TABLE OF CONTENTS: LEFT BRAIN

overview of businesses

RADIO

Corus Radio continues to be the largest radio operator in Canada in terms of advertising revenues and reach. With 50 radio stations located primarily in eight of the 10 major markets, Corus Radio has the power to connect with one in three Canadians, leading the market share with a 29.1% reach in Spring 2004 compared to its closest competitors of 23.1% and 18.1% reach respectively, during that same period. Based on Spring 2004 BBM targeted demographics, more than half of Corus stations ranked #1.

Corus Radio will continue to strengthen its position in major markets and grow revenues and margins through research-driven programming decisions, professional sales execution and highly efficient operations. The Company will also leverage new media to benefit both the listener and the advertiser.

Radio revenues are derived almost exclusively from national and local advertising, with the latter accounting for approximately 77% of annual revenues.

As part of its ongoing strategy to focus on Canada's top 10 markets, Corus entered into an agreement with Astral Radio to exchange five FM stations in regional Québec for seven AM stations and one FM station, including the heritage AM station in Montréal (CKAC) and an FM station in Québec City (CFOM). Pending approval by the Canadian Radio-television and Telecommunications Commission, this swap will allow Corus to penetrate the larger Québec City market and strengthen its current position in Montréal.

Corus Radio-branded websites have proved to be extremely popular with audiences and are a growing source of advertising revenue. With nearly 500,000 registered members of Corus Radio web clubs and permission-based email, Corus stations are able to develop one-to-one relationships with audiences, while connecting them with advertisers in areas that meet their mutual needs.

TELEVISION

Corus Television is comprised of specialty television networks, premium television services, three local television stations, a digital audio service and a cable advertising service.

Corus Television's group of specialty television networks appeals particularly to kids, teens and women, much-coveted target groups among Canadian marketers. Each of the analogue specialty television networks is ranked among the top three within its genre, based on targeted demographic. According to the Nielsen 2003–2004 Broadcast year survey, YTV is #1 with kids two to 11 and broadcasts 14 of the top 20 children's shows in Canada, while Treehouse TV remains #1 with preschoolers. Since its relaunch in 2002, W Network has achieved a 53% growth in its core demographic of women 25–54 and recent Nielsen statistics indicate that W Network is watched by over 10.4 million Canadians in an average month. CMT has become the fastest growing specialty channel over the past three years, seeing a remarkable 88% growth in the adult 25–54 demographic. Telelatino is Canada's premier specialty service broadcaster for unparalleled programming in the Italian, Spanish, English and French languages.

Corus Television also operates three digital specialty television networks: The Documentary Channel, showcasing the increasingly popular documentary genre; Discovery Kids, offering children informative and entertaining programming with an emphasis on action, adventure and the environment; and SCREAM, thrilling viewers with a horror-themed slate of classic and modern films, cult favourites and popular series.

Corus Television also holds interests in The Locomotion Channel, an animation channel in Latin America (50%), TELETOON, the animation station in English and French Canada (40%), and Food Network Canada (19.9%).

Revenues from Corus' specialty television networks are derived primarily from subscriber fees and advertising. In fiscal 2004, subscriber fees accounted for 41% and advertising accounted for 55% of total revenues from the specialty television networks.

Movie Central and Encore Avenue are the exclusive licensed providers of premium television services in Western Canada, featuring blockbuster movies, series and specials from diverse genres on six distinct channels. Movie Central is recognized as Canada's first home of HBO programming, offering films and series on the same day and date with this critically-acclaimed American premium service. As at August 31, 2004, Movie Central had a record 707,000 subscribers, a 7% increase in year-over-year subscribers.

The Corus Television group also includes three local over-the-air CBC-affiliated television stations in Kingston, Peterborough and Oshawa, Ontario – the only local television broadcasters in their respective communities; Max Trax, a residential digital audio service; and Digital ADventure which operates TV listings channels.

Corus Television's operating strategy remains focused on increasing its position in the kids' and women's genres, and leveraging the competitive position of Corus Premium Television. Corus will continue to maximize operational synergies across all brands and introduce new digital innovations such as Video-on-Demand, Subscription Video-on-Demand and proprietary online content to extend its brands through many emerging distribution platforms.

CONTENT

The Content group consists of the operations of Corus' wholly-owned subsidiary, Nelvana Limited ("Nelvana"), an integrated children's producer and distributor of animated film and television programs and branded consumer products, and Kids Can Press, a publisher of children's books.

Nelvana's brand portfolio is comprised of internationally recognized animated characters such as *Babar*, *Franklin*, *Beyblade*, *Miss Spider's Sunny Patch Friends*, and *The Berenstain Bears*, distributed to broadcasters in over 180 countries, including some of the world's leading broadcasters. In 2004, Nelvana had 59 television programs on the air in Canada, and 34 in the United States.

Nelvana's production facility in Toronto houses state-of-the-art 2-D and 3-D digital animation technology as well as traditional animation capabilities and post-production facilities that improve cost-efficiencies.

At August 31, 2004, Nelvana's program library totalled over 2,590 half-hour equivalent episodes, comprising 62 animated television series, 16 specials, 15 animated feature-length films and 12 live action series. Highlights of Nelvana's production and distribution in fiscal 2004 include new series *The Backyardigans* and *Miss Spider's Sunny Patch Friends*, which both premiered on Nick Jr. in the U.S., and on Treehouse and TELETOON in Canada, respectively; additional *Jacob Two Two* episodes for YTV; the first *Care Bears* feature in more than 15 years, the direct-to-video *Journey to Joke-a-lot*; and a new relationship with the Academy Award®-winning studio, Weta Workshop, for the production of *Jane and the Dragon*.

Nelvana's branded consumer products business develops internationally-recognized characters, including *Babar*, *Little Bear* and *Franklin*, plus emerging brands with worldwide merchandise potential such as *Miss Spider* and *The Backyardigans*. In 2004, due to the continued international success of *Beyblade* merchandise and new licensing deals for *The Fairly OddParents*, 44% of total Content division revenues were derived from merchandising, up from 39% in fiscal 2003.

Nelvana's publishing business Kids Can Press, has a broad and growing backlist of titles. Beloved character *Franklin* has currently sold more than 50 million books worldwide and Kids Can Press' newest property, *The Mob*, is being developed as an animated feature by Nelvana.

The operating strategy for Nelvana is based on the diversification of revenue streams. In a marketplace where dependence on worldwide licence fees is no longer viable, Nelvana is seeking to maximize revenue from all streams including: broadcasting, merchandise licensing, home entertainment, interactive and music. Nelvana will focus on the strong near term revenue growth potential of the home entertainment market. With existing outlets expanding and new distribution platforms emerging for branded kids' content, Nelvana's evergreen content is well-positioned for revitalization and growth.

management's discussion and analysis

Management's Discussion and Analysis of the financial position and results of operations for the fiscal year ended August 31, 2004 is prepared at October 31, 2004. This should be read in conjunction with the Company's August 31, 2004 Annual Report and audited consolidated financial statements and notes therein.

The financial information presented herein has been prepared on the basis of Canadian generally accepted accounting principles ("GAAP"). Please refer to note 23 of the consolidated financial statements of the Company for a summary of differences between Canadian and United States ("U.S.") GAAP.

All dollar amounts are in Canadian dollars unless otherwise indicated.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this report may constitute forward-looking statements and are subject to important risks and uncertainties. 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; 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

Corus Entertainment Inc. ("Corus" or the "Company") 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.

Corus manages its business in three operating segments: Radio, 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 and national market competition from other broadcasting stations and other advertising media, government regulation, market competition from other distributors of children's animated programming and Corus' ability to continue to provide popular programming.

(a) Radio

The Radio segment is comprised of 50 radio stations, primarily situated in eight of the ten largest Canadian markets by population, and in the densely populated area of Southern Ontario. Revenues are derived from advertising aired over these stations. Corus is Canada's leading radio operator in terms of revenues and audience reach.

(b) Television

The Television segment is composed of the following: specialty television networks YTV, W Network (formerly WTN, Women's Television Network), Treehouse TV, Corus' 80% interest in CMT (Country Music Television), 50.5% interest in Telelatino, 50% interest in Locomotion and 40% interest in TELETOON; Corus premium television services of Movie Central and Encore Avenue; interests in three digital television channels; three conventional television stations; Max Trax, a digital audio service; and Digital ADventure, a cable advertising service. Revenues for specialty television networks and digital television channels are generated from affiliate subscriber fees and advertising. Revenues for premium television and digital audio services are generated from affiliate subscriber fees. Revenues for the conventional television stations and cable advertising services are derived from advertising.

(c) Content

The Content segment consists of the production and distribution of television programs and the branded consumer products business (formerly merchandise licensing and publishing businesses) of Nelvana Limited which was acquired in fiscal 2001. Revenues are generated from licensing of television programs, merchandise licensing and publishing.

KEY PERFORMANCE INDICATORS

The Company measures the success of its strategies using a number of key performance indicators. These have been outlined below, including a discussion as to their relevance, definitions, calculation methods and underlying assumptions. With the exception of revenues, operating, general and administrative expenses and segment profit and segment profit margin, the following 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.

Revenues

Revenue is a measurement defined by Canadian and U.S. GAAP. Revenue is the inflow of cash, receivables or other consideration arising from the sale of product and services and is net of items such as trade or volume discounts and certain excise and sales taxes. It is the base on which free cash flow, a key performance indicator defined below, is determined; therefore, it measures the potential to deliver free cash flow as well as indicating the level of growth in a competitive market place.

The primary sources of revenues for the Company are outlined in the "Overview" section above.

Corus is well diversified by revenue source with revenue streams for the year ended August 31, 2004 derived primarily from four areas: advertising (55%), subscriber fees (27%), license fees (8%) and publishing and merchandising (7%).

Operating, general and administrative expenses

Consolidated operating, general and administrative expenses include amortization of program and film rights (costs of programming intended for broadcast, from which advertising and subscriber fee revenues are derived), amortization of film investments (costs associated with internally produced and acquired television and film programming, from which distribution and licensing revenues are derived), 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 and is included in operating, general and administrative expenses. Approximately 27% and 41% of consolidated operating, general and administrative expenses in fiscal 2004 (2003 – 31% and 30%, respectively) were composed of employee remuneration and programming and film costs, respectively.

Segment profit and segment profit margin

Segment profit is calculated as revenues less operating, general and administrative expenses as reported in the Company's consolidated statements of income (loss) and retained earnings (deficit). The Company believes this is an important measure as it allows the Company to evaluate the operating performance of its business segments and its ability to service and/or incur debt; therefore, it is calculated before (i) interest on long-term debt, (ii) non-cash expenses such as depreciation, amortization, loss (gain) on sale of investments, hedge transaction loss, asset write-downs, and goodwill and intangible impairment loss; and (iii) items not indicative of the Company's core operating results such as restructuring charges, and other expense (income). Segment profit is also one of the measures used by the investing community to value the Company and is included in note 16 to the consolidated financial statements. Segment profit margin is calculated by dividing segment profit by revenues.

Free cash flow

Free cash flow is calculated as cash provided by (used in) operating activities plus (less) cash provided by (used in) investing activities as reported in the consolidated statements of cash flows. Free cash flow measures the Company's ability to repay debt, finance the business and pay dividends.

(thousands of Canadian dollars)	2004	2003	2002
Cash provided by (used in):			
Operating activities	84,912	64,622	27,892
Investing activities	(32,425)	(27,803)	49,926
Free cash flow	**52,487**	**36,819**	**77,818**

Net debt and adjusted net debt

Net debt is calculated as long-term debt less cash and cash equivalents as reported in the consolidated balance sheets. Adjusted net debt is calculated as net debt adjusted for the unrealized cumulative foreign exchange gains on the Company's senior subordinated notes. Adjusted net debt is an important measure as it reflects the principal amount of debt owing by the Company as at a particular date.

(thousands of Canadian dollars)	2004	2003
Long-term debt	529,139	558,437
Cash and cash equivalents	(95,231)	(43,874)
Net debt	433,908	514,563
Unrealized cumulative foreign exchange gains	111,625	84,363
Adjusted net debt	**545,533**	**598,926**

Adjusted net debt to adjusted segment profit

Adjusted net debt to adjusted segment profit is calculated as adjusted net debt divided by adjusted segment profit. Adjusted segment profit is calculated as segment profit adjusted for items not considered being in the ordinary course of business. It is one of the key metrics used by the investing community to measure the Company's ability to repay debt through on-going operations.

(thousands of Canadian dollars except ratios)	2004	2003	2002
Adjusted net debt [numerator]	545,533	598,926	641,811
Adjusted segment profit			
Segment profit	90,398	165,312	125,571
Write-down of investment in film	85,000	—	40,000
Adjusted segment profit [denominator]	175,398	165,312	165,571
Adjusted net debt to adjusted segment profit	3.1	3.6	3.9

SUPPLEMENTAL EARNINGS MEASURES

In addition to providing earnings measures in accordance with GAAP, the Company presents certain supplemental earnings measures and financial information. These are free cash flow, net debt, adjusted net debt, and net debt to adjusted segment profit, which are described in the "Key Performance Indicators" section, and pro forma information to assist readers in understanding fiscal 2003. These measures and financial information do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies.

Pro forma information

Pro forma information (including pro forma revenues and pro forma segment profit) is provided to assist investors in comparing results between periods after giving effect to significant acquisitions and divestitures. In particular, results from fiscal 2002 have been adjusted to reflect operating results of all businesses reporting in fiscal 2003 as if the businesses had been owned for the same number of days in fiscal 2002. Pro forma information is provided on the basis of the Company's reportable business segments (Radio, Television and Content) for revenues and segment profit since there were acquisitions and/or dispositions in each of these divisions during fiscal 2002 or fiscal 2003.

Pro forma results reconciliation

The following table reconciles pro forma revenues and segment profit for the year ended August 31, 2002 to actual results as reported in the consolidated statements of income (loss) and retained earnings (deficit) for the same period and should be read in conjunction with the preceding comments on supplemental earnings measures:

	YEAR ENDED AUGUST 31, 2002			
(thousands of Canadian dollars)	AS REPORTED	ACQUISITIONS	DISPOSITIONS	PRO FORMA
Revenues:				
Radio	211,416	696	(196)	211,916
Television	308,529	15,184	(21,892)	301,821
Content				
production and distribution	99,357	—	—	99,357
branded consumer products	60,558	—	(36,356)	24,202
Eliminations	(5,357)	—	—	(5,357)
	674,503	15,880	(58,444)	631,939
Segment profit: [1]				
Radio	52,853	96	140	53,089
Television	99,061	2,232	(5,029)	96,264
Content				
production and distribution	(28,797)	—	—	(28,797)
branded consumer products	7,843	—	(3,291)	4,552
Corporate	(4,750)	—	—	(4,750)
Eliminations	(639)	—	—	(639)
	125,571	2,328	(8,180)	119,719

Notes:
(1) As defined in "Key Performance Indicators – Segment profit".

ANNUAL SELECTED FINANCIAL INFORMATION

The following table presents summary financial information for Corus for each of the listed years ended August 31:

(millions of Canadian dollars except percentages and per share amounts)

				% INCREASE (DECREASE)	
	2004	2003	2002	2004 OVER 2003	2003 OVER 2002
Revenues	666.8	643.9	674.5	3.6	(4.6)
Segment profit [1]	90.4	165.3	125.6	(45.3)	31.6
Net income (loss)	(23.1)	40.0	(168.6)		
Earnings (loss) per share					
Basic and diluted	(0.54)	0.94	(3.96)		
Total assets	1,896.9	1,940.6	1,940.0		
Total long-term financial liabilities	690.9	693.5	731.3		
Cash dividends declared per share					
Class A Voting	0.04	—	—		
Class B Non-Voting	0.05	—	—		

Notes:
(1) As defined in "Key Performance Indicators – Segment profit".

FISCAL HIGHLIGHTS

2004

OPERATIONS

Revenues from operations increased by 4% to $667 million in 2004.

Segment profit decreased by 45% to $90.4 million in 2004 as a result of a non-cash write-down of film investments of $85 million in the third quarter.

Segment profit margins were 14% in 2004 compared to 26% in 2003.

The specialty television networks delivered double-digit segment profit growth in 2004.

Ontario and Quebec Radio outperform market growth in 2004.

Positive cash delivered from Content on a reduced production slate.

In the first quarter, two strategic deals for its new Home Entertainment department at Nelvana were announced with U.S.-based distributor, FUNimation, acquiring the rights to release 44 back-catalog titles and Maverick in the U.K. to market 33 Nelvana library titles, plus options on new releases.

Non-cash negative impact of $0.42/share was recognized for changes in Ontario tax rates in the first quarter.

FINANCIAL

Free cash flow of $52 million, up 43% from August 31, 2003.

Adjusted net debt reduced to $546 million at August 31, 2004 from $599 million at August 31, 2003.

Adjusted net debt to adjusted segment profit target achieved at 3.1 times.

Corus commences payment of semi-annual dividends for holders of its Class A and Class B shares of $0.02 and $0.025 respectively on December 31, 2003 and June 30, 2004.

2003

OPERATIONS

Revenue from operations decreased by 5% to $644 million in 2003.

Segment profit increased by 32% to $165 million in 2003.

Segment profit margins were 26% in 2003 compared to 19% in 2002.

Television enjoyed spectacular ratings growth in the Adult 25–54 demographic with W Network growing by 46%, CMT by 50% and YTV by 29%. The sales team capitalized on the strong W Network ratings and grew advertising revenues over 35% on a pro forma basis.

Content made great progress against its strategic objectives during the year. The division was cash flow positive as a result of the reduction in slate size, aggressive collection of tax credits and various cost cutting initiatives. The success of **Beyblade** added not only to the cash position but also enabled Content to generate approximately 40% of their revenues from branded consumer products.

Radio remained the Canadian leader in daily reach, revenues, and share of tuning with a market share of 29% in terms of reach, 26% ahead of the next closest competitor.

FINANCIAL

Free cash flow of $37 million, exceeding guidance.

Adjusted net debt reduced to $599 million at August 31, 2003 from $642 million at August 31, 2002.

Adjusted net debt to adjusted segment profit reduced to 3.6 times.

REGULATORY

On March 29, 2003, The Copyright Board of Canada issued its decision on a proposal by the Canadian Musical Reproduction Rights Agency (CMRRA) and the Société du droit de reproduction des auteurs, and compositeurs et éditeurs au Canada (SODRAC) for tariffs on the reproduction of musical works by commercial radio stations. The decision requires licensees to commit up to 0.8% of revenues, retroactive to 2001, to be paid in royalties.

RESULTS OF OPERATIONS

The following table presents summary financial information for Corus' operating business segments and a reconciliation of net income (loss) to segment profit for each of the listed years ended August 31:

(millions of Canadian dollars except percentages and per share amounts)	2004	% [2]	2003	% [2]	2002	% [2]	% INCREASE (DECREASE) 2004 OVER 2003	2003 OVER 2002
Revenues								
Radio	227.9	34.2	226.0	35.1	211.4	31.3	0.8	6.9
Television	332.3	49.8	306.9	47.7	308.5	45.7	8.3	(0.5)
Content	112.6	16.9	116.3	18.0	159.9	23.7	(3.2)	(27.3)
Eliminations	(6.0)	(0.9)	(5.3)	(0.8)	(5.3)	(0.7)	—	—
	666.8	**100.0**	**643.9**	**100.0**	**674.5**	**100.0**	**3.6**	**(4.6)**
Operating, general and administrative expenses								
Radio	167.9	73.7	167.9	74.3	158.5	75.0	—	5.9
Television	207.2	62.4	193.5	63.0	209.4	67.9	7.1	(7.6)
Content	196.3	174.3	113.1	97.2	180.9	113.1	73.6	(37.5)
Corporate	11.0	1.6	8.8	1.4	4.8	0.7	25.0	83.3
Eliminations	(6.0)	(0.9)	(4.7)	(0.7)	(4.7)	(0.7)	—	—
	576.4	**86.4**	**478.6**	**74.3**	**548.9**	**81.4**	**20.4**	**(12.8)**
Segment profit [1]								
Radio	60.0	26.3	58.1	25.7	52.9	25.0	3.3	9.8
Television	125.1	37.6	113.4	37.0	99.1	32.1	10.3	14.4
Content	(83.7)	(74.3)	3.2	2.8	(21.0)	(13.1)	(2,715.6)	115.2
Corporate	(11.0)	(1.6)	(8.8)	(1.4)	(4.8)	(0.7)	(25.0)	(83.3)
Eliminations	—	—	(0.6)	(0.1)	(0.6)	(0.1)	—	—
	90.4	**13.6**	**165.3**	**25.7**	**125.6**	**18.6**	**(45.3)**	**31.6**
Depreciation	25.7	3.9	24.7	3.8	26.0	3.9	4.0	(5.0)
Amortization	7.3	1.1	9.8	1.5	8.6	1.3	(25.5)	14.0
Interest on long-term debt	55.3	8.3	61.0	9.5	57.7	8.6	(9.3)	5.7
Loss (gain) on sale of investments	—		1.0		(18.2)			
Other expense (income), net	(5.0)		(9.4)		0.3			
Restructuring charges	—		5.0		22.1			
Hedge transaction loss	—		—		20.4			
Asset write-downs	—		2.4		15.3			
Goodwill and intangible impairment loss	—		—		162.8			
Income (loss) before income taxes	7.1		70.8		(169.4)			
Income tax expense (recovery)	26.9		28.6		(2.3)			
Income (loss) before equity earnings from investees and non-controlling interest	(19.8)		42.2		(167.1)			
Equity earnings from investees	—		—		0.1			
Non-controlling interest	(3.3)		(2.2)		(1.6)			
Net income (loss) for the year	**(23.1)**		**40.0**		**(168.6)**			

Notes:

(1) As defined in "Key Performance Indicators – Segment profit".

(2) Operating, general and administrative expenses and segment profit for each business segment are expressed as a percentage of revenues for the segment. Other items are expressed as a percentage of total revenues.

FISCAL 2004 COMPARED TO FISCAL 2003

Revenues for fiscal 2004 were $666.8 million, up 4% from $643.9 million last year. Television and Radio experienced increases of 8% and 1%, respectively, while Content was down 3% compared to the prior year.

Operating, general and administrative expenses were $576.4 million, up from $478.6 million in the prior year. The fiscal 2004 results include a write-down in film investments of $85.0 million. Excluding the write-down, operating, general and administrative expenses were up 3% from the prior year. The increase is primarily due to increased selling costs associated with increased revenues and higher programming costs.

Segment profit for fiscal 2004 was $90.4 million, down 45% from $165.3 million last year. The Radio division achieved segment profit of $60.0 million, an increase of 3% over the prior year. The Television division's segment profit of $125.1 million represents a segment profit growth of 10%. The Content division generated a loss of $83.7 million, after earning a profit of $3.2 million in the prior year. Segment profit margin for the year ended August 31, 2004 was 14% compared to 26% in fiscal 2003.

Radio

Radio revenues for the year were $227.9 million, up 1% from the prior year. The Ontario and Quebec regions delivered strong performances for both the quarter and year. According to the Trans-Canada Radio Advertising by Market ("TRAM") report for the year ended August 31, 2004, advertising sales growth for Corus' Ontario and Quebec regions exceeded overall market growth for those regions. This helped to offset weaker results from the western regions as the Company made changes to address competitive challenges in key markets. While the western region lagged behind overall market growth for the region in the year, as indicated by the TRAM report, Corus' strategy, which included reformatting several stations, has translated into improved summer Bureau of Broadcast Measurement ratings.

Operating, general and administrative expenses for the year were $167.8 million, essentially unchanged from the prior year.

Segment profit for the year was $60.0 million, 3% higher than the prior year. Segment profit margin for the year remained unchanged at 26%.

Television

Television revenues for the year were $332.3 million, up 8% over last year. Advertising and subscriber revenues increased in the year by 13% and 5%, respectively, with Movie Central, Corus' western-based pay television service, finishing the year with 707,000 subscribers, up 7% from August 31, 2003.

Operating, general and administrative expenses for fiscal 2004 were $207.3 million, up 7% from the prior year. Amortization of program and film rights increased as a result of increased programming expenditures at W Network and Movie Central. Selling costs have increased in proportion to increases in revenues, while savings have been realized in general and administrative expenses.

Segment profit for the year was $125.1 million, up 10% from the prior year. Segment profit margin was 38%, up from 37% last year.

Content

Content revenues for the year were $112.6 million, a decrease of 3% from the prior year.

Production and distribution revenues of $62.8 million represented an 11% decrease from the prior year. This decrease resulted from a reduced production slate, as 121 episodes and three direct-to-video features were delivered in the year, compared to 140 episodes and two direct-to-video features in the prior year. This decrease was offset by an increase in library revenues, including home video sales.

The branded consumer products business delivered revenues for the year of $49.9 million, up 9% from the prior year reflecting the cyclical nature of the merchandising business. The increase was primarily driven by the merchandising success of the *Beyblade* brand.

Operating, general and administrative expenses for the year were $196.4 million up from $113.1 million in the prior year, reflecting a write-down of film investments of $85.0 million recorded in the third quarter of fiscal 2004. This write-down results from a challenging library market and foreign exchange, specifically a lower U.S. dollar, which caused the Company to lower estimates of future revenues.

Segment loss for the year was $83.7 million, down from a profit of $3.2 million last year.

Corporate

The Corporate segment results represent the incremental cost of corporate overhead in excess of the amount allocated to the other operating divisions. Corporate overhead in fiscal 2004 was $11.0 million, up from $8.8 million in 2003. This was a planned increase due to the Company's decision to expense stock options, as well as the introduction of the Performance Share Units ("PSU") program in fiscal 2003. The PSU program is designed to restrict and reduce the number of stock options issued. Payment is linked to prescribed share growth, and a stock purchase and retention requirement.

Depreciation

Depreciation expense was $25.7 million, compared to $24.7 million in the same period last year. The increase is primarily due to increased capital expenditures.

Amortization

Amortization expense was $7.3 million, down from $9.8 million last year. The decrease was due to a reduced cost base as deferred pre-operating costs and radio reformatting costs became fully amortized.

Interest on long-term debt

Interest expense was $55.3 million, down from $61.0 million last year primarily due to a lower average debt balance and savings generated by a fixed-to-floating interest rate swap entered into in the first quarter of fiscal 2004. The effective interest rate for the year was 8.6% compared to 8.7% in the prior year.

Loss on sale of investments

The loss on sale of investments of $1.0 million in fiscal 2003 related to the disposition of various non-core assets.

Other expense (income), net

Other expense (income) for the year was income of $4.9 million, compared to income of $9.4 million in the prior year. The current year includes net derivative transaction gains of $1.0 million and foreign exchange gains of $2.2 million, while the prior year includes foreign exchange gains of $6.6 million.

Restructuring charges

The restructuring charges of $5.0 million in fiscal 2003 represented primarily workforce reductions in the Content division, reflective of the reduced level of production slated for fiscal 2003 and beyond.

Income taxes

Income tax expense was $26.9 million for the year on income before income taxes of $7.1 million. The first quarter was impacted by the Ontario government's decision to cancel previously announced reductions to future tax rates and to increase current tax rates. The change in Ontario tax rates caused an increase in the Company's non-cash income tax expense and net future tax liability position of $17.8 million. The third quarter was impacted by the tax benefit recognized on the write-down of film investments. The effective tax rate for the year excluding the impact of the Ontario tax rate change and the film investment write-down was 36.7%, in line with the statutory rate of 36.3%.

Net income (loss)

Net loss for fiscal 2004 was $23.1 million, down from income of $40.0 million last year. Loss per share for the year was $0.54 basic and diluted, compared with earnings of $0.94 basic and diluted last year. The after-tax impacts of the write-down in film investments and of the Ontario tax rate change were a reduction of $1.41 and $0.42 per share, respectively.

FISCAL 2003 COMPARED TO FISCAL 2002

Revenues for fiscal 2003 were $643.9 million, down 5% from $674.5 million in fiscal 2002. The decrease in revenues was attributable to various business divestures in fiscal 2002 and 2003 and the planned reduction in Nelvana's production slate. On a pro forma basis, revenues increased 2% from $631.9 million in fiscal 2002 reflecting strong advertising revenue growth from the Radio and Television divisions.

Operating, general and administrative expenses were $478.6 million, down 13% from $548.9 million in fiscal 2002 primarily as a result of the $40.0 million write-down in film investment in fiscal 2002 offset by increased variable operating expenses in fiscal 2003 associated with increased revenues. On a pro forma basis, operating, general and administrative expenses decreased 7% from $512.2 million in fiscal 2002.

Segment profit for fiscal 2003 was $165.3 million, up 32% from $125.6 million in fiscal 2002. The Radio division achieved segment profit of $58.1 million, an increase of 10% over the prior year. The Television division's segment profit of $113.4 million represents a segment profit growth of 14% over the prior year. The Content division earned segment profit of $3.2 million, after incurring a loss of $21.0 million in the prior year. On a pro forma basis, segment profit was up 38% from $119.7 million in fiscal 2002. Television and Radio achieved pro forma segment profit growth of 18% and 10% respectively. Segment profit margin for the year ended August 31, 2003 was 26% compared to 19% in fiscal 2002.

Radio

Radio revenues for fiscal 2003 were $226.0 million, up 7% from $211.4 million in fiscal 2002. On a pro forma basis, there was no significant increase or decrease in revenues. According to the Trans-Canada Radio Advertising by Market ("TRAM") report for the year ended August 31, 2003, total advertising sales for Corus' major market radio stations exceeded overall major market growth.

Operating, general and administrative expenses for fiscal 2003 were $167.9 million, up 6% from $158.5 million in fiscal 2002 reflecting increased variable costs associated with increased revenues and the new reproduction rights tariff established by the Copyright Board of Canada. The tariff requires radio licensees to commit up to 0.8% of revenues to be paid in royalties with retroactive payments to 2001. The impact to Corus in fiscal 2003 was a one-time retroactive payment of approximately $2.0 million that was charged to operations.

Segment profit was $58.1 million for fiscal 2003, up 10% from $52.9 million in fiscal 2002 (up 14% excluding the one-time retroactive payment of the new reproduction rights tariff). Segment profit margin was 26% in fiscal 2003, compared to 25% in fiscal 2002.

Television

Television revenues for fiscal 2003 were $306.9 million, down from $308.5 million in fiscal 2002. Fiscal 2003 results reflect the operations of W Network for a full year but do not reflect the operations of Viewer's Choice which was disposed of in fiscal 2002. On a pro forma basis, revenues were up 2% from $301.8 million in fiscal 2002. The Television division enjoyed impressive audience growth in fiscal 2003. The analog specialty television services, YTV, W Network and CMT, posted a 40% increase in the important Adult 25–54 demographic over the previous year, outpacing the industry trend. Advertising revenues were up 9% (or 5% for the year on a pro forma basis). The majority of the advertising revenue gain came from the strong performance at W Network which bettered pro forma prior year by 36%. Subscriber revenues were flat over the prior year on a pro forma basis. Despite premium subscriber declines in Spring/Summer 2002 due to pricing activity by broadcast distribution undertakings, Movie Central, Corus' western-based pay television service, finished the year with 658,000 subscribers, up 8% from the prior year.

Operating, general and administrative expenses for fiscal 2003 were $193.5 million, down 8% from $209.4 million in fiscal 2002, reflecting primarily the disposition of Viewer's Choice in fiscal 2002. On a pro forma basis, expenses are down 6% from $205.6 million in fiscal 2002 due to cost saving initiatives in programming and administrative expenses.

Segment profit was $113.4 million for fiscal 2003, up 14% from $99.1 million for fiscal 2002. On a pro forma basis, segment profit increased 18% from $96.3 million in the prior year. Segment profit margin was 37% in fiscal 2003, compared to 32% in fiscal 2002.

Content

Content revenues were $116.3 million in fiscal 2003, down 27% from $159.9 million in fiscal 2002. Fiscal 2003 results do not reflect the operations of Klutz, the U.S. publishing business, which was disposed of in fiscal 2002. On a pro forma basis, revenues decreased 6% from $123.6 million in the prior year. The production and distribution revenues for fiscal 2003 were $70.5 million, down 29% from the prior year reflecting lower planned production in the current year (140 episodes compared to 252 episodes in fiscal 2002).

For the branded consumer products business, revenues for fiscal 2003 were $45.8 million, down 24% from the prior year (up 89% on a pro forma basis excluding Klutz). The tremendous growth in pro forma revenues was primarily due to the strong merchandising sales from *Beyblade* and *Rescue Heroes*.

Operating, general and administrative expenses for fiscal 2003 were $113.1 million, down 37% from $180.9 million in the prior year. On a pro forma basis, expenses are down 23% from $147.8 million in the prior year reflecting the $40.0 million write-down in film investments in fiscal 2002 offset by a higher rate of amortization of film investments and higher cost of sales associated with increased merchandising revenues in fiscal 2003.

Segment profit for fiscal 2003 was $3.2 million, compared to a loss of $21.0 million in the prior year (a loss of $24.2 million in the prior year on a pro forma basis). Segment profit margin was 3% for fiscal 2003, compared to a negative margin on a pro forma basis in fiscal 2002.

Corporate

The Corporate segment results represent the incremental cost of corporate overhead in excess of the amount allocated to the other operating divisions. Corporate overhead in fiscal 2003 was $8.8 million, up from $4.8 million in 2002. This was a planned increase due to the centralization of functional departments such as Human Resources, Communications and Business Affairs, as well as the introduction of the Performance Share Units (PSU) program. The PSU program is designed to restrict and reduce the number of stock options issued. Payment is linked to prescribed share growth, and a stock purchase and retention requirement.

Depreciation

Depreciation expense was $24.7 million for 2003, down from $26.0 million in 2002. The decrease was the result of various business divestitures, offset by a higher capital base in the remaining operations.

Amortization

Amortization was $9.8 million for 2003, up from $8.6 million in fiscal 2002. The increase is the result of a write-off of approximately $1.0 million of deferred financing charges related to a credit facility that was cancelled in fiscal 2003.

Interest on long-term debt

Interest expense was $61.0 million, up from $57.7 million in fiscal 2002 reflecting higher interest expense associated with a full year's inclusion in fiscal 2003 of the senior subordinated debt issued in fiscal 2002. The effective interest rate for fiscal 2003 was 8.7% compared to 7.7% in the prior year.

Loss (gain) on sale of investments

The loss on sale of investments of $1.0 million in fiscal 2003 relates to the disposition of the Company's 70% interest in the digital channel Country Canada and the sale of the Company's 100% interest in Sound Products Limited. The prior year's gain of $18.2 million resulted from the disposal of the Company's interest in The Comedy Network, Klutz, and Viewer's Choice, and the sale of Astral Media Inc. shares.

Other expense (income), net

Other income for the year was $9.4 million, compared to an expense of $0.3 million in the prior year. This increase is the result of foreign exchange gains on U.S. dollar denominated bank debt in fiscal 2003.

Restructuring charges

In response to the weakened world market for film production and distribution, Corus continued to streamline operations to ensure the Company's profitability and competitive positioning in all divisions. Accordingly, restructuring charges of $5.0 million were recorded in the year, representing primarily workforce reductions in the Content division. This reduced workforce is reflective of the reduced level of production slated in fiscal 2003 and future years. The results for fiscal 2002 included restructuring charges of $22.1 million.

Hedge transaction loss

The hedge transaction loss of $20.4 million in fiscal 2002 reflects the non-cash expense associated with unwinding U.S. $147.0 million of cross-currency interest rate swaps.

Asset write-downs

Non-core assets were written down in fiscal 2003 in the amount of $2.4 million. Asset write-downs of $15.2 million in fiscal 2002 relate primarily to the discontinuation of the operations of Balmur Corus Music Inc., a music and television production business, and the write-down of the Company's investments in Liberty Digital Inc. and Local Media Internet Venture to net realizable value.

Goodwill and intangible impairment loss

During fiscal 2002, as a result of the adoption of the new accounting pronouncements and annual impairment testing, Corus recorded a non-cash charge for goodwill and intangible impairment of $162.8 million primarily in the Content division associated with the production and distribution business.

Income taxes

The effective tax rate for the year ended August 31, 2003 was 40.3% compared to the statutory rate 37.5% primarily due to the difference between tax and accounting treatment of the business divestitures during the year.

Net income (loss)

Net income for the fiscal 2003 was $40.0 million, compared to a loss of $168.6 million in the prior year. Earnings per share were $0.94 basic and diluted, compared with a loss per share of $3.96 basic and diluted in fiscal 2002.

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 August 31, 2004. 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 elsewhere in this report.

(thousands of Canadian dollars)		REVENUES	SEGMENT PROFIT[1]	NET INCOME (LOSS)	EARNINGS (LOSS) PER SHARE BASIC	DILUTED
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)
	2nd Qtr	155,019	34,069	8,305	0.19	0.19
	1st Qtr	184,962	57,269	5,700	0.13	0.13
2003	4th Qtr	$175,138	41,737	12,432	$0.29	$0.29
	3rd Qtr	155,296	44,186	12,265	0.29	0.29
	2nd Qtr	147,542	31,431	7,028	0.16	0.16
	1st Qtr	165,942	47,958	8,296	0.19	0.19

Notes:
(1) As defined in "Key Performance Indicators – Segment profit".

Seasonal fluctuations

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 what a subsequent quarter's operating results will be. Our broadcasting businesses (Radio and Television) and our Content business each has unique seasonal aspects.

For our 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 the second quarter tends to be the weakest, consistent with lower consumer spending in winter months.

For our Content business, operating results are dependent on the timing and number of television programs made available for delivery in the period, as well as 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 also fluctuate and are not necessarily closely related to revenue recognition.

Significant items causing variations in quarterly results

- First quarter fiscal 2004 was impacted by the Ontario government's decision to cancel previously announced reductions to future tax rates and to increase current tax rates. This change in Ontario tax rates caused an increase in the Company's non-cash income tax expense and net future tax liability position of $17.8 million ($0.42/share).
- Third quarter fiscal 2004 was impacted by a non-cash, after-tax write-down in film investments of $60.3 million ($1.41/share) resulting from the lowering of estimates of future revenues as a result of a challenging library market and lower U.S. dollar. The pre-tax write-down of $85.0 million was recorded in operating, general and administrative expenses.

FOURTH QUARTER

Revenues for the fourth quarter were $163.0 million, down 7% from $175.1 million last year. Radio revenues for the fourth quarter were $58.3 million, up 1% from the corresponding period last year. The Ontario and Quebec regions delivered strong performances for the quarter, while a competitive environment continues to challenge the western region. Television revenues for the fourth quarter were $78.3 million, up 4% over the corresponding period last year. Continued growth in advertising revenue was achieved, up 2% for the quarter, while strong subscriber revenue growth of 5% over the prior year was also experienced. Content revenues for the fourth quarter were $27.7 million, a decrease of 37% from the prior year. Production and distribution revenues for the fourth quarter were $21.6 million, down 18% from the prior year. For the fourth quarter, 33 episodes were delivered compared to 31 in the same period last year. The branded consumer products business delivered revenues for the fourth quarter of $6.1 million, down 66% from the prior year. This decrease reflects the cyclical nature of the merchandising business, in particular the *Beyblade* property, which was down in the quarter compared to last year when August sales were driven by the international launch of *Beyblade*.

Operating, general and administrative expenses for the fourth quarter were $120.1 million, down 10% from $133.4 million in the prior year. Radio expenses for the fourth quarter were $42.1 million, up 3% from the corresponding period last year, as the current years' quarter included costs relating to reformatting stations in several markets. Television expenses were $49.5 million for the fourth quarter, up 8% from the prior year. This was largely attributed to increases in programming expenditures as Television ramped up for the important fall launch. Content expenses for the quarter were $27.6 million, down 39% from the prior year. The decrease is primarily due to lower film amortization expense and merchandising participation accruals resulting from lower revenues. Corporate overhead for the fourth quarter was $2.6 million, down from $3.0 million in the prior year.

Depreciation expense for the fourth quarter was $6.4 million, a decrease of $0.3 million from last year. This change reflects the timing of capital expenditures. Amortization expense for the fourth quarter was $1.3 million, down from $2.1 million last year. The decrease is a result of deferred start-up and reformatting costs becoming fully amortized. Interest expense for the fourth quarter was $13.6 million, down from $14.2 million last year primarily due to savings generated by a fixed-to-floating interest rate swap. The effective interest rate for the fourth quarter was 8.5% compared to 8.8% in the prior year. Other expense (income) for the fourth quarter was income of $3.2 million, compared to an expense of $1.5 million in the prior year. The current year's quarter includes a derivative transaction gain of $2.5 million and foreign exchange gains of $1.4 million, while the prior year's quarter includes foreign exchange losses of $2.4 million. The effective tax rate for the fourth quarter was 39.2%, compared to the statutory rate of 36.3%.

Net income for the fourth quarter was $14.0 million, up from income of $12.4 million last year. Earnings per share for the fourth quarter was $0.33 basic and diluted, compared with earnings per share of $0.29 basic and diluted last year.

RISKS AND UNCERTAINTIES

Impact of regulation on Corus' results of operations

Radio and Television

Corus' Radio and Television business activities are regulated by the Canadian Radio-television and Telecommunications Commission ("CRTC") under the *Broadcasting Act* and, accordingly, Corus' results of operations may be adversely affected by changes in regulations, policies and decisions by the CRTC. The CRTC, among other things, issues licenses to operate radio and television stations and regulates the rates Corus may charge for its specialty television services if such services are distributed as part of the basic service by a cable distributor. Corus' radio stations must also meet technical operating requirements under the *Radiocommunication Act* and regulations promulgated under the Broadcasting Act. 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 *Radiocommunication 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.

Corus' radio, conventional television, specialty television, pay television, and digital audio undertakings rely upon licenses under the *Copyright Act* (Canada) in order to make use of the music component of the programming distributed by these undertakings. Under these licenses, Corus is required to pay royalties established by the Copyright Board of Canada pursuant to the requirements of the *Copyright Act* (Canada) to collecting societies which represent the copyright owners in such music component. These royalties are paid by these undertakings on a monthly basis in the normal course of their business.

The levels of the royalties payable by Corus are subject to change upon application by the collecting societies and approval by the Copyright Board of Canada. The Government of Canada may, from time to time, make amendments to the *Copyright Act* (Canada) to implement Canada's international treaty obligations and for other obligations and for other purposes. Any such amendments could result in Corus' broadcasting undertakings being required to pay additional royalties for these licenses.

Content

Corus licenses a significant portion of its programming to Canadian conventional television stations, specialty and premium television networks, which are required by the CRTC to devote a certain portion of their programming schedules to Canadian productions. In addition to these scheduling requirements, the CRTC generally requires Canadian specialty services to devote a certain amount of their revenues to certified Canadian programming. There can be no assurance that such policies will not be eliminated or scaled back, thereby reducing the advantages that they currently provide to Corus as a supplier of such programs. Also, there can be no assurance that our programming will continue to qualify as certified Canadian programming. If Corus' programming fails to so qualify, Canadian broadcasters would not be able to use the programs to meet their Canadian programming obligations and, as a result, license fees paid to Corus by Canadian broadcasters would not reflect the current premium paid for certified Canadian programs and Corus would not qualify for certain Canadian tax credits and industry incentives. Canadian Heritage, the Canadian ministry that oversees the tax credits, has conducted a review of the definition of Canadian content, as it applies to film and television production, but no formal changes to the definition have been announced.

Competition

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 television production industry, specialty and pay television channel broadcasting and radio broadcasting have always involved a substantial degree of risk. There can be no assurance of the economic success of radio stations, television programs or specialty television channels as revenue derived depends on audience acceptance of other competing programs released into, or channels existing in, the market place at or near the same time, the availability of alternative forms of entertainment and leisure time activities, general economic conditions, public tastes generally and other intangible factors. All of these factors could change rapidly and many are beyond our control. The lack of audience acceptance for our radio stations, television programs, specialty and pay television channels would have an adverse impact on our businesses, results of operations, prospects and financial condition.

Radio

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 online 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.

Television

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 compete 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. Corus' services also compete with a number of foreign programming services such as A&E and CNN which have been authorized for distribution in Canada by the CRTC. Moreover, increasingly Corus' specialty, pay and conventional television services are competing with alternative forms of entertainment which are not regulated by the CRTC, such as the Internet and video and DVD rentals. 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 favorably 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.

Corus pay television services are exclusive providers of premium movies and series, as well as classical movie offerings to Western Canadian subscribers. These services compete with pay-per-view movie offerings as well as Video-on-Demand offerings.

Content

The production and distribution of children's television, books and other media content is very competitive. There are numerous suppliers of media content, including vertically integrated major motion picture studios, television networks, independent television production companies and children's book publishers around the world. Many of these competitors are significantly larger than Corus and have substantially greater resources, including easier access to capital, than Corus has. Corus competes with other television and motion picture production companies for ideas and storylines created by third parties as well as for actors, directors and other personnel required for a production.

Further, vertical integration of the television broadcast industry and the creation and expansion of new networks, which create a substantial portion of their own programming, have decreased the number of available time slots for programs produced by third party production companies. There can be no assurances that Corus will be able to compete successfully in the future or that Corus will continue to produce or acquire rights to additional successful programming or enter into agreements for the financing, production, distribution or licensing of programming on terms favorable to us. There continues to be intense competition for the most attractive time slots offered by those services. There can be no assurances that Corus will be able to increase or maintain our penetration of broadcast schedules.

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. The success of a program is also dependent on 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.

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 Corus 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 Corus' production projects will continue to qualify for them. As well, the majority of Corus' productions are co-productions involving international treaties which allow Corus 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 Corus' 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 revenues 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.

Intellectual property rights

Corus' trade-marks, copyrights and other proprietary rights are important to the Company's competitive position. In particular, the Content group must be able to protect its trade-marks, copyrights and other proprietary rights in order to competitively produce, distribute and license its television programs and published materials, and market its merchandise. Accordingly, Corus devotes the Company's resources to the establishment and protection of our trade-marks, copyrights and other proprietary rights on a worldwide basis. However, from time to time, various third parties contest or infringe upon the Company's intellectual property rights. The Company reviews these matters to determine what, if any, actions may be required or should be taken, including legal action or negotiated settlement. There can be no assurance that the Company's actions to establish and protect our trade-marks, copyrights and other proprietary rights will be adequate to prevent imitation or unauthorized reproduction of the Company's products by others or prevent third parties from seeking to block sales, licensing or reproduction of these products as a violation of their trade-marks, copyrights and other proprietary rights.

Moreover, there can be no assurance that others will not assert rights in, or ownership of, the Company's trade-marks, copyrights and other proprietary rights, or that the Company will be able to successfully resolve these conflicts. In addition, the laws of certain foreign countries may not protect proprietary rights to the same extent as do the laws of the United States or Canada.

Technological developments

New or alternative media technologies and business models, such as digital radio services, satellite radio, direct-to-home satellite, wireless and wired cable television and Internet programming and video programming, and online publications have recently begun to compete, or may in the future compete, for programming, audiences and advertising revenues. These technologies and business models may increase audience fragmentation, reduce the Company's ratings or have an adverse effect on advertising revenues from local and national audiences. These or other technologies and business models may have a material adverse effect on our business, results of operations or financial conditions.

Interest rate and foreign exchange risk

The Company manages its exposure to floating interest rates and U.S. dollar foreign exchange fluctuation through the use of interest rate and cross-currency exchange agreements or "swaps". All such agreements are used for risk management purposes only. In order to minimize the risk of counterparty default under its swap agreements, Corus assesses the creditworthiness of its swap counterparties. Currently 100% of the Company's total swap portfolio is held by financial institutions with Standard & Poor's ratings (or the equivalent) ranging from A to AA-.

Corus has the following financial exposures to risk in its day-to-day operations:

Interest rates

The Company utilizes long-term financing extensively in its capital structure which includes banking facilities, and U.S. denominated senior subordinated notes as more fully described in note 12 to the consolidated financial statements.

Interest on bank indebtedness is based on floating rates, while the Notes are fixed rate obligations. Corus utilizes its credit facility to finance day-to-day operations.

As at August 31, 2004, approximately 73% of the Company's consolidated long-term debt was fixed with respect to interest rates.

Foreign exchange

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 13% 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 acts as a natural hedge against interest on unhedged U.S. denominated debt. As at August 31, 2004, approximately 94% of the Company's long-term debt was fixed to exchange rates relative to Canadian dollars.

Contingencies

The Company and its subsidiaries are involved in litigation arising in the ordinary course and conduct of its business. The Company recognizes liabilities for contingencies when a loss is probable and capable of being estimated. As at August 31, 2004, there were no actions, suits or proceedings pending or against the Company or its subsidiaries which would, in management's estimation, likely be determined in such a manner as to have a material adverse effect on the business of the Company.

FINANCIAL POSITION

Total assets at August 31, 2004 were $1.90 billion compared to $1.94 billion at August 31, 2003. The following discussion describes the significant changes in the consolidated balance sheets since August 31, 2003.

Current assets increased by $57.8 million. Cash and cash equivalents and future tax asset increased by $51.4 million and $3.5 million, respectively. Accounts receivable decreased by $15.0 million. The increase in future tax asset reflects a net increase in loss carry-forwards resulting from a tax loss utilization plan implemented in the first quarter of fiscal 2004. The reduction in accounts receivable is primarily due to timing, and improved cash collections.

Non-current assets decreased by $101.5 million. Tax credits receivable decreased by $16.3 million primarily due to tax credits collected during the period. Capital assets decreased by $7.3 million as capital expenditures of $17.4 million were offset by depreciation of $25.7 million. Program and film rights (current and non-current) increased by $23.8 million, as accruals for acquired rights of $128.9 million were offset by amortization of $105.5 million. Film investments decreased by $77.7 million, as net film spending of $47.6 million was exceeded by amortization of $142.8 million for the year. Included in film amortization is a fair value impairment write-down of approximately $85.0 million. Deferred charges decreased by $7.3 million due to amortization.

Current liabilities decreased by $24.0 million. Accounts payable and accrued liabilities decreased by $12.4 million as a result of lower trade accounts payable and lower accruals for rights holders participation. Income taxes payable decreased by $11.6 million, as income taxes paid exceeded the current provision.

Non-current liabilities increased by $3.7 million. Long-term debt decreased by $29.3 million, resulting from foreign exchange translation adjustments. Deferred credits increased by $17.4 million, as payments of $11.5 million for public benefits related to acquisitions were offset by $27.3 million in deferred foreign exchange gains for the year and other working capital adjustments. Net future tax liability (including current asset) remained essentially unchanged from the prior year. Other long-term liabilities increased as a result of accruals for long-term radio broadcast rights acquisitions.

Share capital increased by $2.4 million due primarily to the exercise of employee stock options. Contributed surplus increased by $1.3 million as a result of expensing stock-based compensation for the year. Cumulative translation adjustment increased by $1.9 million due to the effect of exchange rate fluctuation 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 increased by $51.4 million in the year ended August 31, 2004. Cash provided by operating activities for the year was $84.9 million, compared to $64.6 million in the prior year. This improvement was the result of an increase in cash flow derived from operations and reduced expenditures related to film investments, offset by increased expenditures for program rights and increased investment in non-cash working capital. Cash used in investing activities was $32.4 million for the year, compared to $27.8 million in the prior year. The increase in cash used reflects an increase in capital expenditures and a decrease in proceeds from business divestitures. Cash used in financing activities in the year was $1.1 million, compared to $19.6 million in the prior year. This change reflects the fact that the Company has not increased its bank loans balance in the year. The Company paid $2.1 million in dividends to shareholders in fiscal 2004.

Liquidity

In fiscal 2002, Corus issued U.S.$375.0 million aggregate principal amount of 8.75% Senior Subordinated Notes (the "Notes") due 2012 at a price of 99.186% of their aggregate principal amount. Cross-currency interest rate agreements have fixed the effective interest rates on the Notes at 9.33% and the exchange rate applicable to the principal portion of the debt has been fixed at Cdn.$1.6107 or Cdn.$604.0 million.

In addition, the Company has available a $25.0 million revolving operating loan facility and a senior revolving credit facility, which at August 31, 2004 amounted to $195.0 million, all of which is revolving on a reducing basis until repayment on August 31, 2006. At August 31, 2004, the loan facility and $158.2 million of the credit facility was not utilized. Interest rates on these bank loans fluctuate with Canadian banker's acceptances and LIBOR and averaged 3.9% for fiscal 2004 and 4.8% for fiscal 2003.

These borrowings combined with cash generated from operations have been the primary funding sources for operations over the last several years. The nature of the Company's business is such that significant expenditures are required to acquire program rights for the Television business and to produce and acquire film assets for the Content business. For the past three years, these expenditures have been financed from cash generated from operations. The Company has no significant commitments related to the acquisition of capital assets. Over the past three fiscal years, the Company has reduced its investment in non-cash working capital.

At August 31, 2004, the Company has a cash balance of $95.2 million, and a working capital balance of $140.2 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 fiscal 2005.

Net debt and adjusted net debt

At August 31, 2004, net debt was $433.9 million, down from $514.6 million at August 31, 2003. Adjusted net debt at August 31, 2004 was $545.5 million, down from $599.0 million at August 31, 2003.

Off-balance sheet arrangements and derivative financial instruments

The Company has guarantees and general indemnification commitments to counterparties. Historically, the Company has not made any significant payments with respect to these guarantees and indemnification provisions, and management believes that the risk of loss is low.

The Company uses derivative financial instruments to manage risks from fluctuations in exchange and interest rates. These instruments include cross-currency and interest rate swap agreements. All such instruments are only used for risk management purposes. 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 offset against the corresponding exchange gains or losses on the hedged item. The carrying value of derivative financial instruments that do not qualify for hedge accounting is adjusted to reflect their current market value.

At August 31, 2004, the consolidated balance sheet includes a fair value liability of $3.3 million related to an interest rate swap agreement. Net derivative transaction gains of $1.0 million are included in "Other expense (income), net" in the consolidated statements of income (loss) and retained earnings (deficit) for the year ended August 31, 2004.

As at August 31, 2004, the minority shareholders of Telelatino Network Inc. had the right, through a put option, to require the Company to purchase their shareholdings. This put option expired November 16, 2004 without being exercised.

Contractual commitments

Corus has the following contractual commitments:

(thousands of Canadian dollars)	TOTAL	LESS THAN ONE YEAR	ONE TO THREE YEARS	FOUR TO FIVE YEARS	AFTER FIVE YEARS
Long-term debt	640,764	—	36,764	—	604,000
Operating leases	99,046	19,449	29,229	19,991	30,377
Other long-term obligations	23,967	3,693	5,783	5,076	9,415

TRANSACTIONS WITH RELATED PARTIES

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 are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties and having normal trade terms.

During the year, the Company received cable and satellite service subscriber, programming and advertising fees of $92.3 million [2003 – $89.3 million] and production and distribution revenues of $3.1 million [2003 – $2.1 million] from related parties. In addition, the Company paid cable and satellite system distribution access fees of $4.5 million [2003 – $3.6 million] and administrative and other fees of $1.5 million [2003 – $1.1 million] to related parties. As at August 31, 2004, the Company had $9.9 million [2003 – $20.2 million] receivable from related parties.

The Company provided related parties with radio and television spots in return for television advertising. No monetary consideration was exchanged for these transactions and no amounts were recorded in the accounts.

Through an investment in a partnership, Corus and a related party each had an indirect holding in certain assets, primarily consisting of a real estate property. In 2004, the related party's interest in the assets was transferred to Corus in exchange for cash of $0.3 million and a promissory note of $1.1 million. As part of the transaction, Corus and the related party entered into an agreement effective August 26, 2004 for the related party's use of the remaining assets. These transactions were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The parties have agreed that the exchange amounts represent fair value consideration for the transactions.

Certain officers of the Company are currently indebted to the Company in connection with the purchase of Class B Non-Voting Shares, Notes and relocation housing loans. The loans granted by the Company do not bear interest. The aggregate amount of such indebtedness as at August 31, 2004 was $6.8 million.

PENDING TRANSACTIONS

On March 30, 2004, Corus and Astral Media Inc. announced their intention to exchange a number of radio assets in the province of Quebec, subject to regulatory approval. The transaction will bring Corus' radio stations total to 53, with presence in nine of Canada's top 10 markets and 15 radio stations in the province of Quebec. As this is a non-monetary transaction at carrying value, there is no gain or loss anticipated on approval of this transaction. As at October 31, 2004, the Company is still awaiting regulatory approval for this transaction.

IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS ADOPTED IN 2004

Hedging relationships

In December 2001, the CICA issued Accounting Guideline-13, "Hedging Relationships" ("AcG-13"). AcG-13 establishes new criteria for hedge accounting and applies to all hedging relationships in effect for the Company's fiscal year commencing on September 1, 2003 under Canadian GAAP. To qualify for hedge accounting, consistent with U.S. GAAP, the hedging relationship must be appropriately documented at the inception of the hedge and there must be reasonable assurance, both at the inception and throughout the term of the hedge, that the hedging relationship will be effective. Effectiveness requires a high correlation of changes in fair values or cash flows between the hedged item and the hedge. In June 2002, the Emerging Issues Committee issued EIC-128, "Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments", which establishes that a derivative financial instrument that does not qualify for hedge accounting under AcG-13 should be recognized on the balance sheet at fair value, with changes to fair value recognized in net income. The Company has applied the recommendations to its hedging relationships, and those that qualify continue to be accounted for using hedge accounting. The adoption of this standard had no impact on the Company's results of operations or financial position.

Stock-based compensation and other stock-based payments

In October 2003, the CICA issued amended Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments", which requires that equity instruments awarded to employees be measured and expensed, thus eliminating the existing provisions which permit a company to only disclose the fair value. Fair value of the equity instruments would be used to measure compensation expense. As well, the transitional provisions that apply when a company adopts the fair value method have been modified to harmonize with U.S. standards, whereby alternative methods of transition to the fair value method are now permitted. The transitional provisions include both retroactive and prospective alternatives. However, the prospective method is only available to enterprises that elect to apply the fair-value based method of accounting for fiscal years beginning before January 1, 2004. The Company has elected to adopt the prospective approach for its fiscal year commencing September 1, 2003, and as a result has recorded the $1.3 million in compensation costs associated with stock options awarded to employees after August 31, 2003 in its operating, general and administrative expenses for the year ended August 31, 2004.

Impairment of long-lived assets

In April 2003, the CICA issued Handbook Section 3063, "Impairment of Long-lived Assets", thereby replacing the write-down provisions of Section 3061, Property, Plant and Equipment. This new Section established standards for the recognition, measurement and disclosure of the impairment of long-lived assets by profit-oriented enterprises and harmonizes Canadian requirements with the U.S. impairment provisions of FASB Statement No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets".

Under the new Section, an impairment loss is measured as the amount by which the long-lived asset's carrying amount exceeds its fair value. This represents a significant change to Canadian GAAP, which previously measured the amount of the impairment as the difference between the long-lived asset's carrying value and its net recoverable amount (i.e. undiscounted cash flows plus residual value). The Company has adopted the new Section effective September 1, 2003 and the application did not have a material impact on the Company's consolidated financial statements.

RECENT ACCOUNTING PRONOUNCEMENTS

Variable interest entities

The CICA has issued a draft guideline on accounting for variable interest entities titled Accounting Guideline-15, "Consolidation of Variable Interest Entities" ("AcG-15"), which proposes amendments to the guideline to correspond with corresponding guidance in the United States. The accounting guideline, effective for periods beginning on or after November 1, 2004, provides guidance on consolidation and disclosure of variable interest entities. The Company will continue its assessment of the impact of the accounting guideline and the expected amendments. The Company does not expect a material impact on its financial position or results of operations in fiscal 2005.

GAAP hierarchy and general standards of financial statement presentation

In 2005, the Company will adopt the CICA issued new Handbook Sections 1100, "Generally Accepted Accounting Principles," and 1400, "General Standards of Financial Statement Presentation". Section 1100 describes what constitutes Canadian Generally Accepted Accounting Principles ("GAAP") and its sources and provides guidance on sources to consult when selecting accounting policies and determining appropriate disclosures when a matter is not dealt with explicitly in the primary sources of generally accepted accounting principles, thereby re-codifying the Canadian GAAP hierarchy. The effect of any change in accounting policy made on adopting this Section applies only to events and transactions occurring after the date of the change and to any outstanding related balances existing at the date of the change. Section 1400 provides general guidance on financial statement presentation and further clarifies what constitutes fair presentation in accordance with GAAP. The Company does not expect these recommendations to have a significant impact on its consolidated financial statements upon adoption.

Asset retirement obligations

Effective 2005, the Company will adopt the CICA issued Section 3110, "Asset Retirement Obligations". This standard requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated costs are capitalized as part of the carrying value of the related asset and depreciated over its remaining useful life. Section 3110 is applicable to fiscal years beginning on or after January 1, 2004 and must be applied retroactively with restatement of prior periods. The application of this standard is not expected to have a significant impact on the financial position or results of operations of the Company.

CRITICAL ACCOUNTING ESTIMATES

The Company's significant accounting policies are described in note 2 to the consolidated financial statements. 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. The most significant assumptions made by management in the preparation of the Company's consolidated financial statements include future revenue projections for investments in film and television programs, provisions for doubtful accounts to reflect credit exposures, valuation allowances and impairment assessments for various assets including investments in film and television programs, capital assets, long-term investments, current and future income taxes, goodwill and broadcast licenses. Actual results could differ from those estimates. The policies described below are considered to be critical accounting estimates, as they require significant estimation or judgment.

Film investments

The Company accounts for its production and distribution of film and television programs in accordance with AICPA Statement of Position 00-2 "Accounting by Producers or Distributors of Films" ("SOP 00-2"). SOP 00-2 requires that film and television costs of production and acquisition are amortized using the individual film forecast method. Under this method, capitalized costs for an individual film or television program are amortized in the proportion that current period actual revenues bear to management's estimates of the total revenue expected to be received from such film or television program over a period not to exceed ten years from the date of delivery. As a result, if revenue estimates change with respect to a film or television program, the Company may be required to write-down all or a portion of the unamortized costs of such film or television program, therefore impacting operating, selling and administrative expenses, and profitability.

The fiscal 2004 results include a write-down of $85.0 million resulting from lower estimates of future revenue projections. No assurance can be given that unfavorable changes to revenue estimates will not continue to occur, which may again result in significant write-downs affecting our results of operations and financial conditions.

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.

Broadcast licenses are considered to have an indefinite life based on management's intent and ability to renew the licenses without substantial cost and without material modification of the existing terms and conditions of the license. No assurance can be given that the Company will be able to renew its licenses, or that substantial cost or material modification of the existing terms and conditions will not be incurred.

Broadcast licenses and goodwill are tested for impairment annually or more frequently if events or changes in circumstances indicate that they are impaired. The Company has selected August 31 as the date it performs its annual impairment test. The key assumptions used in the test include forecasted segment profit and industry multiples. The fair value of the Company's intangible assets is exposed to future adverse changes if the Company experiences declines in operating results, significant negative industry or economic trends or if future performance is below historical trends.

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 which are expected to be in effect when the differences are expected to reverse. Certain assumptions are required in order to determine the provision for income taxes, including filing positions on certain items and the realization of future tax assets.

The Company is audited regularly by federal and provincial authorities in the areas of income taxes and the remittance of sales taxes. These audits consider the timing and amount of deductions and compliance with federal and provincial laws. To the extent that the Company's filing positions are challenged, the Company's effective tax rate in a given financial statement period could be materially affected.

The recognition of future tax assets depends on management's assumption that future earnings will be sufficient to realize the future benefit. No assurance can be given that future earnings will be sufficient to realize the future benefit.

Investments

The Company's consolidated balance sheets contain balances related to investments carried at historical cost. In certain cases, quoted market value has been lower than cost for several years. In each case management believes that persuasive evidence exists to indicate that the financial condition and near term prospects of the issuer are not impaired and that the Company has the intent and ability to retain its investment in the issuer until anticipated recovery in market value occurs. Therefore, management believes that the declines in market value are not other-than-temporary, and no write-down is required. No assurance can be given that a recovery will occur, and the prospect of a write-down sometime in the future remains present. At October 31, 2004, the carrying amount of investments held at cost exceeded their market value by $3.9 million.

OUTSTANDING SHARE DATA

As at year-end, 1,724,929 Class A Voting Shares and 41,014,099 Class B Non-Voting Shares were issued and outstanding. 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. No changes have occurred to outstanding share balances since year-end.

Additional information relating to the Company, including the Annual Information Form, can be found on SEDAR at www.sedar.com.

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 consolidated 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 judgments. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly in all material respects. Management has prepared the financial information presented elsewhere in this annual report and has ensured that it is consistent with the consolidated 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 consolidated 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 consolidated financial statements and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the consolidated financial statements for 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 consolidated financial statements have been audited by Ernst & Young LLP, the external auditors, in accordance with Canadian 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, FCA
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. as at August 31, 2004 and 2003 and the consolidated statements of income (loss) and retained earnings (deficit) and cash flows for each of the years in the three-year period ended August 31, 2004. 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, 2004 and 2003 and the results of its operations and its cash flows for each of the years in the three-year period ended August 31, 2004 in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,
October 18, 2004.

Ernst & Young LLP
Chartered Accountants

consolidated balance sheets

AS AT AUGUST 31 [in thousands of Canadian dollars]	2004	2003
ASSETS [note 12]		
Current		
Cash and cash equivalents	95,231	43,874
Accounts receivable [notes 5 and 26]	143,641	158,689
Prepaid expenses and other	9,674	11,385
Program and film rights	92,786	73,107
Future tax asset [note 15]	13,719	10,230
Total current assets	355,051	297,285
Tax credits receivable	10,774	27,109
Investments and other assets [note 6]	41,683	38,786
Capital assets, net [note 7]	82,105	89,378
Program and film rights	32,523	28,365
Film investments [note 8]	56,867	134,564
Deferred charges [note 9]	19,305	26,581
Broadcast licenses	509,040	509,040
Goodwill [note 16]	789,518	789,518
	1,896,866	1,940,626
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities [notes 11 and 26]	161,397	173,749
Income taxes payable	4,567	16,182
Total current liabilities	165,964	189,931
Long-term debt [note 12]	529,139	558,437
Deferred credits [note 13]	146,164	128,802
Future tax liability [note 15]	169,085	165,556
Other long-term liabilities	16,203	7,048
Non-controlling interest	9,131	6,175
Total liabilities	1,035,686	1,055,949
Shareholders' equity		
Share capital [note 14]	884,053	881,631
Contributed surplus [note 14]	1,287	—
Retained earnings (deficit)	(17,122)	8,135
Cumulative translation adjustment [note 22]	(7,038)	(5,089)
Total shareholders' equity	861,180	884,677
	1,896,866	1,940,626

Commitments and contingencies [notes 12 and 25]

See accompanying notes

On behalf of the Board:

Director Director

consolidated statements of income (loss) and retained earnings (deficit)

YEARS ENDED AUGUST 31

[in thousands of Canadian dollars except per share amounts]	2004	2003	2002
Revenues [notes 24 and 26]	**666,804**	643,918	674,503
Operating, general and administrative expenses [notes 8, 14, 22, 25 and 26]	**576,406**	478,606	548,932
	90,398	165,312	125,571
Depreciation	**25,682**	24,708	25,980
Amortization	**7,276**	9,792	8,570
Interest on long-term debt [note 12]	**55,276**	61,030	57,731
Loss (gain) on sale of investments [note 3]	**—**	994	(18,172)
Other expense (income), net [note 22]	**(4,937)**	(9,386)	289
Restructuring charges [note 17]	**—**	5,025	22,089
Hedge transaction loss [note 12[a]]	**—**	—	20,429
Asset write-downs [note 18]	**—**	2,368	15,240
Goodwill and intangible impairment loss [note 10]	**—**	—	162,772
Income (loss) before income taxes	**7,101**	70,781	(169,357)
Income tax expense (recovery) [note 15]	**26,925**	28,534	(2,245)
Income (loss) before equity earnings from investees and non-controlling interest	**(19,824)**	42,247	(167,112)
Equity earnings from investees	**—**	—	115
Non-controlling interest	**(3,313)**	(2,226)	(1,650)
Net income (loss) for the year	**(23,137)**	40,021	(168,647)
Retained earnings (deficit), beginning of year	**8,135**	(31,886)	136,761
Dividends paid [note 14]	**(2,120)**	—	—
Retained earnings (deficit), end of year	**(17,122)**	8,135	(31,886)
Earnings (loss) per share [note 20]			
Basic and diluted	**$ (0.54)**	$ 0.94	$ (3.96)
Weighted average number of shares outstanding [in thousands]			
Basic	**42,719**	42,641	42,621
Diluted	**42,719**	42,645	42,621

See accompanying notes

consolidated statements of cash flows

YEARS ENDED AUGUST 31 [in thousands of Canadian dollars]	2004	2003	2002
OPERATING ACTIVITIES			
Net income (loss) for the year	**(23,137)**	40,021	(168,647)
Add (deduct) non-cash items			
Depreciation	**25,682**	24,708	25,980
Amortization of program and film rights	**105,549**	94,016	105,461
Amortization of film investments	**142,754**	64,578	124,943
Other amortization	**7,276**	9,792	8,570
Future income taxes	**600**	3,257	(35,845)
Loss (gain) on sale of investments	**—**	994	(18,172)
Hedge transaction loss	**—**	—	20,429
Asset write-downs	**—**	2,368	15,240
Goodwill and intangible impairment loss	**—**	—	162,772
Non-controlling interest	**3,313**	2,226	1,650
Foreign exchange gains	**(2,057)**	(7,259)	(2,012)
Other	**3,841**	1,808	2,195
	263,821	236,509	242,564
Net change in non-cash working capital balances related to operations [note 21]	**(18,395)**	3,381	20,333
Payment of program and film rights	**(115,314)**	(108,626)	(104,752)
Net additions to film investments	**(47,597)**	(66,197)	(132,512)
Other	**2,397**	(445)	2,259
Cash provided by operating activities	**84,912**	64,622	27,892
INVESTING ACTIVITIES			
Additions to capital assets	**(17,421)**	(14,908)	(28,176)
Net proceeds from sale of investments	**—**	—	134,827
Net proceeds from business divestitures	**—**	4,005	95,067
Business acquisitions, net of cash acquired	**—**	—	(90,581)
Increase in investments	**(3,685)**	(5,312)	(27,068)
Additions to deferred charges	**—**	(80)	(26,278)
Decrease in public benefits associated with acquisitions	**(11,455)**	(12,198)	(7,444)
Other	**136**	690	(421)
Cash provided by (used in) investing activities	**(32,425)**	(27,803)	49,926
FINANCING ACTIVITIES			
Decrease in bank overdraft	**—**	—	(3,600)
Decrease in bank loans	**—**	(15,499)	(557,648)
Increase in senior subordinated notes [note 12[a]]	**—**	—	604,000
Decrease in securitized borrowing	**—**	—	(89,500)
Decrease in other long-term liabilities	**(911)**	(2,810)	(3,325)
Issuance of shares under stock option plan	**2,212**	—	944
Dividends paid	**(2,120)**	—	—
Dividends paid to minority shareholder	**(521)**	(1,496)	—
Other	**210**	216	(2,045)
Cash used in financing activities	**(1,130)**	(19,589)	(51,174)
Net increase in cash and cash equivalents during the year	**51,357**	17,230	26,644
Cash and cash equivalents, beginning of year	**43,874**	26,644	—
Cash and cash equivalents, end of year	**95,231**	43,874	26,644

Supplemental cash flow disclosures [note 21]

See accompanying notes

notes to consolidated financial statements

AUGUST 31, 2004, 2003, AND 2002 [in thousands of Canadian dollars except share information]

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 Class B Non-Voting Shares are listed on the Toronto and New York Stock Exchanges.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared by management on the historical cost basis in accordance with Canadian generally accepted accounting principles ["Canadian GAAP"]. The effects of differences between the application of Canadian and U.S. GAAP on the consolidated financial statements of the Company are described in note 23.

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], Telelatino Network Inc. [50.5% interest] and Discovery Kids [53.6% interest]. Intercompany transactions and balances have been 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. The most significant assumptions made by management in the preparation of the Company's consolidated financial statements include future revenue projections for investments in film and television programs, provisions for doubtful accounts to reflect credit exposures, valuation allowances and impairment assessments for various assets including investments in film and television programs, capital assets, long-term investments, current and future income taxes, broadcast licenses and goodwill. Actual results could differ from those estimates.

Revenue recognition

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.

Product and distribution revenues from the distribution and licensing of film rights are recognized when all of the following conditions are met: [i] persuasive evidence of a sale or licensing arrangement with a customer exists; [ii] the film is complete and is available for immediate and unconditional delivery; [iii] the license period of the arrangement has begun; [iv] the arrangement fee is fixed or determinable; and [v] collection of the arrangement fee is reasonably assured. Non-refundable recoupable minimum guarantees received under licensing arrangements for home videos where film titles are cross-collateralized are deferred and recognized as revenue over the license term when the underlying home videos are sold as reported by third parties.

Customer advances on contracts are recorded as unearned revenue until all of the foregoing revenue recognition conditions have been met.

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

Revenues from the sale of books are recognized at the time of shipment, net of an estimated provision for returns. Revenues from the sale of subsidiary book rights, when determinable, are 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 the related expenses are incurred.

Cash and cash equivalents

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

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 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 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

Effective September 1, 2003, the Company adopted the recommendations of The Canadian Institute of Chartered Accountants ["CICA"] Handbook Section 3063, "Impairment of Long-lived Assets", on a prospective basis. Under this section, an impairment loss is recognized when the carrying amount of a long-lived asset is not recoverable, and is measured as the amount by which the carrying value of an asset exceeds its fair value. The adoption of this standard had no material impact on the Company's results of operations or financial position.

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. Long-term liabilities related to these rights are recorded at the net present values of future cash flows, using a discount rate that is equivalent to the effective interest rate on similar term debt. These costs are amortized over the contracted exhibition period as the programs 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, 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 and investments in third party produced film projects. Such costs include development and production expenditures, attributable studio and other costs which are expected to benefit future periods.

The Company accounts for its film investments in accordance with the American Institute of Certified Public Accountants ["AICPA"] Statement of Position 00-2 "Accounting by Producers or Distributors of Films" ["SOP 00-2"].

The individual-film-forecast-computation method is used to determine amortization. The 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 ["ultimate revenue"] to be realized from the series or program. Ultimate revenue is projected for periods not exceeding ten years from the date of delivery or acquisition. For episodic television series, SOP 00-2 requires that ultimate revenue includes estimates of revenue over a period not to exceed ten years from the date of delivery of the first episode or, if still in production, five years from the date of delivery of the most recent episode, if later. 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 the results of operations in future periods.

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. Projects are written off at the earlier of the date determined not to be recoverable or when projects under development are abandoned, and three years from the date of the initial investment.

Projects in process represent the accumulated costs of television series or feature films currently in production.

Completed project and distribution rights are stated at the lower of unamortized cost 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 investments in film, on a title-by-title basis. When an event or change in circumstances indicates that the fair value of a film is less than its unamortized cost, the fair value of the film is determined using management's estimates of future revenues under a discounted cash flow approach. A write-down is recorded equivalent to the amount by which the unamortized costs exceed the estimated fair value of the film.

Investments in third party produced film projects are carried at the lower of cost and net realizable value.

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

Deferred charges

Financing costs and credit facility arrangements are amortized to income on a straight-line basis 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 reformatting of radio, specialty 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. Deferred charges are carried at the lower of cost less accumulated amortization and net recoverable amount.

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.

Broadcast licenses are considered to have an indefinite life based on management's intent and ability to renew the licenses without substantial cost and without material modification of the existing terms and conditions of the license.

Broadcast licenses and goodwill are tested for impairment annually or more frequently if events or changes in circumstances indicate that they may be impaired. The Company has selected August 31 as the date it performs its annual impairment test.

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 certain 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 eligible expenditures are made and there is reasonable assurance of realization. Assistance in connection with equity investments is recorded as a reduction in film investments.

Government grants for specific publishing projects are recorded as revenue when the related expenses are incurred.

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 ["public benefits associated with acquisitions"] 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 hedged 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 which are expected to 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 that is not in Canadian dollars are translated into Canadian dollars using the exchange rate in effect at the consolidated 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 integrated foreign operations monetary items are translated into Canadian dollars at exchange rates in effect at the consolidated 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 that qualifies for hedge accounting are offset against the corresponding exchange gains or losses arising on the cross-currency agreements.

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

Financial instruments and hedging relationships

The Company uses derivative financial instruments to manage risks from fluctuations in exchange and interest rates. These instruments include cross-currency and interest rate swap agreements. All such instruments are only used for risk management purposes. 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 offset against the corresponding exchange gains or losses on the hedged item.

In December 2001, the CICA issued Accounting Guideline-13, "Hedging Relationships" ["AcG-13"]. AcG-13 establishes new criteria for hedge accounting and will apply to all hedging relationships in effect for the Company's fiscal year commencing on September 1, 2003 under Canadian GAAP. To qualify for hedge accounting, consistent with U.S. GAAP, the hedging relationship must be appropriately documented at the inception of the hedge and there must be reasonable assurance, both at the inception and throughout the term of the hedge, that the hedging relationship will be effective.

Effectiveness requires a high correlation of changes in fair values or cash flows between the hedged item and the hedge. In June 2002, the Emerging Issues Committee issued EIC-128, "Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments", which establishes that a derivative financial instrument that does not qualify for hedge accounting under AcG-13 should be recognized on the balance sheet at fair value, with changes to fair value recognized in net income. The Company has applied the recommendations to its hedging relationships, and those that qualify continue to be accounted for using hedge accounting. The carrying value of derivative financial instruments that do not qualify for hedge accounting are adjusted to reflect their current market value. The adoption of this standard had no impact on the Company's results of operations or financial position.

Stock-based Compensation and Other Stock-based Payments

In October 2003, the CICA issued amended Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments", which requires that equity instruments awarded to employees be measured and expensed, thus eliminating the existing provisions which permit a company to only disclose the fair value. Fair value of the equity instruments would be used to measure compensation expense. As well, the transitional provisions that apply when a company adopts the fair value method have been modified to harmonize with U.S. standards, whereby alternative methods of transition to the fair value method are now permitted. The transitional provisions include both retroactive and prospective alternatives. However, the prospective method is only available to enterprises that elect to apply the fair-value based method of accounting for fiscal years beginning before January 1, 2004. The Company has elected to adopt the prospective approach for its fiscal year commencing September 1, 2003, and as a result has recorded the $1,287 in compensation costs associated with stock options awarded to employees after August 31, 2003 in its operating, general and administrative expenses for the year ended August 31, 2004. Consideration paid by the Company under its Employee Share Purchase Plan is included in operating, general and administrative expenses.

Earnings (loss) per share

Basic earnings (loss) per share are calculated using the weighted average number of common shares outstanding during the year. The computation of diluted earnings (loss) per share assumes the basic weighted average number of common shares outstanding during the year is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. The dilutive effect of warrants and stock options is determined using the treasury stock method.

3. DIVESTITURES

Divestitures in fiscals 2003 and 2002 resulted in the following gains and losses being recorded:

	2003	2002
The Comedy Network Inc.	—	(17,967)
Astral Media Inc.	—	2,489
Corus VC Ltd.	—	(2,938)
Other	**994**	244
Loss (gain) on sale of investments	**994**	(18,172)

During fiscal 2002, the Company disposed of its 29.9% interest in The Comedy Network Inc. and a portion of its investment in Astral Media Inc. for gross proceeds of approximately $36,000 and $93,500 respectively. These amounts have been included in the consolidated statements of cash flows as net proceeds from sale of investments.

Also during fiscal 2002, the Company disposed of its ownership interest in Klutz and Corus VC Ltd. for gross proceeds of approximately $68,000 and $33,000 respectively. These amounts have been included in the consolidated statements of cash flows as net proceeds from business divestitures.

4. JOINT VENTURES

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

	2004	2003
Balance sheets		
Current assets	19,550	28,058
Long-term assets	16,926	15,401
Current liabilities	17,071	20,105
Statements of income (loss)		
Revenues	31,389	32,602
Expenses	28,002	28,732
Net income	3,387	3,870
Statements of cash flows		
Operating activities	4,757	6,585
Investing activities	(555)	(230)

5. ACCOUNTS RECEIVABLE

	2004	2003
Trade	146,156	158,634
Other	2,654	5,111
	148,810	163,745
Less allowance for doubtful accounts	5,169	5,056
	143,641	158,689

6. INVESTMENTS AND OTHER ASSETS

	2004	2003
Investments, at cost		
Astral Media Inc. [a]	13,861	13,861
Other [b]	27,822	24,925
	41,683	38,786

[a] Astral Media Inc.

The Company holds 54,600 Class A non-voting shares and 297,200 Class B subordinate voting shares of Astral Media Inc. with a market value of $9,598 [2003 – $8,797].

[b] Other investments

Other investments consist primarily of an interest in a privately owned Canadian media company, financing provided to the Company's digital channels, loans to executive officers and other investments accounted for on a cost basis.

7. CAPITAL ASSETS

	2004		2003	
	COST	ACCUMULATED DEPRECIATION	COST	ACCUMULATED DEPRECIATION
Broadcasting equipment	**31,883**	**22,501**	30,067	20,878
Production equipment	**91,417**	**72,112**	87,357	63,826
Leasehold improvements	**32,862**	**19,315**	31,321	15,352
Buildings	**23,917**	**8,719**	21,175	6,897
Computer equipment	**49,711**	**38,458**	40,457	28,356
Furniture and fixtures	**21,221**	**16,136**	21,228	15,004
Other	**3,432**	**2,666**	2,981	2,464
	254,443	**179,907**	234,586	152,777
Land	**7,569**	**—**	7,569	—
	262,012	**179,907**	242,155	152,777
Net book value	**82,105**		89,378	

8. FILM INVESTMENTS

	2004	2003
Projects in development and in process, net of advances	15,990	19,494
Completed projects and distribution rights	31,843	105,464
Investments in third party film projects	9,034	9,606
	56,867	134,564

During fiscal 2004, the Company reduced its investments in film and television programs by anticipated federal and Ontario production tax credits amounting to $3,059 [2003 – $8,296].

During the third quarter of fiscal 2004, the Company reviewed, as required, future revenue projections or ultimates on a title by title basis, supporting the carrying value of its film investments in the Content division, and lowered its estimates of future revenue projections with reference to current and anticipated market conditions and foreign exchange rates resulting in the recognition of an $85,000 write-down of film investments in the quarter. This write-down is included in operating, general and administrative expenses for the year.

The Company expects that 45% and 85% of the net book value of completed projects and distribution rights will be amortized during the year ending August 31, 2005 and three years ending August 31, 2007, respectively.

The Company expects that $3,500 of accrued participation liabilities will be paid during the year ending August 31, 2005.

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

9. DEFERRED CHARGES

	2004		2003	
	COST	ACCUMULATED DEPRECIATION	COST	ACCUMULATED DEPRECIATION
Financing costs and credit facility arrangement fees	**27,401**	**10,957**	27,401	8,155
Start-up costs of new specialty programming networks	**9,857**	**8,103**	9,857	7,193
Advertising and promotion costs for reformatting radio, specialty and pay television stations	**11,570**	**10,463**	11,570	6,899
	48,828	**29,523**	48,828	22,247
Net book value	**19,305**		26,581	

10. GOODWILL, BROADCAST LICENSES AND INTANGIBLE IMPAIRMENT

At August 31, 2004 and 2003, the Company performed its annual impairment test and determined that there was no impairment. To determine the amount of an impairment, management uses a fair value methodology based on market transaction multiples for comparable businesses applied to forecasted operating income used to evaluate the reporting units performance. Estimates of forecasted operating income involve measurement uncertainty and it is therefore possible that reductions in the carrying value of goodwill and broadcast licenses may be required as a result of changes in management's future revenue estimates. Actual results may differ from estimates and as a consequence a material impairment charge may be recorded.

The Company determined that there was an impairment of goodwill during fiscal 2002 of $153,240 of which $150,000 related to the production and distribution business in the Content division and $3,240 related to the Television division. In addition, an impairment of $9,532 was determined related to other intangible assets.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2004	2003
Trade	**68,807**	83,962
Program rights payable	**54,887**	50,482
Accrued interest	**27,393**	28,422
Restructuring	**—**	3,568
Acquisition and integration costs	**—**	571
Third party participation payments	**5,804**	3,827
GST payable	**1,620**	1,564
Other	**2,886**	1,353
	161,397	173,749

12. LONG-TERM DEBT

	2004	2003
Senior subordinated notes [a]		
Principal amount translated into Canadian dollars at the hedged rate	**604,000**	604,000
Unrealized cumulative foreign exchange gains	**(111,625)**	(84,363)
Senior subordinated notes translated at the current rate	**492,375**	519,637
Bank loans [b]	**36,764**	38,800
	529,139	558,437

[a] Senior subordinated notes

On March 7, 2002, Corus issued U.S.$375,000 aggregate principal amount of 8.75% Senior Subordinated Notes [the "Notes"] due 2012 at a price of 99.186% of their aggregate principal amount. The Notes are redeemable at the option of the Company, in whole or in part, at any time on or after March 1, 2007 at specified redemption prices plus accrued interest to the date of redemption.

The Company has entered into cross-currency agreements to fix the liability for interest and principal payments on the Notes. The agreements have 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 has been fixed at Cdn.$1.6107 or approximately Cdn.$604,000.

The Company has also entered into an interest swap agreement under which it receives a fixed rate of interest and pays a floating rate of interest, both calculated on a notional amount of Cdn.$135,900. The fixed rate of interest is set at 9.332% and the floating rate is based on the three-month bankers' acceptance rate plus a spread of 4.935%.

The net proceeds from this offering were used to repay existing indebtedness including the permanent repayment in full of the Company's reducing term loans of Cdn.$294,000 due on August 31, 2007. Consequently, the Company unwound U.S.$147,000 of cross-currency interest rate swaps relating to the reducing term loan that had fixed the interest rate at 11.4% and liability for interest and principal payments at Cdn.$212,000, resulting in a non-cash hedge transaction loss of approximately $20,429.

[b] Bank loans

The Company has a $25,000 revolving operating loan facility with interest rates and borrowing options, which are the same as those contained in the credit facilities described below. At August 31, 2004, the Company has not drawn on this facility. If the Company were to draw on this facility, it would be classified as current on the consolidated balance sheets.

A syndicate of banks has provided the Company with a credit facility, which at August 31, 2004 amounted to $195,000, all of which is revolving on a reducing basis until repayment on August 31, 2006. At August 31, 2004, $158,236 of the facility was not utilized. Funds are available to the Company in both Canadian and U.S. dollars. At August 31, 2004, the U.S. dollar portion of the bank loans was $28,000 [Cdn.$36,764] [2003 – U.S.$28,000; Cdn.$38,800].

Interest rates on the balance of the bank loans fluctuate with the Canadian bankers' acceptances and LIBOR and averaged 3.9% for the year ended August 31, 2004 [2003 – 4.8%].

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 facility, the Company has undertaken to maintain certain financial covenants. Management has determined that the Company was in compliance with the covenants provided under the bank loans at August 31, 2004.

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

	$
2005	—
2006	36,764
2007	—
2008	—
2009	—
Thereafter	604,000
	640,764

13. DEFERRED CREDITS

	2004	2003
Public benefits associated with acquisitions	**31,102**	42,558
Cross-currency agreements translated into		
Canadian dollars at the current rate	**111,625**	84,363
Unearned revenue from distribution and licensing of film rights	**2,800**	1,106
Other	**637**	775
	146,164	128,802

14. SHARE CAPITAL

Authorized

The Company is authorized to issue, upon approval of a majority of the existing Class A shareholders, 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 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, without preference or distinction.

Issued and outstanding

The changes in the Class A Voting and Class B Non-Voting Shares since August 31, 2002 are summarized as follows:

	CLASS A VOTING SHARES		CLASS B NON-VOTING SHARES		TOTAL
	#	$	#	$	$
Balance, August 31, 2002	1,838,712	28,478	40,802,588	852,937	881,415
Conversion of Class A Voting to Class B Non-Voting Shares	(112,000)	(1,735)	112,000	1,735	—
Repayment of executive stock purchase loans	—	—	—	216	216
Balance, August 31, 2003	1,726,712	26,743	40,914,588	854,888	881,631
Conversion of Class A Voting to Class B Non-Voting Shares	(1,783)	(28)	1,783	28	—
Issuance of shares under Stock Option Plan	—	—	97,728	2,212	2,212
Repayment of executive stock purchase loans	—	—	—	210	210
Balance, August 31, 2004	**1,724,929**	**26,715**	**41,014,099**	**857,338**	**884,053**

Stock Option Plan

Under the Company's Stock Option Plan [the "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.

A summary of the options outstanding at August 31, 2004 and the changes since August 31, 2002 is presented as follows:

	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
	#	$
Outstanding, August 31, 2002	2,706,866	31.76
Granted	580,852	21.03
Cancelled	(182,604)	31.98
Outstanding, August 31, 2003	3,105,114	29.74
Granted	537,700	24.02
Cancelled	(395,511)	36.77
Exercised	(97,728)	22.62
Outstanding, August 31, 2004	**3,149,575**	**28.10**

The weighted average fair value of the stock options granted during 2004 was $9.73 per option. The Company has recorded stock-based compensation expense for the year ended August 31, 2004 of $1,287 and this has been credited to contributed surplus.

At August 31, 2004, the options outstanding and exercisable consist of the following:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE
$	#	[IN YEARS]	$	#	$
19.05 – 27.20	1,843,847	4.7	23.56	1,106,656	24.12
29.15 – 37.90	848,818	4.4	31.34	627,832	31.34
39.00 – 44.00	456,910	3.6	40.33	342,683	40.33
19.05 – 44.00	3,149,575	4.5	28.10	2,077,171	28.98

On September 1, 2004, the Company granted a further 430,000 options for Class B Non-Voting Shares to eligible officers, directors, and employees of or consultants to the Company. These options are exercisable at $23.79 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, on a share-for-share basis, on all subsequent dividends declared.

On December 9, 2003, the Board of Directors of Corus approved a semi-annual dividend for holders of Class A Voting and Class B Non-Voting Shares of $0.02 and $0.025, respectively. In fiscal 2004, the Company paid two semi-annual dividends on December 31, 2003 and June 30, 2004 to shareholders of record at the close of business on December 19, 2003 and June 15, 2004 respectively. The total amount of dividends paid was $2,120.

Executive stock purchase loans

In October 2001, the Board of Directors of the Company authorized the granting of loans to certain of its executive officers in order to finance the acquisition of Class B Non-Voting Shares of the Company on the open market. These loans are non-interest bearing and are secured by a promissory note and the relevant Class B Non-Voting Shares. Each loan has a ten-year term from December 1, 2001 with annual instalments at the greater of 10% of the original principal or 10% of the employee's pre-tax bonus for the most recently completed financial year of the Company. At August 31, 2004, the Company has loans receivable of $1,619 [2003 – $1,829] from certain qualifying executive officers. At August 31, 2004, the market value of the shares held as collateral for the loans was $1,300 [2003 – $1,306].

Performance Share Units

The Company has granted Performance Share Units ["PSUs"] to certain employees. Each PSU entitles the participant to receive a cash payment in an amount equal to the closing price of Class B Non-Voting Shares traded on the Toronto Stock Exchange at the end of the restrictions period, multiplied by the number of vested units determined by achievement of specific performance-based criteria. The restriction period for PSUs granted in fiscal 2003 ends August 31, 2005, and for PSUs granted in fiscal 2004 ends August 31, 2006. The employee must be actively employed by Corus as of the end of the restriction period to receive a payment of the vested units. Compensation expense related to the PSUs is accrued over the term of the restriction period based on the expected total compensation to be paid out at the end of the restriction period, factoring in the probability of any performance-based criteria being met during the period. The compensation expense recorded for the year ended August 31, 2004 in respect of this plan was $1,697 [2003 – $1,250] and has been recorded in operating, general and administrative expenses.

Pro forma impact of stock-based compensation

For options granted to employees up to August 31, 2003, had compensation costs for the 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:

	2004	2003
Net income (loss)	(23,137)	40,021
Pro forma net income (loss)	(25,123)	34,824
Pro forma basic and diluted earnings (loss) per share	(0.59)	0.82

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:

	2004	2003
Assumptions		
Expected life	2.5 to 7.5 years	2.5 to 7.5 years
Risk-free interest rates	3.7% to 5.0%	3.7% to 5.0%
Dividend yield	0.19%	0%
Volatility	39.3% to 42.1%	39.3% to 42.1%

For the purposes of pro forma disclosure, the estimated fair value of the options is amortized to income over the option's vesting period on a straight-line basis.

15. 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 liability and asset as at August 31 are as follows:

	2004	2003
Future tax liability		
Deferred charges deducted for tax purposes capitalized for accounting purposes	**3,181**	4,525
Capital cost allowance in excess of book depreciation	**542**	620
Deferred partnership income	**2,637**	3,521
Differences in tax and accounting cost bases for investments	**38,959**	38,243
Broadcast licenses	**148,538**	126,580
Purchase price equation differences	**25,000**	25,000
Other, net	**4,881**	9,356
Total future tax liability	**223,738**	207,845
Future tax asset		
Book depreciation in excess of capital cost allowance	**35,795**	18,480
Employment obligations recognized on purchase equation	**361**	332
Loss carryforwards, net of valuation allowances	**24,242**	23,261
Deferred charges deducted for accounting purposes in excess of tax purposes	**1,583**	1,613
Differences in tax and accounting cost bases for investments	**1,159**	342
Revenue recognition differences between tax and accounting purposes	**4,134**	6,802
Purchase price equation differences	**57**	231
Other, net	**1,041**	1,458
Total future tax asset	**68,372**	52,519
Net future tax liability	**155,366**	155,326
Less current portion of future tax asset	**13,719**	10,230
Future tax liability	**169,085**	165,556

[b] Significant components of the income tax expense (recovery) attributable to operations are as follows:

	2004	2003	2002
Current tax expense	**26,326**	25,281	33,297
Future income tax expense (recovery) relating to origination and reversal of temporary differences	**(22,227)**	7,115	(9,128)
Future income tax expense (recovery) resulting from recognition of losses incurred in the year	**782**	(4,460)	(17,541)
Future income tax expense (recovery) resulting from tax rate changes	**16,810**	—	(160)
Other	**5,234**	598	(8,713)
Income tax expense (recovery)	**26,925**	28,534	(2,245)

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

	2004		2003		2002	
	$	%	$	%	$	%
Tax at combined federal and provincial rates	**1,375**	**36.3**	25,706	37.5	(68,015)	39.8
Differences from statutory rates relating to amortization of goodwill	**(84)**	**(2.2)**	—	—	63,640	(37.2)
Non-deductible [non-taxable] portion of net capital losses (gains) on sale of investments	**22**	**0.6**	1,869	2.7	(16,345)	9.5
(Increase) reduction in future income taxes resulting from statutory rate reduction	**16,810**	**443.7**	—	—	(160)	0.1
Reversal in current year of temporary differences originally recorded using long-term tax rates	**1,012**	**26.7**	(102)	(0.1)	8,451	(4.9)
Large Corporations Tax	**1,084**	**28.6**	1,170	1.7	1,103	(0.7)
Other	**6,706**	**177.0**	(109)	(0.2)	9,081	(5.3)
	26,925	**710.7**	28,534	41.6	(2,245)	1.3

[d] The Company recognizes as a future tax asset the benefit of capital and non-capital loss carryforwards to the extent it is more likely than not that the benefit will be realized. At August 31, 2004, the Company has available loss carryforwards of approximately $103,200. A future tax asset of $34,200 [2003 – $29,700] has been recognized in respect of these carryforwards, net of a valuation allowance of $9,900 [2003 – $6,500].

The available loss carryforwards will expire as follows:

	$
2007	200
2008	3,200
2009	9,500
2010	48,800
2011	11,800
2021	4,300
2022	300
No expiration - capital losses	25,100
	103,200

16. BUSINESS SEGMENT INFORMATION

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

Radio

The Radio segment is composed of 50 radio stations, situated primarily in high growth urban centres in Canada. Revenues are derived from advertising aired over these stations.

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.

Content

The Content segment includes the production and distribution of film and television programs and the branded consumer products business [formerly merchandise licensing and publishing businesses] of Nelvana Limited ["Nelvana"] which was acquired in fiscal 2001. 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 the business segments' performance based on revenues less operating, general and administrative expenses. Transactions between reporting segments are recorded at fair market value.

[a] Revenues and segment profit (loss)

	2004	2003	2002
Revenues			
Radio	**227,868**	226,034	211,416
Television	**332,349**	306,885	308,529
Content			
production and distribution	**62,789**	70,474	99,357
branded consumer products	**49,850**	45,795	60,558
Eliminations	**(6,052)**	(5,270)	(5,357)
	666,804	643,918	674,503
Segment profit (loss)			
Radio	**60,042**	58,114	52,853
Television	**125,055**	113,415	99,061
Content			
production and distribution	**(92,089)**	(5,185)	(28,797)
branded consumer products	**8,368**	8,351	7,843
Corporate	**(10,970)**	(8,779)	(4,750)
Eliminations	**(8)**	(604)	(639)
	90,398	165,312	125,571

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

Gross revenues are derived from the following geographical sources by location of customer as follows:

	2004	2003	2002
Canada	**577,402**	545,694	540,872
United States	**36,020**	43,221	87,166
International	**53,382**	55,003	46,465
	666,804	643,918	674,503

Corus' revenue streams for fiscal 2004 are derived primarily from four areas: advertising [55%], subscriber fees [27%], license fees [8%], and publishing and merchandising [7%].

[b] Segment assets

	2004	2003
Radio	**744,358**	744,076
Television	**855,186**	857,296
Content		
production and distribution	**155,912**	248,922
branded consumer products	**31,207**	32,491
Corporate	**112,424**	58,988
Eliminations	**(2,221)**	(1,147)
	1,896,866	1,940,626

Assets are located primarily within Canada.

[c] Capital expenditures by segment

	2004	2003	2002
Radio	**4,889**	6,432	12,740
Television	**6,843**	3,461	5,462
Content			
production and distribution	**3,529**	2,109	3,422
branded consumer products	**—**	64	217
Corporate	**2,160**	2,842	6,335
	17,421	14,908	28,176

Capital assets are located primarily within Canada.

[d] Goodwill

	2004	2003
Goodwill		
Radio	412,933	412,933
Television	329,247	329,247
Content		
production and distribution	24,953	24,953
branded consumer products	22,385	22,385
	789,518	789,518

Goodwill is located primarily within Canada.

17. RESTRUCTURING CHARGES

During fiscal 2003 and 2002, the Company recorded restructuring charges of $5,025 and $22,089, respectively which included workforce reduction charges of $2,865 in 2003 and $15,986 in 2002 relating to the cost of severance and benefits; contract settlement costs of $2,160 in 2003 and $5,396 in 2002 relating to provisions for negotiated settlements to cancel programming contracts at the Radio division, production contracts at Content and future contractual obligations under operating leases for facilities that will no longer be required; and other costs in 2002 of $707. At August 31, 2004 the restructurings were substantially complete, and no further provision remains on the consolidated balance sheets.

18. ASSET WRITE-DOWNS

As part of the Company's restructuring plan announced in the first quarter of 2002, management focused on exiting activities not aligned with its core assets. As a result, the following investments were either discontinued or disposed of. The carrying values of these investments were written down at August 31, 2003 and 2002 as follows:

	2003	2002
Local Media Internet Venture	—	6,869
Balmur Corus Music Inc.	1,350	4,000
Liberty Digital Inc.	—	2,171
Other	1,018	2,200
	2,368	15,240

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 current liabilities approximate their carrying values due to their short-term nature.

[ii] 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.

[iii] 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.

As at August 31, 2004, the fair value of the Company's Notes was U.S.$407,344 [2003 – U.S.$391,875].

[iv] Derivative financial instruments

The fair values of cross-currency and interest rate swap agreements are based on quotations by the counterparties to the agreements.

The estimated fair values of these agreements are as follows:

	2004		2003	
	CARRYING VALUE	ESTIMATED FAIR VALUE	CARRYING VALUE	ESTIMATED FAIR VALUE
Cross-currency agreements	(111,625)	(142,875)	(84,363)	(112,767)
Interest rate swap agreements	(3,278)	(3,278)	—	—

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 the cross-currency and interest rate swap 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.

20. EARNINGS (LOSS) PER SHARE

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

	2004	2003	2002
Net income (loss) for the year [numerator]	**(23,137)**	40,021	(168,647)
Weighted average number of shares outstanding [denominator]			
Weighted average number of shares outstanding - basic	**42,719**	42,641	42,621
Effect of dilutive securities	—	4	—
Weighted average number of shares outstanding - diluted	**42,719**	42,645	42,621

In fiscals 2004 and 2002, options issued under the Plan were not included in the computation of diluted earnings (loss) per share because the effect of exercising the options is anti-dilutive.

21. 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:

	2004	2003	2002
Accounts receivable	**13,268**	8,246	13,076
Prepaid expenses and other	**1,629**	628	6,554
Accounts payable and accrued liabilities	**(24,456)**	(15,484)	19,929
Income taxes payable	**(11,753)**	10,064	(19,226)
Other	**2,917**	(73)	—
	(18,395)	3,381	20,333

[ii] Interest paid, interest received, dividends received and income taxes paid and classified as operating activities are as follows:

	2004	2003	2002
Interest paid	**55,800**	60,467	32,349
Interest received	**2,135**	1,803	2,671
Dividends received	**—**	—	1,597
Income taxes paid	**38,568**	15,338	53,093

22. FOREIGN EXCHANGE GAINS AND LOSSES

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

	2004	2003	2002
Consolidated statements of income (loss) and retained earnings (deficit)			
Operating, general and administrative expenses	**(1,222)**	(772)	(552)
Other expense (income), net	**(2,245)**	(6,638)	4,149
Total foreign exchange loss (gain)	**(3,467)**	(7,410)	3,597

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

	$
Balance, August 31, 2002	1,187
Effect of exchange rate fluctuation on translation of net assets of self-sustaining foreign operations	(6,276)
Balance, August 31, 2003	(5,089)
Effect of exchange rate fluctuation on translation of net assets of self-sustaining foreign operations	(1,949)
Balance, August 31, 2004	**(7,038)**

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

The consolidated financial statements of the Company are prepared in Canadian dollars in accordance with Canadian GAAP. The following adjustments and disclosures would be required in order to present these consolidated financial statements in accordance with U.S. GAAP.

[a] Reconciliation to U.S. GAAP

	2004	2003	2002 (REVISED) [6]
Net income (loss) using Canadian GAAP	**(23,137)**	40,021	(168,647)
Add (deduct) adjustments for			
Deferred charges [1]	**4,474**	7,246	(1,529)
Transaction loss [4]	**—**	—	(1,385)
Adoption of SOP 00-2 [5]	**—**	—	(13,473)
Adoption of FAS 142 [6]	**—**	—	(145,246)
Income tax effect of adjustments	**(1,789)**	(2,898)	4,554
Net income (loss) using U.S. GAAP	**(20,452)**	44,369	(325,726)
Unrealized gains (losses) on investments classified as available for sale, net of tax [3]	**640**	320	(647)
Realized gains (losses) on investments classified as available for sale, net of tax	**—**	—	5,605
Unrealized gain (loss) on derivative contracts [4]	**(2,420)**	(31,055)	23,573
Unrealized foreign exchange gain (loss) on translation of self-sustaining foreign operations	**(1,949)**	(6,276)	247
Comprehensive income (loss) using U.S. GAAP	**(24,181)**	7,358	(296,948)

	2004	2003	2002 (REVISED) [6]
Net income (loss) per share prior to cumulative catch-up			
Basic and diluted	(0.48)	1.04	(4.01)
Net loss per share related to cumulative catch-up			
Basic and diluted	—	—	(3.63)
Net income (loss) per share			
Basic and diluted	(0.48)	1.04	(7.64)
Comprehensive income (loss) per share			
Basic and diluted	(0.57)	0.17	(6.96)

Balance sheet items using U.S. GAAP

	2004		2003	
	CANADIAN GAAP	U.S. GAAP	CANADIAN GAAP	U.S. GAAP (REVISED) [6]
Investments and other assets [3]	41,683	37,419	38,786	33,722
Deferred charges [1]	19,305	16,444	26,581	19,246
Broadcast licenses and goodwill [2]	1,298,558	1,306,843	1,298,558	1,306,843
Deferred credits [4]	146,164	177,414	128,802	157,207
Future tax liability	169,085	165,927	165,556	160,875
Shareholders' equity	861,180	834,248	884,677	856,840

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

	2004	2003 (REVISED) [6]
Deferred charges [1] and [4]	**(1,716)**	(4,401)
Equity in earnings of investees [2]	**4,758**	4,758
Accumulated other comprehensive income (loss)		
Unrealized losses on investments [3]	**(3,411)**	(4,051)
Unrealized loss on derivative contracts [4]	**(26,563)**	(24,143)
Total cumulative effect of adjustments on shareholders' equity	**(26,932)**	(27,837)

Areas of material difference between Canadian GAAP and U.S. GAAP 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] 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 in fiscal 2001 and Western International Communications Ltd. ["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 was done retroactively to the date the Company first acquired shares in Nelvana and WIC.

[3] 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. The Company has determined that the decline in fair value is not other-than- temporary, based on the financial condition of the issuer and the fact that the Company has the intent and ability to retain its investment in the issuer for a period of time sufficient to allow for an anticipated recovery in market value. The Company has considered evidence, such as industry analyst reports, that support this conclusion.

[4] Derivative instruments and hedging activities

Under U.S. GAAP, all derivative instruments are to be recorded on the consolidated balance sheets 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 income or deferred in other comprehensive income until the hedged item is recognized in income.

[5] Adoption of SOP 00-2

Under Canadian GAAP, adoption of a new accounting standard is applied retroactively. Under U.S. GAAP, the adoption of SOP 00-2 is reflected in the consolidated statements of income (loss) and retained earnings (deficit) of the adoption year. As such, under U.S. GAAP the effect of the adoption of SOP 00-2 is reflected as a cumulative catch-up adjustment in income of fiscal 2002. The increased amortization from adopting this accounting policy retroactively under Canadian GAAP has therefore been added back in the determination of net income under U.S. GAAP for the year ended August 31, 2001.

[6] Adoption of FAS-142

Under Canadian GAAP, adoption of a new accounting standard is applied retroactively as an adjustment to retained earnings. Under U.S. GAAP, the adoption of FAS-142 "Goodwill and Other Intangible Assets" is reflected in the consolidated statements of income (loss) and retained earnings (deficit) of the adoption year. As such, under U.S. GAAP, the effect of the adoption of FAS-142 is reflected as a cumulative catch-up adjustment in income of fiscal 2002.

The amount previously reported for U.S. GAAP purposes in 2002 as goodwill impairment on the adoption of FAS-142 was overstated by $4,754 (net of amortization). On the adoption of SOP 00-2 in 2002, the Company retroactively adjusted the purchase price equation under Canadian GAAP for the Nelvana acquisition, including an increase to goodwill in the amount of $4,951. Under U.S. GAAP the adoption of SOP 00-2 was reflected in the 2001 consolidated statement of income. Consequently, as a result of the differences in accounting for the adoption of SOP 00-2, under Canadian GAAP goodwill was higher than that recorded under U.S. GAAP by $4,754. As a result the amount previously recorded on adoption of FAS-142 has been revised.

The effect of this revision is to increase goodwill and shareholders' equity as at August 31, 2003 by $4,754 and to reduce the net loss for the year ended August 31, 2002 by an equivalent amount. The revision reduces the net loss per share related to cumulative catch-up, net loss per share and comprehensive loss per share for the year ended August 31, 2002 to $3.63, $7.64, and $6.96, respectively.

This revision has no effect on net income (loss), comprehensive income (loss), net income (loss) per share and comprehensive income (loss) per share amounts for the years ended August 31, 2003 and 2004.

[b] Stock-based compensation

For stock options granted to employees after August 31, 2003, the Company has adopted the fair value method of accounting in accordance with Financial Accounting Standards Board ("FASB") Statement No. 123, "Accounting for Stock-Based Compensation". The Company applies Accounting Principles Board Opinion No. 25 in accounting for common share options granted to employees and officers prior to September 1, 2003. Had compensation expense been determined on the basis of the estimated fair values of the options granted prior to September 1, 2003, the net loss for the year ended August 31, 2004 would have increased by $10,160 to $30,612 or $(0.72) per share [2003 – net income would have decreased by $15,498 to $28,871, or $0.68 per share]. The assumptions used to determine fair value are consistent with those disclosed in note 14.

24. GOVERNMENT FINANCING AND ASSISTANCE

Revenues include $2,309 [2003 – $1,248] 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 $1,080 [2003 – $938] of government grants relating to the marketing of books in both Canada and international markets. The majority of the grants is repayable if the average profit margin for the three-year period following receipt of the funds equals or is greater than 10%.

25. COMMITMENTS, CONTINGENCIES AND GUARANTEES

The Company and its subsidiaries are involved in litigation matters arising out of the ordinary course and conduct of its business. Although such matters cannot be predicted with certainty, management does not consider the Company's exposure to litigation to be material to these consolidated financial statements.

As at August 31, 2004, the minority shareholders of Telelatino Network Inc. had the right, through a put option, to require the Company to purchase their shareholdings. This put option expired November 16, 2004 without being exercised.

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:

	$
2005	19,449
2006	15,671
2007	13,558
2008	12,932
2009	7,059
Thereafter	30,377
	99,046

Rental expenses recognized in operating, general and administrative expenses totaled approximately $11,549 [2003 – $10,637; 2002 – $10,460].

Generally, it is not the Company's policy to issue guarantees to non-controlled affiliates or third parties, with limited exceptions.

Many of the Company's agreements, specifically those related to acquisitions and dispositions of business assets, included indemnification provisions where the Company may be required to make payments to a vendor or purchaser for breach of fundamental representation and warranty terms in the agreements with respect to matters such as corporate status, title of assets, environmental issues, consents to transfer, employment matters, litigation, taxes payable and other potential material liabilities. The maximum potential amount of future payments that the Company could be required to make under these indemnification provisions is not reasonably quantifiable as certain indemnifications are not subject to a monetary limitation. At August 31, 2004, management believes there is only a remote possibility that the indemnification provisions would require any material cash payment.

The Company indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Company to the extent permitted by law. The Company has acquired and maintains liability insurance for its directors and officers as well as those of its subsidiaries as a group.

26. 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 are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties and having normal trade terms.

During the year, the Company received cable service subscriber, programming and advertising fees of $92,279 [2003 – $89,250] and production and distribution revenue of $3,055 [2003 – $2,120] from related parties. In addition, the Company paid cable and satellite system distribution access fees of $4,546 [2003 – $3,636] and administrative and other fees of $1,486 [2003 – $1,051] to related parties. As at August 31, 2004, the Company had $9,868 [2003 – $20,230] receivable from related parties.

The Company provided related parties with radio and television spots in return for television advertising. No monetary consideration was exchanged for these transactions and no amounts were recorded in the accounts.

Through an investment in a partnership, Corus and a related party each had an indirect holding in certain assets, primarily consisting of a real estate property. In 2004, the related party's interest in the assets was transferred to Corus in exchange for cash of $253 and a promissory note of $1,140. As part of the transaction, Corus and the related party entered into an agreement effective August 26, 2004 for the related party's use of the remaining assets for $20 per month. These transactions were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The parties have agreed that the exchange amounts represent fair value consideration for the transactions.

Included in share capital [note 14] and other investments [note 6 (b)] are loans of $6,780 made to certain executive officers of the Company for housing or investment purposes. The loans are collateralized by charges on the officers' personal residences and/or by related investment. The loans are non-interest bearing and are due between April 2, 2007 and October 31, 2012.

27. EMPLOYEE FUTURE BENEFITS

The Company has a defined contribution plan for qualifying full-time employees. Under the plan, the Company contributes 5% of an employee's earnings, not exceeding the limits set by the Income Tax Act (Canada). The amount contributed in 2004 related to the defined contribution plan was $4,768 [2003 – $4,594]. The amount contributed is approximately the same as the expense included in the statement of income (loss) and retained earnings (deficit).

28. PENDING TRANSACTION

On March 30, 2004, Corus and Astral Media Inc. announced their intention to exchange a number of radio assets in the province of Quebec, subject to regulatory approval. The transaction will bring Corus' radio stations total to 53, with 15 radio stations in the province of Quebec. As this is a non-monetary transaction at carrying value, there is no gain or loss anticipated on approval of this transaction.

29. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2004 consolidated financial statements.

At Corus Entertainment, our vision is to be globally recognized as Canada's most influential entertainment company. Our commitment to customers, communities and employees is reflected in our corporate values:

KNOWLEDGE

We believe in continuous learning and the sharing of our insights and ideas.

INNOVATION

We are committed to creative thinking that leads to breakthrough ideas and superior results.

INITIATIVE

We empower employees to make great things happen.

TEAMWORK

We believe that the greatest value is realized when we work together.

ACCOUNTABILITY

We do what we say we'll do – no excuses.

directors

Pierre Béland [4] Montréal, Quebec
President, Metromedia Plus

Fernand Belisle [1] Breckenridge, Quebec
President, 19 FB Inc.

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

Dennis M. Erker [2] [4] Edmonton, Alberta
Partner, The FE Advisory Group

Wendy A. Leaney [1] Toronto, Ontario
President, Wyoming Associates Ltd.

Dorothy Zolf McDonald, PhD Toronto, Ontario
Corporate Director, former Associate Professor, Graduate Program in Communication Studies, University of Calgary and Visiting Professor, University of Alberta

Ronald D. Rogers [3] Calgary, Alberta
Corporate Director, Former Senior Vice President and Chief Financial Officer, Shaw Communications Inc.

Catherine Roozen [1] [3] Edmonton, Alberta
Director and Corporate Secretary of Cathton Holdings Ltd.

Terrance E. Royer [2] [3] Calgary, Alberta
Executive Vice Chairman, Royal Host REIT and Royal Host Corp.

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

Julie M. Shaw [4] Calgary, Alberta
Vice President, Facilities, Design and Management, Shaw Communications Inc., and Secretary, Shaw Foundation

officers

Judy Adam CA Oakville, Ontario
Vice President, Controller, Corus Entertainment Inc.

Pierre Arcand Montréal, Quebec
President, Quebec Radio, Corus Entertainment Inc.

Hal Blackadar Oakville, Ontario
Vice President, Human Resources, Corus Entertainment Inc.

John M. Cassaday Toronto, Ontario
President and Chief Executive Officer, Corus Entertainment Inc.

John P. Hayes Toronto, Ontario
President, Radio, Corus Entertainment Inc.

Gary Maavara Toronto, Ontario
Vice President, Corporate & Regulatory Affairs, General Counsel, Corus Entertainment Inc.

Thomas C. Peddie FCA Toronto, Ontario
Senior Vice President and Chief Financial Officer, Corus Entertainment Inc.

John R. (Jack) Perraton Calgary, Alberta
Corporate Secretary, Corus Entertainment Inc., Senior Partner, PerratonLaw

Paul W. Robertson Toronto, Ontario
President, Television, Corus Entertainment Inc.

(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

corporate information

CORUS ENTERTAINMENT INC.

Stock Listings

TSX: CJR.NV.B
NYSE: CJR

Corporate Office

Suite 501
630 3rd Avenue S.W.
Calgary, Alberta T2P 4L4
Telephone: 403.444.4244
Facsimile: 403.444.4242

Executive Office

Suite 1630
181 Bay Street
Toronto, Ontario M5J 2T3
Telephone: 416.642.3770
Facsimile: 416.642.3779

Internet

Corus Entertainment's Annual Report, Annual Information Form, Quarterly Reports, Press Releases and other relevant Investor Relations information are available electronically on the Internet at www.corusent.com under "Financial Info".

Auditors

Ernst & Young LLP

Primary Bankers

The Toronto-Dominion Bank

Shareholder Assistance

If you are a registered shareholder and have questions regarding your account, please contact our transfer agent in writing, by phone, fax or through their website at:

CIBC Mellon Trust Company
Calgary, Alberta
Telephone: 1.800.387.0825
Fax: 1.800.387.0825
www.cibcmellon.com

Chase Mellon Shareholder Services, L.L.C.
New York, New York
Telephone: 1.800.526.0801
Fax: 1.800.526.0801
www.cibcmellon.com

If you hold your shares in a brokerage account, questions should be directed to your broker on all administrative matters.

The Company's results are published in the financial press at the end of each quarter. These results are mailed to all registered shareholders. Corus Entertainment also maintains an e-mail list to ensure that non-registered shareholders receive quarterly press releases, management's discussion and analysis, and financial results. To have your name added to this list, please e-mail your request to communications@corusent.com.

Quarterly and annual financial results are also available in the "Investor Information" section of the Corus Entertainment Inc. website (www.corusent.com) as soon as they are released to the public.

Duplicate Communications

Some shareholders may receive more than one copy of publications such as quarterly financial statements and the Annual Report. Every effort is made to avoid such duplication. Shareholders who receive duplicate mailings should advise CIBC Mellon Trust Company at 1.800.387.0825.

Corporate Governance

Information concerning Corus Entertaiment's corporate governance policy is contained in the Information Circular and is also available by contacting the Company, or visiting the Company's website.

Further Information

Financial analysts, portfolio managers, other investors and interested parties may contact the Company at 416.642.3770 or visit our website.

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

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

Annual Meeting

The Annual General Meeting of Shareholders will be held on January 14, 2005 at 10:00 am (MT) at the Hyatt Regency Hotel, 700 Centre St. SE, Calgary, Alberta.

Corus™

ENTERTAINMENT

www.corusent.com