to by the related parties and having normal trade terms, are as follows:

(THOUSANDS OF CANADIAN DOLLARS)	2001	2000
Revenues		
Cable service subscriber fees and advertising	**68,140**	19,279
Sales representation fees	**1,430**	—
Production and distribution	**4,462**	—
Other	**629**	—
Expenditures		
Digital music subscriber fees	**3,264**	2,190
Cable and satellite system distribution access fees	**6,902**	6,801
Administrative service fees	**2,049**	1,685
Amounts due from (to) affiliated companies are as follows:		
Cable service subscriber fees and advertising	**9,431**	4,182
Sales representation fees	**713**	—
Production and distribution	**3,738**	—
Other	**88**	—
Digital music subscriber fees	**(503)**	(457)
Cable system distribution access fees	**(654)**	(752)
Program rights payable	**(907)**	—
Administrative service fees	**(206)**	—

25. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

Certain comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2001 consolidated financial statements.

directors

John M. Cassaday [2][4]
Toronto, Ontario
President, Chief Executive Officer
Corus Entertainment

Dennis M. Erker [2][3]
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Partner, FE Advisory Group
(a financial and estate planning company)

David Flowers [4]
Englewood, Colorado
Senior Vice President and Treasurer of
Liberty Media Corporation

Clinton C. Forster [3]
Victoria, British Columbia
President,
Forvest Broadcasting Corporation
(a radio broadcasting company)

Michael Hirsh
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David Jensen [1]
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Toronto, Ontario
President,
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Catherine Roozen
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Director and Corporate Secretary of
Cathton Holdings. Ltd.

Terrance E. Royer [1] [2]
Calgary, Alberta
Executive Vice Chairman,
Royal Host Corp.
(a hotel management company)

Heather A. Shaw [2][3]
Calgary, Alberta
Executive Chair
Corus Entertainment

Julie M. Shaw [4]
Calgary, Alberta
Director of Facilities,
Shaw Communications, and Secretary,
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Toronto, Ontario
Corporate Director, former Associate
Professor, Graduate Program in
Communication Studies, University of
Calgary and Visiting Professor,
University of Alberta

(1) Member of the Audit Committee
(2) Member of the Executive Committee
(3) Member of the Human Resources Committee
(4) Member of the Corporate Governance Committee

officers

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Oakville, Ontario
Vice President,
Controller

Pierre Beland
Westmount, Quebec
President,
Corus Quebec

John M. Cassaday
Toronto, Ontario
President, Chief Executive
Officer and Director

John Hayes
Toronto, Ontario
President,
Corus Radio

Michael Hirsh
Toronto, Canada
CO-CEO and President of
Nelvana Limited and Director

Patrick Loubert
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CO-CEO and President of
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Vice President,
Regulatory Affairs

Thomas C. Peddie
Toronto, Ontario
Senior Vice President and
Chief Financial Officer

John R. (Jack) Perraton
Calgary, Alberta
Secretary

Paul W. Robertson
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President,
Corus Television

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Corporate Governance

Information concerning Corus' corporate governance policy is contained in the Information Circular and is also available by contacting the company.

Internet Home Page

Corus' Annual Report, Annual Information Form, Quarterly Reports, Press Releases and other relevant Investor Relations information are available electronically on the Internet at corusentertainment.com.

Further Information

Financial analysts, portfolio managers, other investors and interested parties may contact the company at 416.642.3770 or visit our Web site.

To receive additional copies of Corus Entertainment's Annual Report please fax your request to the Director of Communications at 416.642.3779.

Vous pouvez obtenir la version francaise du present rapport en communiquant par telecopieur avec le directeur des Communications, au 416.642.3779.

Annual Meeting

The Annual General Meeting of Shareholders will be held on December 11, 2001 at the Design Exchange, 234 Bay Street, Toronto.

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