Corus Entertainment Inc. - Second Quarter Report to Shareholders

HIGHLIGHTS

(Unaudited) (thousands of Canadian dollars except per share data)	Three months ended **February 28,** **2006**	 2005	Six months ended **February 28,** **2006**	 2005
Revenues	**164,388**	155,300	**359,729**	335,900
Segment profit				
Radio	**9,504**	10,014	**31,367**	31,038
Television	**36,383**	30,411	**88,412**	75,356
Content	**1,902**	1,525	**2,426**	1,647
Corporate	**(5,815)**	(4,192)	**(10,600)**	(7,815)
Eliminations	**177**	266	**297**	163
	42,151	38,024	**111,902**	100,389
Net income (loss)	**(65,732)**	12,945	**(34,325)**	42,022
Earnings (loss) per share				
Basic and diluted	**$(1.54)**	$0.30	**$(0.80)**	$0.98
Weighted average number of shares outstanding (in thousands)				
Basic	**42,802**	42,745	**42,805**	42,742
Diluted	**43,462**	43,000	**43,438**	42,901

Significant Events in the Quarter

- On December 14, 2005 Corus Radio announced the launch of a traffic report radio service in seven of Canada's top 10 markets. The new fleet takes Corus airborne across its number 1 news/talk network, servicing Vancouver, Calgary, Edmonton, Winnipeg, Hamilton, Toronto and Montréal
- On December 15, 2005 the Company announced that it had commenced a cash tender offer and consent solicitation for its outstanding U.S.$375.0 million aggregate principal amount of 8.75% Senior Subordinated Notes due 2012. The consent solicitation was successful, as 99.5% of the Notes were tendered prior to the expiry of the consent solicitation on December 29, 2005. The tender offer expired on January 20, 2006. In order to fund the purchase of the Notes, the Company's credit facility with a syndicate of banks was amended. The financial impact of this transaction was a charge of $1.89 per share in the second quarter.
- On December 15, 2005 the Company announced its intention to make a Normal Course Issuer Bid for its Class B Non-Voting Participating Shares through the facilities of the TSX. On December 29, 2005 the TSX confirmed its acceptance of the notice of intention. At the end of the second quarter the Company had purchased 218,000 shares for cancellation at an average price of $35.09 per share.
- On December 15, 2005 the Company held its Annual General Meeting of Shareholders. The meeting included a recap of its year-end results including completing fiscal 2005 with the highest revenue and segment profit numbers in the Company's history. In addition, Corus urged Government policy changes in the media and telecommunications sectors to ensure future growth and prosperity.
- On December 31, 2005 the Company paid a semi-annual dividend of $0.045 and $0.05 to holders of its Class A and Class B shares respectively.
- On January 12, 2006 the Company announced an increase in its dividend. The dividend will now be paid quarterly instead of semi-annually. The quarterly dividend for holders of its Class A and Class B shares will increase to $0.0975 and $0.10 respectively. The Company's dividend was paid on March 31, 2006 to shareholders of record at the close of business on March 15, 2006.
- On January 13, 2006 the CRTC announced a review of its Commercial Radio Policy, with a public hearing scheduled to begin on May 15, 2006. Corus filed a brief with respect to this hearing.

- On January 16, 2006 Nelvana announced that it had concluded a video-on-demand agreement with British Telecommunications Inc. (BT) in the U.K. Coming on the heels of recent North American partnerships with Comcast and Rogers (along with preschool broadcaster Treehouse), this deal widens the scope of Nelvana's on-demand initiatives to include Europe.
- On January 27, 2006 the Company announced that 11 Corus-supported films garnered 42 nominations and won five 2006 Genie Awards.
- On February 20, 2006 Corus Custom Networks announced the launch of Create Your Own Ad service, enabling Canadians in communities across Western Canada to design their own television advertising online for the TV Listings Channel.
- On February 27, 2006 the CRTC released its new policy framework to govern the migration of pay and specialty services from analog to a digital distribution environment.

Significant Events Subsequent to the Quarter

- On March 7, 2006 Corus Radio garnered five Canadian Music Industry Awards. Corus Radio also earned four Radio Marketing Bureau's Crystal Awards (Radio Marketing Bureau), recognizing the best in radio creative. 102.1 the Edge, Q107 Toronto, 99.3 The FOX, FM96, The New 1031 Fresh FM, Corus Radio Calgary, Power 97 and Y108 Hamilton all won awards across several different categories.
- On March 11, 2006 Corus Entertainment's CJOB celebrated its 60th anniversary. Since March 11, 1946, CJOB-AM has been a vital part of the city's landscape, delivering local news, weather and traffic and an interactive forum for discussing the issues that matter most to the Winnipeg community.
- On the week of March 20, 2006 the CRTC held a public hearing regarding the licensing of a new FM radio broadcasting undertaking in Québec City. Corus was an applicant.
- At the end of March 2006 the Company had purchased an additional 458,300 Class B Non-Voting Share for cancellation under its Normal Course Issuer Bid at an average price of $34.86 per share.

Management's Discussion and Analysis

Management's Discussion and Analysis of the financial position and results of operations for the six month period ended February 28, 2006 is prepared at March 31, 2006. The following should be read in conjunction with Management's Discussion and Analysis, consolidated financial statements and the notes thereto included in our August 31, 2005 Annual Report. All amounts are stated in Canadian dollars unless specified otherwise.

Cautionary statement regarding forward-looking statements

Certain statements in this report may constitute forward-looking statements and are subject to important risks and uncertainties. In particular, there are certain risks associated with the successful implementation of any strategies described in this report. The results or events predicted in these statements may differ materially from actual results or events. Factors which could cause results or events to differ from current expectations include, among other things: our ability to attract and retain advertising revenues; audience acceptance of our television programs and cable networks; our ability to recoup production costs, the availability of tax credits and the existence of co-production treaties; our ability to compete in any of the industries in which we do business; the opportunities (or lack thereof) that may be presented to and pursued by us; conditions in the entertainment, information and communications industries and technological developments therein; changes in laws or regulations or the interpretation or application of those laws and regulations; our ability to integrate and realize anticipated benefits from our acquisitions and to effectively manage our growth; our ability to successfully defend ourselves against litigation matters arising out of the ordinary course of business; and changes in accounting standards. Consequently, all of the forward-looking statements made in this report are qualified by these cautionary statements, and there can be no assurance that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, us. Unless otherwise required by applicable securities laws, we disclaim any intention or obligation to publicly update or revise any forward-looking statements whether as a result of new information, events or circumstances that arise after the date thereof or otherwise.

Overview of Consolidated Results

The second quarter was highlighted by strong revenue growth from Radio and Television, and another quarter of positive segment profit contribution from Content. In addition, the Company recorded a pre-tax $132.0 million debt refinancing loss resulting from the purchase and cancellation of its Senior Subordinated Notes and the termination of the associated cross-currency agreements. These transactions had an after-tax impact of $1.89 per share.

Financial Results

Revenues

Revenues for the second quarter were $164.4 million, an increase of 6% over $155.3 million last year. Radio and Television experienced increases of 8% and 11% respectively. For the six-month period, revenues of $359.7 million represented a 7% increase over $335.9 million last year. Radio and Television experienced increases of 9% and 11% respectively. Content decreased by 18% for the three- and six-month periods from fewer episodes delivered. Please refer to the following section for a further discussion of segmented results.

Direct cost of sales, general and administrative expenses

Direct cost of sales, general and administrative expenses for the second quarter were $122.2 million, up 4% from $117.3 million in the prior year. For the six-month period, expenses were $247.8 million, up 5% from the prior year. Expense increases in Television were a result of higher revenues, while increases in Radio were a result of the integration of the new stations in Québec. Expenses at Content decreased as a result of lower revenues, while Corporate expenses increased as a result of stock-based compensation and compliance costs. Please refer to the following section for a further discussion of segmented results.

Depreciation

Depreciation expense for the second quarter was $5.0 million, a decrease of $0.6 million from last year, while for the six-month period depreciation of $10.0 million represented a $1.0 million decrease from the prior year. This decrease reflects a lower capital cost base and continues a trend reflecting lower capital expenditures in recent years.

Amortization

Amortization expense for the second quarter was $0.6 million, down from $1.2 million last year, while for the six-month period amortization of $1.5 million represented a decrease of $0.8 million from last year. The decrease is a result of certain deferred start-up and reformatting costs becoming fully amortized, as well as the write-off in the second quarter of deferred financing costs associated with the Senior Subordinated Notes. The write-off of these costs has been recorded as a component of the debt restructuring loss. The remaining deferred start-up costs of $0.6 million will be fully amortized over the next several quarters, while $6.0 million in deferred financing charges relating to the new bank debt will be amortized over the life of the facility.

Interest on long-term debt

Interest expense for the second quarter was $11.1 million, down from $13.8 million last year, while for the six-month period interest expense of $25.5 million represented a decrease of $1.9 million from $27.4 million last year. The decrease is due to a lower interest rate on bank debt for approximately one month in the second quarter of fiscal 2006. The Company refinanced its debt at the end of January 2006, with the result that the Senior Subordinated Notes, which paid interest at an effective rate of 9.33%, were replaced with bank debt paying interest on a floating rate plus a margin. Interest rate swap agreements fix the interest rate at 4.13% on $400.0 million of the bank debt.

Debt restructuring loss

In the second quarter of fiscal 2006, the Company purchased and cancelled U.S.$373.6 million of its Senior Subordinated Notes. Concurrently, the cross-currency agreements which fixed the exchange rate on the principal and interest on the notes were effectively terminated. In order to fund the purchase of the notes, the Company amended its credit facility with a syndicate of banks. These transactions resulted in the Company recording a pre-tax debt restructuring loss of $132.0 million in the second quarter. The components of this loss include mark-to-market payments on the cross-currency agreement termination, consent and tender premiums, the non-cash write-off of deferred financing charges related to the Notes, and other fees. The after-tax impact of these transactions was approximately $1.89 per share.

Other income, net

Other income for the second quarter was $0.6 million, compared to $2.6 million in the prior year, while for the six-month period other income of $1.3 million represented a decrease from $9.0 million in the prior year. The prior year six-month period included foreign exchange and derivative gains of $4.0 million and $3.6 million, respectively. The financial instruments which gave rise to these gains were terminated in fiscal 2005 and so there is no corresponding impact in fiscal 2006.

Income taxes

The effective tax rate for the second quarter was 38.8% and for the six-month period was 41.8%, compared with the Company's 35.9% statutory rate. The difference between the effective and statutory rates is primarily due to the tax treatment of certain elements of the debt refinancing transaction that occurred in the second quarter.

Net income (loss)

Net loss for the second quarter was $65.7 million, compared to income of $12.9 million last year, while for the six-month period, a net loss of $34.3 million represented a decrease of $76.3 million from the prior year. Loss per share for the second quarter was $1.54 basic and diluted, compared with earnings per share of $0.30 basic and diluted last year. For the six-month period, the loss per share was $0.80 per share basic and diluted, compared to earnings per share of $0.98 per share basic and diluted. The after-tax impact of the debt refinancing transaction was approximately $1.89 per share.

Radio

The Radio division comprises 51 radio stations situated primarily in nine of the ten largest Canadian markets by population and in the densely populated area of southern Ontario. Corus is Canada's leading radio operator in terms of revenues and audience reach.

Financial Highlights

(Unaudited)	Three months ended		Six months ended	
	February 28,		**February 28,**	
(thousands of Canadian dollars)	**2006**	2005	**2006**	2005
Revenues	**57,784**	53,542	**130,176**	119,075
Direct cost of sales, general and administrative expenses	**48,280**	43,528	**98,809**	88,037
Segment profit	**9,504**	10,014	**31,367**	31,038

The results of fiscal 2006 reflect the impact of acquisitions and disposals that occurred in both fiscals 2006 and 2005. A reconciliation of Radio same station results is provided on page 12.

Revenues for the second quarter were $57.8 million, up 8% from the corresponding period last year. For the six-month period, revenues of $130.2 million were up 9% from a year ago. On a same station basis revenues were up 7% and 8% over the prior year for the three- and six-month periods, respectively. Revenue growth for the quarter was experienced from all Corus Radio clusters across Canada, with Vancouver, Calgary, Winnipeg, and the Ontario regional stations contributing above market average growth in the quarter, as indicated by the Trans-Canada Radio Advertising by Market Report for the three months ended February 28, 2006. Local and national airtime sales for the second quarter increased over the prior year by 6% and 8%, respectively. Corus Radio continues to be competitively positioned to take advantage of the strong ad market. Corus continues to outpace the overall market growth in the top ten markets in which the Company competes.

Direct cost of sales, general and administrative expenses for the second quarter were $48.3 million, up 11% from the corresponding period last year. For the six-month period, expenses of $98.8 million were up 12% over the prior year. On a same station basis expenses were up 6% over the prior year for both the three- and six-month periods. This same station expense growth is attributed to increased investments in new media and programming content, principally related to professional hockey which was unavailable last year and contributed approximately $1.6 million in costs to the current year. Expenses related to the integration of the recently acquired Québec stations are marginally higher than management' expectations, and this combined with lower than anticipated revenue growth has had a negative impact on results. Corus' strategy is to bring these stations to a break-even level in fiscal 2006.

Segment profit for the second quarter was $9.5 million, a decrease of 5% from last year, while for the six-month period segment profit of $31.4 million represented a 1% increase over the prior year. On a same station basis, segment profit increased by 12% over the prior year for both the three- and six-month periods.

Television

The Television division comprises the following: specialty television networks YTV, W Network, Treehouse TV, Corus' 80% interest in Country Music Television Limited ("CMT"), a 50.5% interest in Telelatino, a 40% interest in TELETOON and a 20% interest in Food Network; Corus' premium television services Movie Central and Encore Avenue; interests in three digital television channels: SCREAM, Discovery Kids Canada and The Documentary Channel; Corus Custom Networks, a cable advertising service; three local television stations; and Max Trax, a residential digital music service.

Financial Highlights

(Unaudited)	Three months ended		Six months ended	
	February 28,		**February 28,**	
(thousands of Canadian dollars)	**2006**	2005	**2006**	2005
Revenues	**90,908**	81,724	**199,748**	180,244
Direct cost of sales, general and administrative expenses	**54,525**	51,313	**111,336**	104,888
Segment profit	**36,383**	30,411	**88,412**	75,356

Revenues for the second quarter were $90.9 million, up 11% from the corresponding period last year. Revenues of $199.7 million for the six-month period also represented 11% growth over prior year. Revenue growth was driven by continued advertising growth of 12% for both the three- and six-month periods and subscriber growth of 11% and 9% for the three- and six-month periods, respectively. Subscriber revenues for the quarter include a retroactive fee adjustment of $2.3 million. Excluding this item, subscriber revenue growth for the quarter and year-to-date were 6% and 7% respectively. The strong advertising results were driven by double–digit growth in W Network, TELETOON and Telelatino. In total, specialty advertising revenues grew 12% over the prior year's quarter, while total revenues from local and other television properties grew by 5% over the prior year. Specialty advertising growth for the six-month period was 13%. Subscriber revenue growth was driven by Movie Central, which finished the quarter with 799,000 subscribers, up 7% from 748,000 at August 31, 2005. The Company attributes this increase to successful marketing campaigns surrounding high profile HBO programming, including *Rome* and the sixth season of *The Sopranos,* which launched in March 2006. The rate of subscriber growth is expected to slow in the second half of the year as churn rates in the summer months are traditionally higher.

Direct cost of sales, general and administrative expenses were $54.5 million for the second quarter, up 6% from the prior year, and $111.3 million for the six-month period, also up 6% from the prior year. The increase was primarily due to higher programming costs, as amortization of program rights increased by 7% over the prior year. These costs fluctuate in proportion to changes in subscribers, as a result of program supply agreements, and content requirements based on the prior years' revenues, as a result of conditions of license. These increased costs were offset by effective cost containment in other general and administrative overhead, which decreased by 4% in the current quarter due to bad debt expense in the prior year, and increased by 3% over the prior year on a year-to-date basis, due to bad debt expense incurred in the first quarter of this year.

Segment profit for the second quarter was $36.4 million, up 20% from the prior year, while segment profit of $88.4 million for the six-month period represented a 17% increase over the prior year.

Content

The Content division participates in the production and distribution of television programs and the sale and licensing of related products and rights.

Financial Highlights

(Unaudited)	Three months ended February 28,		Six months ended February 28,	
(thousands of Canadian dollars)	**2006**	2005	**2006**	2005
Revenues	**17,044**	20,841	**32,763**	39,769
Direct cost of sales, general and administrative expenses	**15,142**	19,316	**30,337**	38,122
Segment profit	**1,902**	1,525	**2,426**	1,647

Revenues for the second quarter were $17.0 million, a decrease of 18% from the prior year. For the six-month period, revenues of $32.8 million also represented an 18% decrease from the prior year. During the three- and six-month periods Content delivered 18 and 35 completed episodes respectively, compared to 19 and 71 episodes in the prior year periods. Production is on schedule to deliver approximately the same number of episodes as last year over the entire fiscal year. The decrease in revenues from the prior year was due to fewer episodes being delivered thus far in the current year, and the decline in *Beyblade* revenues towards the end of fiscal 2005. The *Beyblade* decline is not likely to reverse and merchandising revenues will not return to the levels of the past few fiscal years until new brands come on line. These decreases have been offset in the current year by library sales. Included in Content's revenues for the three- and six-month periods are intercompany revenues of $1.3 million and $3.0 million, respectively. These revenues are eliminated upon consolidation.

Direct cost of sales, general and administrative expenses for the second quarter were $15.1 million, down by 22% from the prior year. For the six-month period, expenses of $30.3 million represent a decrease of 20% from the prior year. The decrease reflects lower film amortization and third-party participation costs that fluctuate in proportion to revenues.

Segment profit for the second quarter was $1.9 million, compared to $1.5 million last year. For the six-month period segment profit was $2.4 million compared to $1.6 million in the prior year. The Content division continues to perform in line with the Company's current expectations of modest segment profit and neutral to positive free cash flow.

Corporate

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

Financial Highlights

(Unaudited)	Three months ended		Six months ended	
	February 28,		**February 28,**	
(thousands of Canadian dollars)	**2006**	2005	**2006**	2005
Stock-based compensation	**2,104**	1,367	**3,787**	2,642
Other general and administrative costs	**3,711**	2,825	**6,813**	5,173
General and administrative expenses	**5,815**	4,192	**10,600**	7,815

General and administrative expenses increased to $5.8 million in the second quarter from $4.2 million in the same period last year, and for the six-month period increased to $10.6 million from $7.8 million last year.

Stock-based compensation includes the expenses related to the Company's Performance Share Units and the issuance of stock options. The increase in the quarter and year-to-date expense reflects the impact of Corus' higher average share price in fiscal 2006 compared to the same periods last year.

The increase in other general and administrative costs of $0.9 million in the second quarter and $1.6 million for the year-to-date relate primarily to increased costs of information technology and costs associated with implementing the requirements of the Sarbanes-Oxley Act and new Canadian securities standards.

Quarterly Consolidated Financial Information

The following table sets forth certain unaudited data from the consolidated statements of income (loss) and retained earnings (deficit) for each of the eight most recent quarters ended February 28, 2006. The information has been derived from the Company's unaudited consolidated financial statements that, in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements contained in the Company's Annual Report for the year ended August 31, 2005.

(thousands of Canadian dollars)	Revenues	Segment profit (loss)	Net income (loss)	Earnings (loss) per share Basic	Diluted
2006					
2nd Qtr	164,388	42,151	(65,732)	$(1.54)	$(1.54)
1st Qtr	195,341	69,751	31,407	0.73	0.72
2005					
4th Qtr	175,279	42,571	9,662	$0.23	$0.22
3rd Qtr	171,890	52,351	19,430	0.45	0.45
2nd Qtr	155,300	38,024	12,945	0.30	0.30
1st Qtr	180,600	62,365	29,077	0.68	0.68
2004					
4th Qtr	162,959	42,837	14,018	$0.33	$0.33
3rd Qtr	163,864	(43,777)	(51,160)	(1.20)	(1.20)

Seasonal Fluctuations

As discussed in Management's Discussion and Analysis for the year ended August 31, 2005, Corus' operating results are subject to seasonal fluctuations that can significantly impact quarter-to-quarter operating results. In particular, as the Company's broadcasting businesses are dependent on general advertising and retail cycles associated with consumer spending activity, the first quarter results tend to be the strongest and second quarter results tend to be the weakest in a fiscal year.

Significant items causing variations in quarterly results

- The second quarter of fiscal 2006 was impacted by the purchase and cancellation of the Company's Senior Subordinated Notes, as well as the termination of the cross-currency agreements associated with the Notes. The after-tax impact of these transactions was approximately $80.7 million or $1.89 per share.
- The third quarter of fiscal 2004 was impacted by a non-cash, after-tax write-down in film investments of $60.3 million ($1.41 per share) resulting from the Company's decision to lower estimates of future revenue as a result of a challenging library market and a lower U.S. dollar. The pre-tax write-down of $85.0 million was recorded in operating, general and administrative expenses.

Risks and Uncertainties

There have been no material changes in any risks or uncertainties facing the Company since the year ended August 31, 2005.

Financial Position

Total assets at February 28, 2006 were $1.86 billion compared to $1.93 billion at August 31, 2005. The following discussion describes the significant changes in the consolidated balance sheet since August 31, 2005.

Current assets decreased by $78.9 million. Cash and cash equivalents decreased by $70.3 million. This decrease is the result of financing activities related to the purchase of the Senior Subordinated Notes and the termination of the associated cross-currency agreements. Accounts receivable decreased by $10.3 million. The second quarter typically generates the lowest revenues in the fiscal year, and as a result the accounts receivable balance is typically at its lowest point in the fiscal year at the end of the second quarter.

Non-current assets increased by $14.5 million. Property, plant and equipment decreased by $1.9 million as capital expenditures of $8.0 million were offset by depreciation of $10.0 million. The property, plant and equipment balance will continue to decline as the significant investments from fiscals 2001 and 2002 get depreciated, however capital expenditures in the third and fourth quarters of fiscal 2006 will be higher than in the first two quarters. Program and film rights (current and non-current) increased by $24.8 million, as accruals for acquired rights of $84.7 million were offset by amortization of $60.1 million. Accruals for program rights are weighted to the first half of the fiscal year, as programming is acquired for the fall launch and the ensuing broadcast year. Film investments increased by $8.5 million as net film spending of $22.0 million was offset by film amortization and accruals for tax credits. This increase is primarily in projects in development and process for series that will be delivered in future periods. Deferred charges decreased by $8.9 million due to amortization and the write-off of deferred financing charges as a result of the refinancing transactions on the second quarter. Broadcast licenses decreased by $3.8 million and goodwill decreased by $4.1 million as a result of the sale of two radio stations in the first quarter.

Current liabilities decreased by $14.9 million. Accounts payable and accrued liabilities decreased by $15.3 million and income taxes payable decreased by $2.1 million. Accounts payable and accrued liabilities related to working capital decreased by $28.4 million, due to the timing of the payment of interest, while non-working capital accruals for program rights and film investments increased by $15.6 million, as the Company grows its program rights assets.

Non-current liabilities decreased by $4.4 million. Long-term debt increased by $192.2 million, resulting from the refinancing transaction in the second quarter. The Company paid $435.1 million to purchase its Senior Subordinated Notes, and drew down $633.4 million on its bank facility in order to finance the purchase and terminate the cross-currency agreements. Deferred credits decreased by $159.0 million as a result of the termination of the cross-currency agreements associated with the Senior Subordinated Notes. Net future tax liability (including current asset) decreased by $44.2 million primarily as a result of the tax impact of the refinancing transaction in the second quarter.

Share capital decreased by $1.7 million as a result of the repurchase and cancellation of shares with a book value of $4.6 million under the Company's recently implemented issuer bid. This was offset by the receipt of $2.6 million on the exercise of employee stock options, in response to a recent increase in the Company's share price. Contributed surplus increased by $1.4 million as a result of expensing stock options for the period. Cumulative translation adjustment increased by $1.0 million due to the effect of the strengthening Canadian dollar on the translation of the net assets of self-sustaining foreign operations.

Liquidity and Capital Resources

Cash flows

Overall, the Company's cash and cash equivalents position has decreased by $70.3 million in fiscal 2006, compared to an increase of $5.2 million in the prior year. This is due to the refinancing of the Company's debt in the second quarter. Free cash flow is typically strong in the second quarter, as the Company collects receivables accrued from the seasonally higher revenues of the previous two quarters. Free cash flow in the current year was impacted by the early payment of interest associated with the acquisition and cancellation of the notes in the second quarter.

Cash provided by operating activities in fiscal 2006 is $38.6 million, compared to $47.2 million last year. This decrease is primarily due to increased investment in non-cash working capital of $21.0 million, offset by cash provided by a $11.5 million increase in segment profit. Non-cash working capital typically does not represent a significant use of cash at the end of the second quarter; however interest on the notes was paid early as a result of the refinancing transaction.

Cash used in investing activities in fiscal 2006 is $1.7 million, compared to $5.6 million last year. The current year includes $10.6 million in proceeds from the sale of certain radio and other assets, while capital expenditures are ahead of the prior year. This trend will continue through the remainder of the year.

Cash used in financing activities in fiscal 2006 is $107.2 million compared to $36.4 million last year. In the second quarter, the Company purchased and cancelled its Senior Subordinated Notes, terminated the cross-currency agreement associated with the Notes, and amended its credit facility. The net impact of these transactions was a financing cash outflow of $99.3 million. In the second quarter, the Company also began purchasing its own shares under an issuer bid. To the end of the second quarter, 218,000 shares had been purchased for cash consideration of $7.6 million.

Liquidity

As at February 28, 2006, the Company has available $160.0 million under a revolving term credit facility that matures on January 24, 2011. Interest rates on the Company's facilities fluctuate with Canadian bankers' acceptances and LIBOR.

As at February 28, 2006, the Company had a cash balance of $67.8 million and a working capital balance of $121.2 million. Management believes that cash flow from operations and existing credit facilities will provide the Company with sufficient financial resources to fund its operations for the remainder of fiscal 2006.

Net debt and adjusted net debt

At February 28, 2006, net debt was $569.6 million, up from $307.1 million at August 31, 2005. Adjusted net debt at February 28, 2006 was $569.6 million, up from $465.9 million at August 31, 2005. This increase in net debt is a result of the cash flows incurred to buy back the Senior Subordinated Notes and terminate the associated cross-currency agreements. Adjusted net debt to segment profit at February 28, 2006 was 2.8 times, up from 2.4 times at August 31, 2005. This ratio remains below management's stated maximum threshold of 3.5 times.

Off-balance sheet arrangements and derivative financial instruments

During the second quarter of fiscal 2006 the Company entered into Canadian interest rate swap agreements to fix the interest rate on its outstanding bank loans. The estimate fair value of these agreements at February 28, 2006 is $3.5 million. No asset has been included in the consolidated balance sheet.

As at August 31, 2005, the consolidated balance sheet included a liability of $158.8 million related to a cross-currency agreement. Corus terminated this agreement in the second quarter of fiscal 2006 as part of the refinancing of its debt. The fair value of the liability at the date of its termination was included in the debt refinancing loss recorded in the second quarter.

Outstanding Share Data

As at March 31, 2006, 1,724,929 Class A Voting Shares and 40,514,682 Class B Non-Voting Shares were issued and outstanding.

Key Performance Indicators

The Company measures the success of its strategies using a number of key performance indicators. With the exception of radio same station segment results, these have been outlined in the Management's Discussion and Analysis contained in the Annual Report for the year ended August 31, 2005, including a discussion as to their relevance, definitions, calculation methods and underlying assumptions. Certain key performance indicators are not measurements in accordance with Canadian or U.S. generally accepted accounting principles ("GAAP") and should not be considered as an alternative to net income or any other measure of performance under Canadian or U.S. GAAP.

The following tables reconcile those key performance indicators that are not in accordance with GAAP measures.

Free cash flow

(thousands of Canadian dollars)	Three months ended **February 28,** **2006**	2005	Six months ended **February 28,** **2006**	2005
Cash provided by (used in):				
Operating activities	**39,720**	55,530	**38,618**	47,160
Investing activities	**(7,222)**	(1,036)	**(1,679)**	(5,555)
Free cash flow	**32,498**	54,494	**36,939**	41,605

Net debt and adjusted net debt

(thousands of Canadian dollars)	**As at February 28, 2006**	As at August 31, 2005
Long-term debt	**637,359**	445,162
Cash and cash equivalents	**(67,799)**	(138,086)
Net debt	**569,560**	307,076
Unrealized cumulative foreign exchange gains	**-**	158,838
Adjusted net debt	**569,560**	465,914

Adjusted net debt to segment profit

(thousands of Canadian dollars except ratios)	**As at February 28, 2006**	As at August 31, 2005
Adjusted net debt [numerator]	**569,560**	465,914
Segment profit (1) [denominator]	**206,824**	195,311
Adjusted net debt to segment profit	**2.8**	2.4

(1) Reflects aggregate amounts for the most recent four quarters, as detailed in the table in the "Quarterly Consolidated Financial Information" of Management's Discussion and Analysis.

Radio same station segment results

Radio same station segment results represent the revenues and segment profit for the 43 radio stations whose results are included in the first six months of fiscals 2006 and 2005. With the acquisition and sale of certain stations over the past several quarters, the radio same station segment results metric has been included in this Managements' Discussion and Analysis to enhance the Company's disclosure.

(thousands of Canadian dollars)	Three months ended **February 28,** **2006**	2005	Six months ended **February 28,** **2006**	2005
Total Radio revenues	**57,784**	53,542	**130,176**	119,075
Adjustment for stations not in both fiscal periods	**(3,663)**	(2,868)	**(7,982)**	(5,684)
Radio same station revenues	**54,121**	50,674	**122,194**	113,391
Total Radio direct cost of sales, general and administrative expenses	**48,280**	43,528	**98,809**	88,037
Adjustment for stations not in both fiscal periods	**(4,739)**	(2,287)	**(9,909)**	(4,382)
Radio same station direct cost of sales, general and administrative expenses	**43,541**	41,241	**88,900**	83,655
Total Radio segment profit	**9,504**	10,014	**31,367**	31,038
Adjustment for stations not in both fiscal periods	**1,076**	(581)	**1,927**	(1,302)
Radio same station segment profit	**10,580**	9,433	**33,294**	29,736

CORUS ENTERTAINMENT INC.
CONSOLIDATED BALANCE SHEETS

[unaudited] (in thousands of Canadian dollars)	**As at February 28, 2006**	As at August 31, 2005
ASSETS		
Current		
Cash and cash equivalents	**67,799**	138,086
Accounts receivable	**145,019**	155,343
Prepaid expenses and other	**11,822**	10,948
Program and film rights	**96,091**	93,725
Future tax asset	**5,007**	6,498
Total current assets	**325,738**	404,600
Tax credits receivable	**14,030**	12,292
Investments and other assets	**37,365**	36,886
Property, plant and equipment, net	**74,168**	76,041
Program and film rights	**77,197**	54,715
Film investments [note 2]	**66,886**	58,417
Deferred charges	**6,627**	15,560
Broadcast licenses [note 3]	**510,712**	514,552
Goodwill [note 3]	**751,238**	755,301
	1,863,961	1,928,364
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**159,462**	172,236
Income taxes payable	**960**	3,049
Total current liabilities	**160,422**	175,285
Long-term debt [note 4]	**637,359**	445,162
Deferred credits [note 5]	**36,783**	195,789
Future tax liability	**102,008**	147,744
Other long-term liabilities	**29,561**	22,895
Non-controlling interest	**12,704**	11,227
Total liabilities	**978,837**	998,102
SHAREHOLDERS' EQUITY		
Share capital [note 6]	**884,235**	885,911
Contributed surplus	**4,915**	3,558
Retained earnings	**7,002**	50,802
Cumulative translation adjustment [note 11]	**(11,028)**	(10,009)
Total shareholders' equity	**885,124**	930,262
	1,863,961	1,928,364

See accompanying notes

On behalf of the Board,

John M. Cassaday
President and Chief Executive Officer

Heather A. Shaw
Executive Chair

April 13, 2006

CORUS ENTERTAINMENT INC.
CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND RETAINED EARNINGS

[unaudited] (in thousands of Canadian dollars except per share amounts)	Three months ended **February 28,** **2006**	**2005**	Six months ended **February 28,** **2006**	2005
Revenues	**164,388**	155,300	**359,729**	335,900
Direct cost of sales, general and administrative expenses	**122,237**	117,276	**247,827**	235,511
Depreciation	**4,988**	5,598	**10,026**	11,017
Amortization	**631**	1,153	**1,483**	2,318
Interest on long-term debt	**11,076**	13,823	**25,540**	27,415
Debt refinancing loss [note 4]	**131,951**	-	**131,951**	-
Other income, net	**(573)**	(2,606)	**(1,251)**	(8,968)
Income (loss) before income taxes and non-controlling interest	**(105,922)**	20,056	**(55,847)**	68,607
Income tax expense (recovery)	**(41,113)**	6,148	**(23,362)**	24,891
Non-controlling interest	**923**	963	**1,840**	1,694
Net income (loss) for the period	**(65,732)**	12,945	**(34,325)**	42,022
Retained earnings (deficit), beginning of period	**80,077**	11,955	**50,802**	(17,122)
Dividends	**(4,264)**	(1,060)	**(6,396)**	(1,060)
Share repurchase excess [note 6]	**(3,079)**	-	**(3,079)**	-
Retained earnings, end of period	**7,002**	23,840	**7,002**	23,840
Earnings (loss) per share [note 9]				
Basic and diluted	**$(1.54)**	$0.30	**$(0.80)**	$0.98
Weighted average number of shares outstanding [in thousands]				
Basic	**42,802**	42,745	**42,805**	42,742
Diluted	**43,462**	43,000	**43,438**	42,901

See accompanying notes

CORUS ENTERTAINMENT INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

[unaudited] (in thousands of Canadian dollars)	Three months ended **February 28,** **2006**	 2005	Six months ended **February 28,** **2006**	 2005
OPERATING ACTIVITIES				
Net income for the period	**(65,732)**	12,945	**(34,325)**	42,022
Add (deduct) non-cash items:				
Depreciation	**4,988**	5,598	**10,026**	11,017
Amortization of program and film rights	**31,246**	26,443	**60,135**	54,591
Amortization of film investments	**6,645**	8,401	**14,150**	17,823
Other amortization	**631**	1,153	**1,483**	2,318
Future income taxes	**(47,958)**	5,211	**(44,107)**	8,441
Non-controlling interest	**923**	963	**1,840**	1,694
Foreign exchange gains	**(325)**	-	**(325)**	(2,747)
Stock-based compensation	**2,104**	1,367	**3,787**	2,642
Unrealized derivative gains	**-**	(1,490)	**-**	(3,576)
Debt refinancing loss	**131,951**	-	**131,951**	-
Other	**816**	(333)	**1,153**	42
Net change in non-cash working capital balances related to operations	**17,694**	37,462	**(22,815)**	(1,802)
Payment of program and film rights	**(34,058)**	(28,864)	**(62,382)**	(58,551)
Net additions to film investments	**(9,205)**	(13,326)	**(21,953)**	(26,754)
Cash provided by operating activities	**39,720**	55,530	**38,618**	47,160
INVESTING ACTIVITIES				
Additions to property, plant and equipment	**(6,728)**	(3,201)	**(7,963)**	(6,238)
Increase in investments, net	**258**	(108)	**(239)**	(1,015)
Decrease in public benefits associated with acquisitions	**(2,321)**	(1,024)	**(4,046)**	(2,145)
Proceeds from sale of assets	**1,569**	3,297	**10,569**	3,843
Cash used in investing activities	**(7,222)**	(1,036)	**(1,679)**	(5,555)
FINANCING ACTIVITIES				
Increase (decrease) in bank loans	**633,354**	-	**633,354**	(34,017)
Notes repurchase and swap termination	**(726,621)**	-	**(726,621)**	-
Additions to deferred financing charges	**(6,000)**	(832)	**(6,000)**	(832)
Decrease in other long-term liabilities	**(176)**	(246)	**(352)**	(444)
Issuance of shares under stock option plan	**2,404**	687	**2,574**	687
Shares repurchased	**(7,649)**	-	**(7,649)**	-
Dividends paid	**(2,132)**	(1,060)	**(2,132)**	(1,060)
Dividends paid to non-controlling interest	**(630)**	(937)	**(630)**	(937)
Other	**230**	208	**230**	208
Cash used in financing activities	**(107,220)**	(2,180)	**(107,226)**	(36,395)
Net increase (decrease) in cash and cash equivalents during period	**(74,722)**	52,314	**(70,287)**	5,210
Cash and cash equivalents, beginning of period	**142,521**	48,127	**138,086**	95,231
Cash and cash equivalents, end of period	**67,799**	100,441	**67,799**	100,441

See accompanying notes

(in thousands of Canadian dollars except share information)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The interim consolidated financial statements include the accounts of Corus Entertainment Inc. and its subsidiaries ["Corus" or the "Company"]. The notes presented in these interim consolidated financial statements include only significant events and transactions occurring since the Company's last fiscal year and are not fully inclusive of all matters normally disclosed in the Company's annual audited financial statements. As a result, these interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended August 31, 2005.

These interim consolidated financial statements follow the same accounting policies and methods of application as the most recent annual consolidated financial statements.

Corus' operating results are subject to seasonal fluctuations that can significantly impact quarter-to-quarter operating results. Accordingly, one quarter's operating results are not necessarily indicative of a subsequent quarter's operating results. Each of the broadcasting businesses [Radio and Television] and the Content business has unique seasonal aspects.

For the broadcasting businesses, operating results are dependent on general advertising and retail cycles associated with consumer spending activity. Accordingly, operating results for the first quarter tend to be the strongest, reflecting pre-Christmas advertising activity, and for the second quarter tend to be the weakest, consistent with lower consumer spending in winter months.

For the Content business, operating results are dependent on the timing and number of television programs made available for delivery in the period, as well as the timing of merchandising royalties received, none of which can be predicted with certainty. Consequently, Content's operating results may fluctuate significantly from quarter to quarter. As well, cash flows may fluctuate and are not necessarily closely related to revenue recognition.

2. FILM INVESTMENTS

	As at February 28, 2006	As at August 31, 2005
Projects in development and in process, net of advances	**22,724**	15,876
Completed projects and distribution rights	**29,404**	28,796
Investments in third-party-produced film projects	**14,758**	13,745
	66,886	58,417

3. BROADCAST LICENSES AND GOODWILL

During the first quarter of fiscal 2006, the Company completed the sale of two radio stations to Newfoundland Capital Corporation for an aggregate purchase price of $9,115. There were reductions of $3,840 and $4,063 in broadcast licenses and goodwill, respectively, and an immaterial loss was recorded on these dispositions.

(in thousands of Canadian dollars except share information)

4. LONG-TERM DEBT

	As at February 28, 2006	As at August 31, 2005
Senior Subordinated Notes	**1,539**	445,162
Bank loans	**635,820**	-
	637,359	445,162

On March 7, 2002, Corus issued U.S.$375,000 aggregate principal amount of 8.75% Senior Subordinated Notes [the "Notes"] due in 2012 at a price of 99.186% of their aggregate principal amount. The Company entered into cross-currency agreements to fix the liability for interest and principal payments on the Notes. The agreements resulted in an effective interest rate of 9.33% on the Canadian dollar equivalent of the U.S. debt. The exchange rate applicable to the principal portion of the debt was fixed at Cdn.$1.6107, translating to approximately Cdn.$604,000.

On December 15, 2005, the Company announced that it had commenced a cash tender offer and consent solicitation for its Notes. On January 23, 2006, the Company completed its tender offer for the Notes, and as a result U.S.$373,646 of the Notes were acquired by the Company and cancelled, leaving U.S.$1,354 outstanding. Concurrently, the cross-currency agreements were effectively terminated.

In order to fund the purchase of the Notes, the Company's credit facility with a syndicate of banks was amended and its operating loan facility was terminated. The amendment resulted in an extension of the maturity of the credit facility to January 24, 2011. The amount committed is $800,000, of which $300,000 is available on a revolving basis [the "Revolving Facility"] and $500,000 on a non-revolving basis [the "Term Facility"], and is repayable at maturity. Funds are available to the Company in both Canadian and U.S. dollars and charge interest on a fluctuating basis plus a margin. Other terms of the amended credit facility are substantially similar to the prior credit facility. As at February 28, 2006, $140,000 of the Revolving Facility and all of the Term Facility were utilized in Canadian dollars.

Interest rates on the balance of the bank loans fluctuate with Canadian bankers' acceptances and LIBOR. The Company has entered into Canadian interest rate swap agreements to fix the interest rate at 4.13% on $400,000 of the Term Facility for the full term of the facility.

These transactions resulted in the Company recording a $131,951 debt refinancing loss in the second quarter of fiscal 2006. The components of this loss include mark-to-market payments on the cross-currency agreement termination, consent and tender premiums, the write-off of deferred financing charges, and underwriting and other fees.

(in thousands of Canadian dollars except share information)

5. DEFERRED CREDITS

	As at February 28, 2006	As at August 31, 2005
Public benefits associated with acquisitions	**17,163**	21,209
Cross-currency agreements translated into Canadian dollars at the current rate [note 4]	**-**	158,838
Unearned revenue from distribution and licensing of film rights	**16,070**	12,320
Other	**3,550**	3,422
	36,783	195,789

6. SHARE CAPITAL

Authorized

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

Issued and Outstanding

The changes in the Class A Voting and Class B Non-Voting Shares since August 31, 2005 are summarized as follows:

	Class A Voting Shares		Class B Non-Voting Shares		Total
	#	$	#	$	$
Balance, August 31, 2005	1,724,929	26,715	41,078,119	859,196	885,911
Issuance of shares under Stock Option Plan	-	-	97,283	2,664	2,664
Shares repurchased	-	-	(218,000)	(4,570)	(4,570)
Repayment of executive stock purchase loans	-	-	-	230	230
Balance, February 28, 2006	**1,724,929**	**26,715**	**40,957,402**	**857,520**	**884,235**

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 4,084,642. 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.

(in thousands of Canadian dollars except share information)

During the first quarter of fiscal 2006, the Company granted 262,000 stock options with a weighted average exercise price of $32.25 per share and a term of seven and a half years. The weighted average fair value of the stock options granted in the first quarter of fiscal 2006 was $11.16 per option.

As at February 28, 2006, the Company has outstanding stock options for 3,551,263 Class B Non-Voting Shares, of which 2,534,808 are exercisable.

The fair value of each option granted was estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

	Fiscal 2006	Fiscal 2005
Expected life	**5 years**	5 years
Risk-free interest rate	**3.73%**	4.31%
Dividend yield	**0.31%**	0.21%
Volatility	**33.33%**	35.98%

The estimated fair value of the options is amortized to income over the option's vesting period on a straight-line basis. The Company has recorded stock-based compensation expense for the three- and six-month periods of $701 and $1,447 (2005 - $495 and $1,145) and this has been credited to contributed surplus.

For options granted to employees up to August 31, 2003, had compensation costs for the Company's Stock Option Plan been determined based on the fair value based method of accounting for stock-based compensation, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

	Three months ended **February 28,**		Six months ended **February 28,**	
	2006	2005	**2006**	2005
Net income	**(65,732)**	12,945	**(34,325)**	42,022
Pro forma net income	**(66,177)**	12,555	**(35,062)**	41,148
Pro forma basic and diluted earnings per share	**$(1.55)**	$0.29	**$(0.82)**	$0.96

Long-term Incentive Plan

In fiscal 2006, the Company is implementing a new long-term incentive plan for senior management based on shareholder appreciation targets. No expense was recorded in the first two quarters in relation to this plan.

Normal Course Issuer Bid

On December 15, 2005, the Company announced its intention to make a normal course issuer bid for its Class B Non-Voting Shares through the facilities of the Toronto Stock Exchange. The Company intends to purchase for cancellation a maximum of 3,000,000 Class B Non-Voting Shares.

(in thousands of Canadian dollars except share information)

During the six months ended February 28, 2006, the Company repurchased and cancelled 218,000 Class B Non-Voting Shares for a total cash consideration of $7,649. This cash consideration exceeded the carrying value of the shares repurchased by $3,079, which amount was charged to retained earnings.

7. BUSINESS SEGMENT INFORMATION

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

Radio

The Radio segment comprises 51 radio stations, situated primarily in high-growth urban centres in Canada. Revenues are derived from advertising broadcast over these stations.

Television

The Television segment includes interests in several specialty television networks, pay television, conventional television stations, a digital music service and cable advertising services. Revenues are generated from subscriber fees and advertising.

Content

The Content segment includes the production and distribution of television programs and the sale and licensing of related products. Revenues are generated from licensing of proprietary films and television programs, merchandise licensing and publishing.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Management evaluates each business segment' performance based on revenues less direct cost of sales, general and administrative expenses. Transactions between reporting segments are recorded at fair value.

(a) Revenues and segment profit

Three months ended February 28, 2006

	Radio	Television	Content	Corporate	Eliminations	Consolidated
Revenue	57,784	90,908	17,043	-	(1,347)	164,388
Direct cost of sales, general and administrative expenses	48,280	54,525	15,141	5,815	(1,524)	122,237
Segment profit	9,504	36,383	1,902	(5,815)	177	42,151
Depreciation	1,621	1,870	698	799	-	4,988
Amortization	-	188	-	443	-	631
Interest on long-term debt	-	-	-	11,076	-	11,076
Debt refinancing loss	-	-	-	131,951	-	131,951
Other expense (income), net	150	318	(2)	(1,039)	-	(573)
Income (loss) before income taxes and non-controlling interest	7,733	34,007	1,206	(149,045)	177	(105,922)

(in thousands of Canadian dollars except share information)

Three months ended February 28, 2005

	Radio	Television	Content	Corporate	Eliminations	Consolidated
Revenue	53,542	81,724	20,841	-	(807)	155,300
Direct cost of sales, general and administrative expenses	43,528	51,313	19,316	4,192	(1,073)	117,276
Segment profit	10,014	30,411	1,525	(4,192)	266	38,024
Depreciation	1,812	2,369	519	898	-	5,598
Amortization	-	464	-	689	-	1,153
Interest on long term debt	-	-	-	13,823	-	13,823
Other expense (income), net	221	(307)	36	(2,556)	-	(2,606)
Income (loss) before income taxes and non-controlling interest	7,981	27,885	970	(17,046)	266	20,056

Six months ended February 28, 2006

	Radio	Television	Content	Corporate	Eliminations	Consolidated
Revenue	130,176	199,748	32,762	-	(2,957)	359,729
Direct cost of sales, general and administrative expenses	98,809	111,336	30,336	10,600	(3,254)	247,827
Segment profit	31,367	88,412	2,426	(10,600)	297	111,902
Depreciation	3,189	3,674	1,449	1,714	-	10,026
Amortization	-	376	-	1,107	-	1,483
Interest on long term debt	-	-	-	25,540	-	25,540
Debt restructuring loss	-	-	-	131,951	-	131,951
Other expense (income), net	284	338	(4)	(1,869)	-	(1,251)
Income (loss) before income taxes and non-controlling interest	27,894	84,024	981	(169,043)	297	(55,847)

Six months ended February 28, 2005

	Radio	Television	Content	Corporate	Eliminations	Consolidated
Revenue	119,075	180,244	39,769	-	(3,188)	335,900
Direct cost of sales, general and administrative expenses	88,037	104,888	38,122	7,815	(3,351)	235,511
Segment profit	31,038	75,356	1,647	(7,815)	163	100,389
Depreciation	3,490	4,486	1,172	1,869	-	11,017
Amortization	-	929	-	1,389	-	2,318
Interest on long term debt	-	-	-	27,415	-	27,415
Other expense (income), net	141	(122)	324	(9,311)	-	(8,968)
Income (loss) before income taxes and non-controlling interest	27,407	70,063	151	(29,177)	163	68,607

The Corporate segment represents the incremental cost of corporate overhead in excess of the amount allocated to the other operating segments.

(b) Segment assets

	As at February 28, 2006	As at August 31, 2005
Radio	**702,652**	713,427
Television	**914,945**	878,323
Content	**133,138**	145,947
Corporate	**114,584**	191,963
Eliminations	**(1,358)**	(1,296)
	1,863,961	1,928,364

Assets are located primarily within Canada.

8. FINANCIAL INSTRUMENTS

Fair values

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

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 on current Canadian bankers' acceptance and LIBOR rates.

Derivative financial instruments

The estimated fair values of these agreements are as follows:

	February 28, 2006		August 31, 2005	
	Carrying value	**Estimated fair value**	Carrying value	Estimated fair value
Cross-currency agreements	**-**	**-**	(158,838)	(242,005)
Interest rate swap agreements	-	3,521	-	-

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.

9. EARNINGS PER SHARE

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

	Three months ended **February 28,**		Six months ended **February 28,**	
	2006	2005	**2006**	2005
Net income (loss) for the period [numerator]	**(65,732)**	12,945	**(34,325)**	42,022
Weighted average number of shares outstanding [denominator]				
Weighted average number of shares outstanding – basic	**42,802**	42,745	**42,805**	42,742
Effect of dilutive securities	**660**	255	**633**	159
Weighted average number of shares outstanding – diluted	**43,462**	43,000	**43,438**	42,901

(in thousands of Canadian dollars except share information)

10. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Three months ended **February 28,**		Six months ended **February 28,**	
	2006	2005	**2006**	2005
Interest paid	**16,040**	166	**44,491**	27,013
Interest received	**1,127**	615	**2,179**	1,269
Income taxes paid	**17,341**	7,610	**23,972**	19,705

11. FOREIGN EXCHANGE GAINS AND LOSSES

The Company has reflected certain gains and losses in its consolidated statements of income (loss) and retained earnings as a result of exposure to foreign currency exchange rate fluctuations. A portion of these gains and losses relates to operating activities while other portions are of a financing nature. Foreign exchange gains and losses are reflected in the consolidated financial statements as follows:

	Three months ended **February 28,**		Six months ended **February 28,**	
	2006	2005	**2006**	2005
Direct cost of sales, general and administrative expenses	**(399)**	46	**(104)**	(1,025)
Other income, net	**(131)**	(38)	**80**	(3,985)
Total foreign exchange loss (gains)	**(530)**	8	**(24)**	(5,010)

An analysis of the cumulative translation adjustment shown separately in shareholders' equity is as follows:

Balance, August 31, 2005	(10,009)
Effect of exchange rate fluctuation on translation of net assets of self-sustaining foreign operations	(1,019)
Balance, February 28, 2006	(11,028)

12. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

Certain comparative consolidated amounts have been reclassified from those previously presented to conform to the presentation of the fiscal 2006 consolidated financial statements.