Corus ENTERTAINMENT

# Third Quarter 2012
# Report to Shareholders

*For the Three and Nine Months Ended May 31, 2012*
*(Unaudited)*

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**CORUS ENTERTAINMENT INC.**
**Third Quarter Report to Shareholders**

## Highlights

**Financial Highlights**

(These highlights are derived from the unaudited consolidated financial statements)
(in thousands of dollars except per share amounts)

| | Three months ended May 31, | | Nine months ended May 31, | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| **Revenues** | | | | |
| Television | **154,749** | 161,043 | **503,075** | 476,989 |
| Radio [1] | **49,329** | 50,745 | **143,577** | 148,031 |
| | **204,078** | 211,788 | **646,652** | 625,020 |
| **Segment profit** | | | | |
| Television | **66,732** | 69,992 | **207,648** | 210,184 |
| Radio [1] | **16,151** | 16,000 | **42,432** | 44,186 |
| Corporate | **(7,227)** | (7,223) | **(20,963)** | (24,963) |
| | **75,656** | 78,769 | **229,117** | 229,407 |
| **Net income attributable to shareholders:** | | | | |
| From continuing operations | **43,221** | 40,352 | **125,340** | 113,841 |
| From discontinued operations | **-** | - | **-** | 5,023 |
| | **43,221** | 40,352 | **125,340** | 118,864 |
| **Basic earnings per share attributable to shareholders:** | | | | |
| From continuing operations | **$ 0.52** | $ 0.49 | **$ 1.51** | $ 1.39 |
| From discontinued operations | **-** | - | **-** | 0.06 |
| | **$ 0.52** | $ 0.49 | **$ 1.51** | $ 1.45 |

[1] Reflects the disposition of the Quebec Radio operations, which occurred on February 1, 2011, as discontinued operations in all periods presented.

## Significant Events in the Quarter

- On March 1, 2012, the Company reached an agreement with the minority shareholders of Toon Boom Animation Inc. to acquire their shares and assume 100% interest of the company. Toon Boom Animation Inc. is a global leader in digital content and animation creation solutions with a worldwide sales, distribution and support network, selling its products in more than 120 countries.
- On March 5, 2012, the Company’s $500 million credit facility was amended to reduce interest margins applicable to floating interest rates and to extend the maturity date to February 11, 2016.
- On March 7, 2012, the Company’s CKNW AM 980 was honoured with three 2012 RTNDA Canada Awards including the Sam Ross Award for Editorial/Commentary, the Dave Rogers Award for Long Feature and the Ron Laidlaw Award for Continuing Coverage.
- On March 12, 2012, the Company exercised its right to acquire the Corus Quay building from Toronto Port Lands Company (“TPLC”) and subsequently sold the building to H&R REIT on the same date for the same cash consideration. As part of the agreement, the long-term lease has been restructured on terms favourable to both parties. Under those terms, the Company will extend the original 20-year lease term, with options to renew its lease for an additional 20 years.
- On March 22, 2012, the Company’s morning show host on Q107 Toronto, John Derringer, received the Allan Waters Broadcast Lifetime Achievement Award and was inducted into the Canadian Broadcast Industry Hall of Fame.

- On March 22, 2012, the Company won three 2012 Canadian Music & Broadcast Industry Awards including: Station of the Year (Country), Country 105, Calgary; Station of the Year (Rock), 102.1 the Edge, Toronto; and Program Director of the Year (Medium Market), Brad Gibb, FM 96, London.
- On March 23, 2012, the Company ceased the operations of its Category 2 digital service, DUSK.
- On March 25, 2012, the Company's Toronto headquarters, Corus Quay, hosted the 2012 BEYBLADE World Championships. The event featured national battle champions from 25 countries competing for the coveted title of World's Best BEYBLADER and was streamed live at www.beyblade.com.
- On March 26, 2012, the Company launched its newest service, ABC Spark, with the season premiere of the critically acclaimed series *The Secret Life of the American Teenager*. ABC Spark, built on the foundation of the successful U.S. brand ABC Family, features a slate of popular general entertainment programming that complements the primetime lineup.
- On March 30, 2012, April 30, 2012 and May 31, 2012, the Company paid a monthly dividend of $0.079583 and $0.08 to holders of its Class A and Class B Shares, respectively.
- On April 20, 2012, the Company was named as one of Canada's Greenest Employers for 2012 by Mediacorp Canada Inc. Selected alongside 54 other companies, this award recognizes employers that create a culture of environmental awareness in their organizations.
- On May 3, 2012, the Company announced the launch of Corus Feeds Kids, a national philanthropic initiative that focuses on nourishing children's bodies and minds.
- On May 14, 2012, the Company and NBCUniversal International increased their stakes in international children's channel KidsCo to 43.8% and 51%, respectively. KidsCo is committed to expanding and enhancing its content offering to increase its global subscriber base and to deliver high quality entertainment to the whole family.

## Significant Events Subsequent to the Quarter

- On June 20, 2012, the Company announced that the Toronto Stock Exchange had accepted the notice filed by Corus of its intention to renew its Normal Course Issuer Bid for its Class B Non-Voting Participating Shares ("Class B Shares") through the facilities of the TSX, or any other alternative Canadian trading system. The Company may, during the 12 month period of June 22, 2012 to June 21, 2013, purchase for cancellation up to 4 million of its Class B Shares, which represent approximately 5% of the Issued and Outstanding Class B shares as at June 14, 2012.
- On June 20, 2012, the Ontario government passed legislation cancelling planned future corporate tax rate reductions. As a result, the Company will be required to remeasure certain deferred tax assets and liabilities in its fourth quarter ending August 31, 2012 which will result in a non-cash tax impact of approximately $6.0 million.
- On June 27, 2012, Telelatino Network Inc. was awarded a broadcasting license to operate The Canadian Sportsmen Channel, a national, English-language specialty Category B service that will provide a full spectrum of award-winning hunting, shooting and fishing programming while promoting conservation and the tradition of the Canadian sportsman and Canadian sportswoman lifestyle.
- On June 29, 2012, the Company paid a monthly dividend of $0.079583 and $0.08 to holders of its Class A and Class B Shares, respectively.
- On June 29, 2012, Bill C-11, the copyright reform bill, passed third reading at the Senate and received royal ascent. The new law will come into force once new regulations have been issued by the Governor in Council.
- On July 4, 2012, the Company's Teletoon Canada launched Cartoon Network (Canada), which offers hilarious and live-action content for kids and families. Teletoon Canada is owned by Corus Entertainment Inc. (50%) and Astral (50%).

## Management's Discussion and Analysis

Management's Discussion and Analysis of the financial position and results of operations for the three months ended May 31, 2012 is prepared at June 30, 2012. The following should be read in conjunction with Management's Discussion and Analysis, consolidated financial statements and the notes thereto included in our August 31, 2011 Annual Report and the consolidated financial statements and notes of the current quarter. The financial highlights included in the discussion of the segmented results are derived from the unaudited consolidated financial statements. All amounts are stated in Canadian dollars unless specified otherwise.

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

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

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

## Overview of Consolidated Results (from Continuing Operations)

The following discussion describes the significant changes in the consolidated income statement from continuing operations.

Net income attributable to shareholders for the third quarter 2012 was $43.2 million on revenues of $204.1 million, as compared to $40.4 million on revenues of $211.8 million in the prior year. Television segment profit decreased 5% from the prior year, while Radio increased 1%.

Net income attributable to shareholders for the nine month period ended May 31, 2012 was $125.3 million on revenues of $646.7 million, as compared to $113.8 million on revenues of $625.0 million in the prior year. Television segment profit decreased 1%, while Radio was down 4%. Further analysis is provided in the discussions of segmented results.

Our consolidated results for fiscal 2011 reflect the disposition of the Company's Quebec Radio operations, which occurred on February 1, 2011, as discontinued operations in all periods presented.

### *Revenues*

Revenues from continuing operations for the third quarter 2012 were $204.1 million, a decrease of 4% from $211.8 million last year. Subscriber and advertising revenues decreased from the prior year by 2% and 7%, respectively, while merchandise, distribution and other revenues increased 5% for the quarter from the prior year. Revenues decreased for Television by 4%, with Radio decreasing 3% in the third quarter from the prior year. For the nine month period 2012, revenues from continuing operations of $646.7 million represented an increase of 3% from $625.0 million last year.

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

Direct cost of sales, general and administrative expenses from continuing operations for the third quarter 2012 were $128.4 million, down 3% from $133.0 million in the prior year. This decrease results from lower costs in both the Radio and Television segments. For the nine month period 2012, expenses of $417.5 million represented a 6% increase over the prior year and are attributable to higher costs in the Television segment offset by lower costs in Corporate and Radio. Refer to the discussion of segmented results for additional analysis of expenses.

### *Depreciation*

Depreciation expense for the third quarter 2012 from continuing operations was $6.3 million, consistent with the prior year, while for the nine month period depreciation expense of $19.2 million represented a $0.9 million increase over the prior year. This increase reflects depreciation expense for a full nine months of fiscal 2011 capital expenditures relating to the Corus Quay build out.

### *Interest expense*

The third quarter interest expense of $13.2 million was $1.5 million less than the prior year, while interest expense for the nine month period of $40.0 million was $3.5 million lower than the prior year. This was a result of lower average floating rate debt balances throughout fiscal 2012 as well as lower interest margins which were a result of amendments to the credit facility in March 2011 and March 2012. The effective interest rate on bank loans and notes for the three and nine months ended May 31, 2012 at 7.1% and 6.9%, respectively, were consistent with the same comparable periods last year.

### *Restructuring expense*

Restructuring expense of $2.3 million for the third quarter 2012 is comprised of employee-related expenses associated with organizational restructuring. The $2.3 million incurred in fiscal 2011 is comprised of employee-related expenses associated with organizational restructuring and redundant rents for facilities vacated subsequent to moving to the Corus Quay location.

### *Other income, net*

Other income from continuing operations for the three and nine months ended May 31, 2012 were $3.5 million and $4.7 million, respectively, as compared to income of $1.0 million and $2.2 million, respectively, last year. Other income in the three and nine months ended May 31, 2012 includes an accounting gain of $2.4 million resulting from the remeasurement to fair value of the Company's 50% interest in Toon Boom Animation Inc. which was held prior to the acquisition on March 1, 2012 and various other items.

### *Income tax expense*

The effective tax rate for the third quarter of fiscal 2012 was 23.8%, compared to the Company's 26.8% statutory rate.

### *Net income and earnings per share*

Net income attributable to shareholders for the third quarter 2012 was $43.2 million, as compared to $40.4 million last year. Earnings per share from continuing operations attributable to shareholders for the third quarter 2012 were $0.52 basic and $0.51 diluted compared with $0.49 basic and diluted last year.

Net income attributable to shareholders for the nine month period 2012 was $125.3 million, as compared to $113.8 million last year. Earnings per share attributable to shareholders for the nine month period were $1.51 basic and $1.50 diluted, compared with $1.39 basic and $1.38 diluted in the prior year.

The weighted average number of shares outstanding (basic) for the three months and nine months ended May 31, 2012 was 83,751,000 and 83,244,000 respectively and has increased in the current year due to the issuance and exercise of stock options and the issuance of shares from treasury under the dividend reinvestment plan offset slightly by shares repurchased under the Company's Normal Course Issuer Bid.

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

Other comprehensive income year-to-date was $1.7 million, compared to a loss of $1.4 million in the prior year. This income results primarily from a change in the unrealized foreign currency translation adjustment.

## Television

The Television division is comprised of: YTV; Treehouse TV; Nickelodeon (Canada); W Network, OWN: Oprah Winfrey Network (Canada) (rebranded from VIVA March 1, 2011), W Movies, Sundance Channel (Canada); Corus' western Canadian pay television services (Movie Central (including HBO Canada) and Encore Avenue); three conventional television stations serving Peterborough, Kingston and Durham; the Corus content business including Nelvana and Kids Can Press; the Company's majority interest in CMT (Canada), Telelatino (TLN, Euro World Sport, Mediaset Italia, SkyTG 24, Teleninos, TLN En Espanol), DUSK (discontinued March 23, 2012), ABC Spark (launched March 26, 2012) and Cosmopolitan TV, and a 50% interest in TELETOON, TELETOON Retro (English and French) and Cartoon Network (Canada).

**Financial Highlights**

| (thousands of Canadian dollars) | Three months ended **May 31,** | | Nine months ended **May 31,** | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| Revenues | **154,749** | 161,043 | **503,075** | 476,989 |
| Expenses | **88,017** | 91,051 | **295,427** | 266,805 |
| Segment profit | **66,732** | 69,992 | **207,648** | 210,184 |

Revenue decreased by 4% in the third quarter 2012, as specialty advertising revenue was down 11% and subscriber revenue was down 2%, offset by an 8% increase in merchandise, distribution and other revenue. The decline in the third quarter 2012 revenues reflects tough comparables from the prior year, which delivered exceptionally strong sales growth across our Kids, Pay, Women's and merchandising brands. The decrease in specialty advertising revenues in the third quarter 2012 resulted from soft demand in the Kids segment, driven by the toy, entertainment and food categories. Subscriber revenue in the quarter reflects lower Movie Central subscribers and the free preview period for the launch of ABC Spark. The growth in merchandise, distribution and other revenue reflects strong sales from our international distribution business. On a year-to-date basis, both specialty advertising and subscriber revenue were down 1% from the prior year. Merchandise, distribution and other revenue increased 39%, driven primarily by the strong performance of Beyblade. Movie Central (including HBO Canada) ended the third quarter 2012 with 975,000 subscribers.

Total expenses decreased by 3% in the third quarter 2012, as decreases in direct cost of sales (which includes amortization of program rights and film investments, and other cost of sales) offset modest increases in general and administrative expenses. The decrease in direct cost of sales is a result of lower costs tied to our distribution and merchandising businesses and slower growth of 2% in amortization of program rights. General and administrative expenses increased 2% for the quarter, but are reflective of a more normal expenditure level. Total expenses are up 11% year-to-date, driven by an increase in amortization of program rights, which reflects our investment across all channels but particularly OWN; increased investment in our new media and other initiatives; and higher variable costs associated with increased revenues, especially for our merchandising business.

Segment profit decreased 5% for the third quarter 2012 and 1% year-to-date. Segment profit margin was 43% for the quarter and 41% year-to-date. Segment profit margin has declined on a year-to-date basis as fiscal 2012 has a higher proportion of lower margin merchandising business; increased investment in programming, marketing, and new media initiatives to drive future revenue growth; and the increased costs associated with OWN.

## Radio

The Radio division is comprised of 37 radio stations situated primarily in seven of the ten largest Canadian markets by population and in the densely populated area of southern Ontario. Corus is one of Canada's leading radio operators in terms of revenues and audience reach.

### Financial Highlights

| (thousands of Canadian dollars) | Three months ended May 31, | | Nine months ended May 31, | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| Revenues | **49,329** | 50,745 | **143,577** | 148,031 |
| Expenses | **33,178** | 34,745 | **101,145** | 103,845 |
| Segment profit | **16,151** | 16,000 | **42,432** | 44,186 |

Revenue for the third quarter and year-to-date of fiscal 2012 decreased 3% compared to the prior year. Revenue growth in Vancouver and Alberta was offset by declines in Winnipeg and Ontario in the third quarter. On a year-to-date basis, growth in Vancouver and Winnipeg was offset by declines in Alberta and Ontario.

Direct cost of sales, general and administrative expenses for the third quarter 2012 decreased 5% from the prior year, and decreased 3% for the year-to-date. Variable expenses decreased 9% for the quarter and 7% for the year-to-date, primarily from lower sales commissions driven by declining revenues and fewer bad debts than prior year. Fixed costs, which represent a much higher proportion of the cost structure, decreased 2% for the quarter and remained consistent with prior year on a year-to-date basis. The decrease in the quarter was due to lower marketing and promotions spending offset by increased employee costs.

Segment profit increased 1% for the third quarter and decreased 4% for the year-to-date. The Radio division's margin increased to 33% compared to 32% in the prior year and remained consistent with prior year on a year-to-date basis.

On February 1, 2011, the Company's Quebec radio operations were sold to Cogeco Inc. Subsequently, results of Corus Radio's Quebec segment for the 2011 fiscal year were retroactively restated as discontinued operations for all periods presented.

## Corporate

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

### Financial Highlights

| (thousands of Canadian dollars) | Three months ended May 31, | | Nine months ended May 31, | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| Share-based compensation | **4,020** | 1,968 | **7,536** | 6,997 |
| Other general and administrative costs | **3,207** | 5,255 | **13,427** | 17,966 |
| | **7,227** | 7,223 | **20,963** | 24,963 |

Share-based compensation includes the expenses related to the Company's Performance Share Units ("PSUs"), stock options and other long-term incentive plans. The expense fluctuates with changes in assumptions, primarily due to the Company's share price and number of units outstanding. The increase in stock-based compensation in the current year reflects a higher share price and a higher number of units vested compared to the prior year.

Other general and administrative costs have decreased in the third quarter 2012 and year-to-date as a result of lower accruals in the current year versus the prior year for employee benefits, facility rentals and a rebate on operating costs related to Corus Quay.

## Quarterly Consolidated Financial Information

***Seasonal fluctuations***

As discussed in Management's Discussion and Analysis for the year ended August 31, 2011, Corus' operating results are subject to seasonal fluctuations that can significantly impact quarter-to-quarter operating results. In particular, as the Company's broadcasting businesses are dependent on general advertising and retail cycles associated with consumer spending activity, the first quarter results tend to be the strongest and second quarter results tend to be the weakest in a fiscal year.

The following table sets forth certain unaudited data derived from the unaudited consolidated financial statements for each of the eight most recent quarters ended May 31, 2012.

[thousands of Canadian dollars, except per share amounts]

| | Revenues [1] | Segment profit [1] | Net income Attributable to Shareholders [1] | Earnings per share [1] Basic | Diluted |
|---|---|---|---|---|---|
| **2012** | | | | | |
| 3rd quarter | 204,078 | 75,656 | 43,221 | $ 0.52 | $ 0.51 |
| 2nd quarter | 205,683 | 62,247 | 31,571 | $ 0.38 | $ 0.38 |
| 1st quarter | 236,891 | 91,214 | 50,548 | $ 0.61 | $ 0.61 |
| **2011** | | | | | |
| 4th quarter | 200,193 | 56,479 | 27,670 | $ 0.34 | $ 0.33 |
| 3rd quarter | 211,788 | 78,769 | 40,352 | $ 0.49 | $ 0.49 |
| 2nd quarter | 191,076 | 59,978 | 27,291 | $ 0.34 | $ 0.34 |
| 1st quarter | 222,156 | 90,660 | 46,198 | $ 0.57 | $ 0.56 |
| **2010** | | | | | |
| 4th quarter [2] | 187,436 | 51,517 | 4,164 | $ 0.05 | $ 0.05 |

[1] Reflects results for continuing operations
[2] The fiscal 2010 quarters presented above have not been restated to IFRS and are as originally reported under Canadian GAAP

***Significant items causing variations in quarterly results***

- Net income for the fourth quarter of fiscal 2010 was negatively impacted by a charge of $12.9 million related to the Company's organizational restructuring to streamline operating processes.
- Net income in the fourth quarter of fiscal 2010 was negatively impacted by an accrual of $6.0 million related to the new Radio tariffs introduced in July 2010.

## Risks and Uncertainties

There have been no material changes in any risks or uncertainties facing the Company since the year ended August 31, 2011.

## Outlook

At its annual Investor Day on November 30, 2011, the Company updated investors on the Company's fiscal 2012 strategic priorities and provided near-term financial guidance for the 2012 fiscal year. In particular, the Company announced its fiscal 2012 guidance targets of consolidated segment profit of $300.0 to $310.0 million, and free cash flow in excess of $125.0 million. Advertising sales in July and August 2012 are pacing ahead of year ago in both Radio and Television but, despite the expectation of a strong fourth quarter, it will be a challenge to hit the low end of our segment profit guidance.

To view the Investor Day presentation, please visit the Company's website at www.corusent.com.

## Financial Position

Total assets at May 31, 2012 and August 31, 2011 were $2.1 billion. The following discussion describes the significant changes in the consolidated statements of financial position since August 31, 2011.

Current assets at May 31, 2012 were $253.7 million, up $5.1 million from August 31, 2011. Cash and cash equivalents increased by $0.7 million. Refer to the discussion of cash flows in the next section.

Accounts receivable increased $4.0 million from year-end. The accounts receivable balance typically grows in the first and third quarters and decreases in the second quarter as a result of the broadcast revenue cycle. The Company carefully monitors the aging of its accounts receivable.

Tax credits receivable increased $9.1 million from year-end as a result of accruals related to film production net of tax credit receipts.

Intangibles, investments and other assets increased $4.6 million from year-end primarily as a result of increases in equity investments offset by amortization of intangibles.

Property, plant and equipment decreased $3.1 million from year-end as spending on the Corus Quay build-out was completed in fiscal 2011 and, accordingly, depreciation expense exceeded additions in the first nine months of fiscal 2012.

Program and film rights increased $6.1 million from year-end, as additions of acquired rights of $145.9 million were offset by amortization of $139.8 million during the first three quarters of fiscal 2012.

Film investments decreased $7.0 million from year-end, as film spending (net of tax credit accruals) of $14.9 million was offset by film amortization of $21.9 million.

Broadcast licenses remained consistent with the prior year while the goodwill balance increased as a result of an acquisition of Toon Boom Animation Inc. in the third quarter fiscal 2012.

Accounts payable and accrued liabilities increased $11.2 million from year-end as a result of higher program rights payable, interest payable and dividends payable offset by lower accrued liabilities. The decrease in accrued liabilities is related to lower compensation accruals and third party participation fees related to the merchandise business.

Provisions decreased $1.3 million from year-end as payments made relating to work-force reduction initiatives taken in late fiscal 2010 were offset by third quarter fiscal 2012 accruals.

Long-term debt at May 31, 2012 was $527.6 million, down $73.2 million from year-end as a result of utilizing cash from operations to pay down bank debt. Other long-term liabilities decreased by $20.2 million from year-end as a result of decreases in program rights payable, unearned revenues and capital lease accruals.

Share capital increased $30.8 million from year-end as the exercise of stock options and issuance of shares from treasury under the Company’s dividend reinvestment plan added $13.7 million and $19.1 million, respectively, to share capital, which was offset by $2.1 million in costs related to shares repurchased under the normal course issuer bid. Contributed surplus decreased $2.7 million as a result of the exercise of stock options.

## Liquidity and Capital Resources

### *Cash flows*

Overall, the Company's cash and cash equivalents position increased $0.7 million over the first nine months of fiscal 2012. Free cash flow from continuing operations for the third quarter fiscal 2012 was $45.9 million, compared to free cash flow of $43.5 million in the prior year. This increase in free cash flow reflects higher cash from operating activities offset by higher investment activities. Free cash flow from continuing operations for the nine months ended May 31, 2012 was $118.5 million, an increase of $17.1 million from the prior year. This increase in free cash flow in fiscal 2012 results primarily from lower investment in capital assets of $19.0 million, offset by an increase in business combinations of $4.1 million. Refer to Key Performance Indicators for a reconciliation of free cash flow to consolidated statements of cash flows.

Cash provided by operating activities from continuing operations in the first nine months of fiscal 2012 was $140.6 million, compared to $139.0 million last year. The increase of $1.6 million arises from increased net income from continuing operations, before non-cash items and discontinued operations of $16.8 million, and decreased additions to film investments of $15.9 million offset by increased spend on program rights of $16.5 million, and higher working capital usage of $14.6 million.

Cash used in investing activities from continuing operations in the first nine months of fiscal 2012 was $22.1 million, compared to cash used of $37.6 million last year. The decrease of $15.5 million in the current year is attributable to reduced additions to capital assets of $19.0 million offset by a business acquisition of $4.1 million.

Cash used in financing activities in the nine months of fiscal 2012 was $117.8 million, compared to $110.7 million in the prior year. In the current year, the Company incurred $3.9 million relating to the repurchase of shares under the normal course issuer bid, paid down $74.8 million of bank debt and paid $41.9 million in dividends. In the prior year, the Company used the proceeds from the sale of the Quebec Radio segment to repay a portion of bank debt and paid $39.7 million in dividends.

### *Liquidity*

As at May 31, 2012, the Company has available approximately $460.0 million under a revolving term credit facility. On March 5, 2012, the Company's $500.0 million credit facility with a syndicate of banks was amended. The principal amendments were to reduce interest margins applicable to floating interest rates and a one year extension of the maturity date to February 11, 2016. Interest rates on the Company's facilities fluctuate with Canadian bankers' acceptances and LIBOR.

As at May 31, 2012, the Company had a cash balance of $56.6 million and a positive working capital balance. Management believes that cash flow from operations and existing credit facilities will provide the Company with sufficient financial resources to fund its operations for the next 12 months.

### *Net debt to segment profit*

As at May 31, 2012, net debt was $471.0 million, down from $544.9 million at August 31, 2011. Net debt to segment profit at May 31, 2012 was 1.6 times compared to 1.9 times at August 31, 2011.

### *Contractual commitments*

The Company has added no significant unfulfilled contractual obligations in the first three quarters of fiscal 2012.

## Outstanding Share Data

As at June 29, 2012, 3,434,496 Class A Voting Shares and 80,653,520 Class B Non-Voting Shares were issued and outstanding.

## Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred in the nine months ended May 31, 2012 that have materially affected, or are likely to materially affect, the Company's internal control over financial reporting.

## Key Performance Indicators

The Company measures the success of its strategies using a number of key performance indicators. These have been outlined in the Management's Discussion and Analysis contained in the Annual Report for the year ended August 31, 2011, including a discussion as to their relevance, definitions, calculation methods and underlying assumptions.

In particular, segment profit is calculated as revenues less direct cost of sales, general and administrative expenses as reported in the Company's consolidated statements of income and retained earnings. Segment profit may be calculated and presented for an individual operating segment, a line of business, or for the consolidated Company. 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) non-cash expenses such as depreciation and amortization; (ii) interest expense; and (iii) items not indicative of the Company's core operating results, and not used in management's evaluation of the business segment's performance, such as: goodwill and broadcast license impairment; disputed regulatory fees; debt refinancing and certain other income and expenses (note 12 to the interim consolidated financial statements). Segment profit is also one of the measures used by the investing community to value the Company and is included in note 15 to the condensed interim consolidated financial statements.

Certain key performance indicators are not measurements in accordance with International Financial Reporting Standards ("IFRS") or Canadian generally accepted accounting principles ("GAAP") and should not be considered as an alternative to net income or any other measure of performance under IFRS or Canadian GAAP. The following tables reconcile those key performance indicators that are not in accordance with IFRS or GAAP measures:

### *Free cash flow* [(1)]

| | Three months ended **May 31,** | | Nine months ended **May 31,** | |
|---|---|---|---|---|
| (thousands of Canadian dollars) | **2012** | 2011 | **2012** | 2011 |
| Cash provided by (used in): | | | | |
| Operating activities | **60,597** | 49,074 | **140,616** | 139,032 |
| Investing activities | **(14,715)** | (5,527) | **(22,108)** | (37,591) |
| **Free cash flow from continuing operations** | **45,882** | 43,547 | **118,508** | 101,441 |

[(1)] Reflects results from continuing operations

### *Net debt*

| (thousands of Canadian dollars) | **As at May 31, 2012** | As at August 31, 2011 |
|---|---|---|
| Long-term debt | **527,594** | 600,796 |
| Cash and cash equivalents | **(56,636)** | (55,922) |
| **Net debt** | **470,958** | 544,874 |

### *Net debt to segment profit*

| (thousands of Canadian dollars) | **As at May 31, 2012** | As at August 31, 2011 |
|---|---|---|
| Net debt (numerator) | **470,958** | 544,874 |
| Segment profit (denominator)[1] | **285,596** | 285,886 |
| **Net debt to segment profit** | **1.6** | 1.9 |

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

## Impact of New Accounting Policies

### Adoption of IFRS

Corus is required to prepare financial statements in accordance with IFRS starting with the interim financial statements for the quarter ended November 30, 2011. These statements require the fiscal 2011 results to be restated in accordance with IFRS.

Detailed notes on the changes to the previously reported amounts are included in the notes to the condensed consolidated financial statements for the period ended November 30, 2011, that have been filed on SEDAR and are also available on Corus' website www.corusent.com.

## Recent Accounting Pronouncements

IAS 12 *Income Taxes*

In December 2010, the IASB amended IAS 12 for the recovery of underlying assets measured at fair value and the impact on deferred taxes. The amendments provide a solution to the problem of assessing whether recovery would be through use or through sale when the asset is measured at fair value under IAS 40 *Investment Property*, by adding the presumption that the recovery would normally be through sale. The amendment also incorporates the remaining guidance in SIC-21 *Income Taxes – Recovery of Revalued Non-depreciable Assets*, as SIC-21 has been withdrawn. The effective date of the amendment is for annual periods beginning on or after January 1, 2012. The Company is in the process of reviewing the amendment to determine the impact on the consolidated financial statements.

IFRS 9 *Financial Instruments*

In November 2009, the IASB issued IFRS 9, which covers classification and measurement as the first part of its project to replace IAS 39. In October 2010, the IASB also incorporated new accounting requirements for liabilities. The standard introduces new requirements for measurement and eliminates the current classification of loans and receivables, available-for-sale and held-to-maturity, currently in IAS 39. There are new requirements for the accounting of financial liabilities as well as a carryover of requirements from IAS 39. The Company does not anticipate early adoption and will adopt the standard when it is mandated by the IASB, which is in fiscal 2016. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

IFRS 10 *Consolidated Financial Statements*

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 supersedes SIC-12 *Consolidations – Special Purpose Entities* and replaces parts of IAS 27 *Consolidated and Separate Financial Statements*. The effective date of this amendment is for annual periods beginning on or after January 1, 2013. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

IFRS 11 *Joint Arrangements*

IFRS 11 requires a venture to classify its interest in a joint arrangement as a joint operation or a joint venture. The standard eliminates the use of the proportionate consolidation method to account for joint ventures. Joint ventures will be accounted for using the equity method of accounting while for a joint operation the venture will recognize its share of the assets, liabilities, revenues and expenses of the joint operation. IFRS 11 supersedes SIC-13 *Jointly Controlled Entities – Non-Monetary Contributions by Ventures* and IAS 31 *Joint Ventures.* The effective date of this amendment is for annual periods beginning on or after January 1, 2013. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 12 establishes disclosure requirements for interests in other entities such as subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interest in other entities. IFRS 12 replaces the previous disclosure requirements included in IAS 27 *Consolidated and Separate Financial Statements,* IAS 31 *Joint Ventures* and IAS 28 *Investment in Associates*. The effective date of this amendment is for annual periods beginning on or after January 1, 2013. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

IFRS 13 *Fair Value Measurement*

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. IFRS 13 defines fair value and establishes disclosures about fair value measurement. The effective date of this amendment is for annual periods beginning on or after January 1, 2013. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

IAS 28 *Investments in Associates and Joint Ventures*

The IASB also amended IAS 28, an existing standard, to include joint ventures in its scope and to address the changes in IFRS 10 to IFRS 12. The effective date of this amendment is for annual periods beginning on or after January 1, 2013. The Company is in the process of reviewing the impact of this change.

IAS 1 *Presentation of Financial Statements*

The IASB amended IAS 1 by revising how certain items are presented in other comprehensive income ("OCI"). Items within OCI that may be reclassified to profit and loss will be separated from items that will not. The standard is effective for financial years beginning on or after July 1, 2012 with early adoption permitted. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

Interim Condensed Consolidated Financial Statements

# Corus Entertainment Inc.

May 31, 2012

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

| (unaudited – in thousands of Canadian dollars) | **May 31, 2012** | August 31, 2011 | September 1, 2010 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current** | | | |
| Cash and cash equivalents | **56,636** | 55,922 | 7,969 |
| Accounts receivable | **182,520** | 178,531 | 175,134 |
| Income taxes recoverable | **3,036** | 603 | 1,781 |
| Prepaid expenses and other | **11,490** | 13,497 | 18,008 |
| **Total current assets** | **253,682** | 248,553 | 202,892 |
| | | | |
| Tax credits receivable | **52,215** | 43,108 | 39,597 |
| Intangibles, investments and other assets (note 4) | **44,544** | 39,980 | 22,699 |
| Property, plant and equipment | **166,537** | 169,600 | 161,585 |
| Program and film rights (note 5) | **263,068** | 256,970 | 244,963 |
| Film investments (note 6) | **76,119** | 83,133 | 80,611 |
| Broadcast licenses | **569,505** | 569,505 | 610,423 |
| Goodwill (note 14) | **674,138** | 671,827 | 695,029 |
| Deferred tax asset | **27,240** | 30,915 | 32,130 |
| | **2,127,048** | 2,113,591 | 2,089,929 |
| | | | |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Current** | | | |
| Accounts payable and accrued liabilities | **217,947** | 206,773 | 192,839 |
| Provisions (note 7) | **3,930** | 5,267 | 13,048 |
| **Total current liabilities** | **221,877** | 212,040 | 205,887 |
| | | | |
| Long-term debt (note 8) | **527,594** | 600,796 | 691,891 |
| Other long-term liabilities | **84,374** | 104,574 | 95,840 |
| Deferred tax liability | **142,869** | 141,361 | 146,044 |
| **Total liabilities** | **976,714** | 1,058,771 | 1,139,662 |
| | | | |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital (note 9) | **913,467** | 882,679 | 856,655 |
| Contributed surplus (note 9) | **7,566** | 10,299 | 12,706 |
| Retained earnings | **209,156** | 143,717 | 62,509 |
| Accumulated other comprehensive income (loss) | **642** | (1,075) | 342 |
| Total equity attributable to shareholders | **1,130,831** | 1,035,620 | 932,212 |
| Equity attributable to non-controlling interest | **19,503** | 19,200 | 18,055 |
| **Total shareholders' equity** | **1,150,334** | 1,054,820 | 950,267 |
| | **2,127,048** | 2,113,591 | 2,089,929 |

See accompanying notes

**CORUS ENTERTAINMENT INC.**

**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**

| (unaudited – in thousands of Canadian dollars except per share amounts) | Three months ended May 31, 2012 | Three months ended May 31, 2011 | Nine months ended May 31, 2012 | Nine months ended May 31, 2011 |
|---|---|---|---|---|
| Revenues | **204,078** | 211,788 | **646,652** | 625,020 |
| Direct cost of sales, general and administrative expenses (note 10) | **128,422** | 133,019 | **417,535** | 395,613 |
| Depreciation | **6,339** | 6,203 | **19,231** | 18,364 |
| Interest expense (note 11) | **13,190** | 14,693 | **40,027** | 43,483 |
| Restructuring | **2,325** | 92 | **2,325** | 2,342 |
| Other income, net (note 12) | **(3,532)** | (969) | **(4,702)** | (2,211) |
| Income before income taxes | **57,334** | 58,750 | **172,236** | 167,429 |
| Income tax expense (note 13) | **12,387** | 15,270 | **41,070** | 46,632 |
| **Net income for the period from continuing operations** | **44,947** | 43,480 | **131,166** | 120,797 |
| Net Income for the period from discontinued operations (note 14) | — | — | — | 5,023 |
| **Net income for the period** | **44,947** | 43,480 | **131,166** | 125,820 |
| **Net income attributable to:** | | | | |
| Shareholders from continuing operations | **43,221** | 40,352 | **125,340** | 113,841 |
| Shareholders from discontinued operations | — | — | — | 5,023 |
| Non-controlling interest | **1,726** | 3,128 | **5,826** | 6,956 |
| | **44,947** | 43,480 | **131,166** | 125,820 |
| **Basic earnings per share attributable to shareholders:** | | | | |
| From continuing operations | **$0.52** | $0.49 | **$1.51** | $1.39 |
| From discontinued operations | — | — | — | $0.06 |
| | **$0.52** | $0.49 | **$1.51** | $1.45 |
| **Diluted earnings per share attributable to shareholders:** | | | | |
| From continuing operations | **$0.51** | $0.49 | **$1.50** | $1.38 |
| From discontinued operations | — | — | — | $0.06 |
| | **$0.51** | $0.49 | **$1.50** | $1.44 |
| **Net income for the period** | **44,947** | 43,480 | **131,166** | 125,820 |
| Other comprehensive income (loss), net of tax | | | | |
| Unrealized foreign currency translation adjustment | **1,434** | 4 | **1,971** | (1,857) |
| Unrealized change in fair value of available-for-sale investments | **(163)** | (77) | **(254)** | (1) |
| Actuarial gain on employee future benefits | — | — | — | 433 |
| | **1,271** | (73) | **1,717** | (1,425) |
| **Comprehensive income for the period** | **46,218** | 43,407 | **132,883** | 124,395 |
| **Comprehensive income attributable to:** | | | | |
| Shareholders | **44,492** | 40,279 | **127,057** | 117,439 |
| Non-controlling interest | **1,726** | 3,128 | **5,826** | 6,956 |
| | **46,218** | 43,407 | **132,883** | 124,395 |

See accompanying notes

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

(unaudited – in thousands of Canadian dollars)

| | Share capital | Contributed surplus | Retained earnings | Accumulated other comprehensive income (loss) | Total attributable to shareholders | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|
| **At August 31, 2011** | **882,679** | **10,299** | **143,717** | **(1,075)** | **1,035,620** | **19,200** | **1,054,820** |
| Comprehensive income | — | — | 125,340 | 1,717 | 127,057 | 5,826 | 132,883 |
| Dividends declared | — | — | (58,123) | — | (58,123) | (5,523) | (63,646) |
| Issuance of shares under stock option plan | 13,669 | (3,623) | — | — | 10,046 | — | 10,046 |
| Issuance of shares under dividend reinvestment plan | 19,229 | — | — | — | 19,229 | — | 19,229 |
| Shares repurchased | (2,110) | — | (1,778) | — | (3,888) | — | (3,888) |
| Share-based compensation expense | — | 890 | — | — | 890 | — | 890 |
| **At May 31, 2012** | **913,467** | **7,566** | **209,156** | **642** | **1,130,831** | **19,503** | **1,150,344** |
| | | | | | | | |
| **At September 1, 2010** | **856,655** | **12,706** | **62,509** | **342** | **932,212** | **18,055** | **950,267** |
| Comprehensive income (loss) | — | — | 118,864 | (1,425) | 117,439 | 6,956 | 124,395 |
| Actuarial gain transfer | — | — | 433 | (433) | — | — | — |
| Dividends declared | — | — | (46,093) | — | (46,093) | (5,107) | (51,200) |
| Issuance of shares under stock option plan | 12,954 | (3,448) | — | — | 9,506 | — | 9,506 |
| Issuance of shares under dividend reinvestment plan | 9,449 | — | — | — | 9,449 | — | 9,449 |
| Share-based compensation expense | — | 822 | — | — | 822 | — | 822 |
| Other | — | — | — | — | — | (957) | (957) |
| **At May 31, 2011** | **879,058** | **10,080** | **135,713** | **(1,516)** | **1,023,335** | **18,947** | **1,042,282** |

See accompanying notes

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

| (unaudited – in thousands of Canadian dollars) | Three months ended May 31 **2012** | Three months ended May 31 2011 | Nine months ended May 31 **2012** | Nine months ended May 31 2011 |
|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | |
| Net income for the period | **44,947** | 43,480 | **131,166** | 125,820 |
| Deduct earnings from discontinued operations | **—** | — | **—** | (5,023) |
| Add (deduct) non-cash items: | | | | |
| Depreciation | **6,339** | 6,203 | **19,231** | 18,364 |
| Amortization of program rights (note 10) | **46,317** | 44,174 | **139,805** | 129,563 |
| Amortization of film investments (note 10) | **4,002** | 7,501 | **21,949** | 26,378 |
| Deferred income taxes | **(51)** | 2,541 | **4,735** | 3,365 |
| Share-based compensation expense | **298** | 274 | **890** | 822 |
| Imputed interest | **2,894** | 2,827 | **8,904** | 7,911 |
| Gain on acquisition | **(2,383)** | — | **(2,383)** | — |
| Other | **(2,000)** | (809) | **(2,790)** | (2,403) |
| Net change in non-cash working capital balances related to operations | **11,466** | 7,700 | **(9,260)** | 5,300 |
| Payment of program and film rights | **(44,841)** | (41,686) | **(131,267)** | (114,814) |
| Net additions to film investments | **(6,391)** | (23,131) | **(40,364)** | (56,251) |
| Cash provided by operating activities from continuing operations | **60,597** | 49,074 | **140,616** | 139,032 |
| Cash used in operating activities from discontinued operations | **—** | — | **—** | (13,262) |
| **Cash provided by operating activities** | **60,597** | 49,074 | **140,616** | 125,770 |
| **INVESTING ACTIVITIES** | | | | |
| Additions to property, plant and equipment | **(5,501)** | (5,387) | **(13,585)** | (32,602) |
| Business combination | **(4,104)** | — | **(4,104)** | — |
| Net cash flows for intangibles, investments and other assets | **(4,868)** | 210 | **(3,859)** | (4,057) |
| Other | **(242)** | (350) | **(560)** | (932) |
| Cash used in investing activities from continuing operations | **(14,715)** | (5,527) | **(22,108)** | (37,591) |
| Cash provided by investing activities from discontinued operations | **—** | — | **—** | 74,996 |
| **Cash provided by (used in) investing activities** | **(14,715)** | (5,527) | **(22,108)** | 37,405 |
| **FINANCING ACTIVITIES** | | | | |
| Decrease in bank loans | **(40,103)** | (28,458) | **(74,777)** | (73,222) |
| Issuance of shares under stock option plan | **1,709** | 3,622 | **10,046** | 9,506 |
| Shares repurchased | **—** | — | **(3,888)** | — |
| Dividends paid | **(13,705)** | (11,023) | **(37,525)** | (34,572) |
| Dividends paid to non-controlling interest | **—** | (741) | **(4,423)** | (5,107) |
| Other | **(2,722)** | (3,000) | **(7,227)** | (7,324) |
| **Cash used in financing activities from continuing operations** | **(54,821)** | (39,600) | **(117,794)** | (110,719) |
| Net change during the period in cash and cash equivalents from continuing operations | **(8,939)** | 3,947 | **714** | (9,278) |
| Net change during the period in cash and cash equivalents from discontinued operations | **—** | — | **—** | 61,734 |
| Net change in cash and cash equivalents during the period | **(8,939)** | 3,947 | **714** | 52,456 |
| Cash and cash equivalents, beginning of period | **65,575** | 56,478 | **55,922** | 7,969 |
| **Cash and cash equivalents, end of period** | **56,636** | 60,425 | **56,636** | 60,425 |

Supplemental cash flow disclosures (note 16)
See accompanying notes

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
(unaudited – in thousands of Canadian dollars, except share information)

## 1. CORPORATE INFORMATION

Corus Entertainment Inc. (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 Stock Exchange (the "TSX").

The Company's registered office is at 630 3rd Avenue S.W., Suite 301, Calgary, Alberta, T2P 2L4. The Company's executive office is at Corus Quay, 25 Dockside Drive, Toronto, Ontario, M5A 0B5.

These interim condensed consolidated financial statements include the accounts of the Company and all its subsidiaries and joint ventures. The Company's principal business activities are: the operation of radio stations; the operation of specialty, pay and conventional television networks; and the Nelvana content business which consists of the production and distribution of television programs, merchandise licensing and publishing.

## 2. STATEMENT OF COMPLIANCE

Pursuant to the decision made by the Canadian Accounting Standards Board ("AcSB"), the Company has adopted International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") as its basis of financial reporting commencing with the interim condensed consolidated financial statements for the three months ended November 30, 2011. The Company's date of transition to IFRS is September 1, 2010 (the "Transition Date").

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, ("IAS 34") *Interim Financial Reporting* issued by the IASB, using the accounting policies the Company expects to adopt in its annual consolidated financial statements as at and for the year ended August 31, 2012 which have been disclosed in Note 3 to the Company's condensed consolidated financial statements for the three months ended November 30, 2011. These interim condensed consolidated financial statements do not include all the information and disclosures required in annual financial statements and, accordingly, should be read in conjunction with the Company's annual consolidated financial statements for the year ended August 31, 2011 prepared in accordance with previous Canadian Generally Accepted Accounting Principles ("GAAP") and with the condensed consolidated financial statements for the three months ended November 30, 2011, which are available at www.sedar.com and on the Company's website at www.corusent.com. These statements include a Transition section which describes differences in certain accounting policies and methods between previously applied Canadian GAAP and IFRS and the changes from previously reported to restated results for the three and nine months ended May 31, 2011.

These interim condensed consolidated financial statements of the Company for the three and nine months ended May 31, 2012 were authorized for issue in accordance with a resolution of the Audit Committee on July 11, 2012.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### Basis of presentation

The interim condensed consolidated financial statements have been prepared on a cost basis, except for derivative financial instruments and available-for-sale financial assets, which have been measured at fair value. The interim condensed consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency, and all values are rounded to the nearest thousand ($000), except where otherwise noted. Each entity consolidated by the Company determines its own functional currency based on the primary economic environment in which the entity operates.

These interim condensed consolidated financial statements have been prepared using accounting policies consistent with those disclosures in Note 3 to the interim condensed consolidated financial statements for the period ended November 30, 2011.

**Pending accounting changes**

IAS 12 *Income Taxes*

In December 2010, the IASB amended IAS 12 for the recovery of underlying assets measured at fair value and the impact on deferred taxes. The amendments provide a solution to the problem of assessing whether recovery would be through use or through sale when the asset is measured at fair value under IAS 40 *Investment Property*, by adding the presumption that the recovery would normally be through sale. The amendment also incorporates the remaining guidance in SIC-21 *Income Taxes – Recovery of Revalued Non-depreciable Assets*, as SIC-21 has been withdrawn. The effective date of the amendment is for annual periods beginning on or after January 1, 2012. The Company is in the process of reviewing the amendment to determine the impact on the consolidated financial statements.

IFRS 9 *Financial Instruments*

In November 2009, the IASB issued IFRS 9, which covers classification and measurement as the first part of its project to replace IAS 39. In October 2010, the IASB also incorporated new accounting requirements for liabilities. The standard introduces new requirements for measurement and eliminates the current classification of loans and receivables, available-for-sale and held-to-maturity, currently in IAS 39. There are new requirements for the accounting of financial liabilities as well as a carryover of requirements from IAS 39. The Company does not anticipate early adoption and will adopt the standard when it is mandated by the IASB, which is in fiscal 2016. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

IFRS 10 *Consolidated Financial Statements*

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 supersedes SIC-12 *Consolidations – Special Purpose Entities* and replaces parts of IAS 27 *Consolidated and Separate Financial Statements*. The effective date of this amendment is for annual periods beginning on or after January 1, 2013. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

IFRS 11 *Joint Arrangements*

IFRS 11 requires a venture to classify its interest in a joint arrangement as a joint operation or a joint venture. The standard eliminates the use of the proportionate consolidation method to account for joint ventures. Joint ventures will be accounted for using the equity method of accounting while for a joint operation the venture will recognize its share of the assets, liabilities, revenues and expenses of the joint operation. IFRS 11 supersedes SIC-13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers* and IAS 31 *Joint Ventures.* The effective date of this amendment is for annual periods beginning on or after January 1, 2013. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 12 establishes disclosure requirements for interests in other entities such as subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interest in other entities. IFRS 12 replaces the previous disclosure requirements included in IAS 27 *Consolidated and Separate Financial Statements,* IAS 31 *Joint Ventures* and IAS 28 *Investment in Associates*. The effective date of this amendment is for annual periods beginning on or after January 1, 2013. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

(unaudited – in thousands of Canadian dollars, except share information)

IFRS 13 *Fair Value Measurement*

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. IFRS 13 defines fair value and establishes disclosures about fair value measurement. The effective date of this amendment is for annual periods beginning on or after January 1, 2013. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

IAS 28 *Investments in Associates and Joint Ventures*

The IASB also amended IAS 28, an existing standard, to include joint ventures in its scope and to address the changes in IFRS 10 to IFRS 12. The effective date of this amendment is for annual periods beginning on or after January 1, 2013. The Company is in the process of reviewing the impact of this change.

IAS 1 *Presentation of Financial Statements*

The IASB amended IAS 1 by revising how certain items are presented in other comprehensive income ("OCI"). Items within OCI that may be reclassified to profit and loss will be separated from items that will not. The standard is effective for financial years beginning on or after July 1, 2012 with early adoption permitted. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

## 4. INTANGIBLES, INVESTMENTS AND OTHER ASSETS

| | Intangibles | Investments in associates | Other assets | Total |
|---|---|---|---|---|
| Balance, August 31, 2011 | 25,914 | 9,023 | 5,043 | 39,980 |
| Increase in investments | — | 5,687 | 1,945 | 7,632 |
| Amortization of intangible assets | (2,774) | — | — | (2,774) |
| Fair value adjustment | — | — | (294) | (294) |
| **Balance, May 31, 2012** | **23,140** | **14,710** | **6,694** | **44,544** |

The Company's investments in associated businesses is comprised of a 19.9% equity interest in The Food Network, a 26.8% equity interest in b5Media Inc, a 33.75% equity interest in Supernova Entertainment Inc. and a 43.8% equity interest in KidsCo Limited, which are included in other assets. Subsequent to the quarter ended May 31, 2012, the Company increased its investment in KidsCo to 47.15%.

Intangible costs include exclusive Canadian licensing rights for use of trademarks and materials for specialty and pay television and are expected to be fully amortized between 2014 and 2021.

## 5. PROGRAM AND FILM RIGHTS

| | |
|---|---|
| Balance, August 31, 2011 | 256,970 |
| Net additions | 145,903 |
| Amortization | (139,805) |
| **Balance, May 31, 2012** | **263,068** |

(unaudited – in thousands of Canadian dollars, except share information)

## 6. FILM INVESTMENTS

| | |
|---|---|
| Balance, August 31, 2011 | 83,133 |
| Net additions | 14,935 |
| Amortization | (21,949) |
| **Balance, May 31, 2012** | **76,119** |

## 7. PROVISIONS

In late 2010 and during fiscal 2011, the Company undertook a significant restructuring to streamline processes in the new Corus Quay facility. This resulted in the Company recording a charge of $12,924 in fiscal 2010 and a charge of $3,694 in fiscal 2011, mainly related to severance and employee related costs. The Company anticipates that these provisions will be substantially paid in fiscal 2012.

In the third quarter of fiscal 2012, the Company undertook further restructuring as a continuation of its efforts to streamline processes. This resulted in the Company recording a charge of $2,325 in the third quarter. The Company anticipates that these provisions will be substantially paid by fiscal 2014.

The changes in the book value of provisions for the periods ended were as follows:

| | **May 31, 2012** | August 31, 2011 | September 1, 2010 |
|---|---|---|---|
| **Restructuring** | | | |
| Balance, beginning of period | **5,330** | 13,756 | 8,329 |
| Workforce reduction initiatives | **2,325** | 1,319 | 11,264 |
| Lease termination costs and other | **—** | 2,375 | 1,660 |
| Payments | **(3,436)** | (12,120) | (7,497) |
| **Balance, end of period** | **4,219** | 5,330 | 13,756 |
| Long-term portion | **(564)** | (338) | (1,195) |
| **Total current restructuring provision** | **3,655** | 4,992 | 12,561 |
| Legal claims | **275** | 275 | 487 |
| **Total current provision balance, end of period** | **3,930** | 5,267 | 13,048 |

## 8. LONG-TERM DEBT

| | **May 31, 2012** | August 31, 2011 | September 1, 2010 |
|---|---|---|---|
| Bank loans | **39,957** | 114,806 | 208,015 |
| Senior unsecured guaranteed notes | **500,000** | 500,000 | 500,000 |
| Unamortized financing fees | **(12,363)** | (14,010) | (16,124) |
| | **527,594** | 600,796 | 691,891 |

Interest rates on the balance of the bank loans fluctuate with Canadian bankers' acceptances and LIBOR. As at May 31, 2012, the weighted average interest rate on the outstanding bank loans and notes was 7.1% (2011 – 6.9%). Interest on the bank loans and notes averaged 7.1% for the third quarter and 6.9% for fiscal 2012 year-to-date.

The banks hold as collateral a first ranking charge on all assets and undertakings of the Company and certain of the Company's subsidiaries as designated under the credit agreements. 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 as at May 31, 2012.

On March 5, 2012, the Company's $500,000 credit facility with a syndicate of banks was amended. The principal amendments were to reduce interest margins applicable to floating interest rates and to extend the maturity date to February 11, 2016.

## 9. SHARE CAPITAL

### Authorized

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

### Issued and outstanding

The changes in the Class A Voting Shares and Class B Non-Voting Shares since August 31, 2011 are summarized as follows:

| | **Class A Voting Shares** | | **Class B Non-Voting Shares** | | **Total** |
|---|---|---|---|---|---|
| | **#** | **$** | **#** | **$** | **$** |
| Balance as at August 31, 2011 | 3,439,212 | 26,633 | 79,029,261 | 856,046 | 882,679 |
| Conversion of Class A Voting Shares to Class B Non-Voting Shares | (4,716) | (37) | 4,716 | 37 | — |
| Issuance of shares under stock option plan | — | — | 794,750 | 13,669 | 13,669 |
| Issuance of shares under dividend reinvestment plan | — | — | 917,676 | 19,229 | 19,229 |
| Shares repurchased | — | — | (194,800) | (2,110) | (2,110) |
| **Balance as at May 31, 2012** | **3,434,496** | **26,596** | **80,551,603** | **886,871** | **913,467** |

### Earnings per share

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

| | Three months ended **May 31** | | Nine months ended **May 31** | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| Net income attributable to shareholders (numerator) | **43,221** | 40,352 | **125,340** | 118,864 |
| Weighted average number of shares outstanding (denominator): | | | | |
| Weighted average number of shares outstanding – basic | **83,751** | 82,216 | **83,244** | 81,686 |
| Effect of dilutive securities | **306** | 395 | **334** | 604 |
| Weighted average number of shares outstanding – diluted | **84,057** | 82,611 | **83,578** | 82,290 |

The calculation of diluted earnings per share for both the third quarter and year-to-date of fiscal 2012 excluded nil and 470,100 (2011 – 212,200 and 235,800) weighted average Class B Non-Voting Shares issuable under the Company's Stock Option Plan (the "Plan") because these options were not "in-the-money".

(unaudited – in thousands of Canadian dollars, except share information)

**Share-based compensation**

The following table provides additional information on the employee stock options, PSUs, DSUs and RSUs as at:

| | **May 31, 2012** | August 31, 2011 | September 1, 2010 |
|---|---|---|---|
| Outstanding employee stock options | **1,826,723** | 2,244,773 | 2,811,588 |
| Exercisable employee stock options | **970,437** | 1,452,668 | 2,010,065 |
| Outstanding PSUs | **883,025** | 876,708 | 776,401 |
| Outstanding DSUs | **621,605** | 493,732 | 368,575 |
| Outstanding RSUs | **94,674** | 246,887 | 198,644 |

Share-based compensation expense recorded for the third quarter and year-to-date of fiscal 2012 in respect of these plans was $4,020 and $7,536 (2011 - $1,968 and $6,997). As at May 31, 2012, the value of the PSU, DSU and RSU units was $37,584 (August 31, 2011 - $32,929; September 1, 2010 - $26,281).

**Dividend reinvestment plan**

In the first nine months of fiscal 2012, the Company issued 917,676 Class B Non-Voting Shares, resulting in an increase in share capital of $19,229.

**Normal course issuer bid**

On June 20, 2012, the Company announced that the TSX had accepted the notice filed by the Company of its intention to renew its Normal Course Issuer Bid for its Class B Non-Voting Participating Shares through the facilities of the TSX, or other alternative Canadian trading systems. The Company may purchase for cancellation a maximum of 4,000,000 Class B Non-Voting Participating Shares during the period from June 22, 2012 through June 21, 2013.

On June 14, 2011, the Company announced that the TSX had accepted the notice filed by the Company of its intention to make a Normal Course Issuer Bid for its Class B Non-Voting Participating Shares through the facilities of the TSX, or other alternative Canadian trading systems. The Company was authorized to purchase for cancellation a maximum of 3,900,000 Class B Non-Voting Participating Shares during the period from June 16, 2011 through June 15, 2012.

The shares purchased for cancellation since June 16, 2011 are as follows:

| | # | $ | Average $ |
|---|---|---|---|
| July 2011 | 27,800 | 605 | 21.76 |
| August 2011 | 154,800 | 3,100 | 20.03 |
| **Fiscal 2011** | **182,600** | **3,705** | **20.29** |
| September 2011 | 194,800 | 3,888 | 19.96 |
| **Fiscal 2012** | **194,800** | **3,888** | **19.96** |
| | **377,400** | **7,593** | **20.12** |

During the third quarter and year-to-date of fiscal 2012, the total cash consideration paid exceeded the carrying value of the shares repurchased by nil and $1,778 (2011 – nil and nil), which was charged to retained earnings.

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
(unaudited – in thousands of Canadian dollars, except share information)

## 10. DIRECT COST OF SALES, GENERAL AND ADMINISTRATIVE EXPENSES

| | Three months ended May 31, | | Nine months ended May 31, | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| Amortization of program rights | **46,317** | 44,174 | **139,805** | 129,563 |
| Amortization of film investments | **4,002** | 7,501 | **21,949** | 26,378 |
| Other cost of sales | **6,140** | 8,236 | **39,617** | 22,642 |
| Employee costs | **37,984** | 36,166 | **111,986** | 111,438 |
| Other general and administrative | **33,979** | 36,942 | **104,178** | 105,592 |
| | **128,422** | 133,019 | **417,535** | 395,613 |

## 11. INTEREST EXPENSE

| | Three months ended May 31, | | Nine months ended May 31, | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| Interest on long-term debt | **9,671** | 11,168 | **29,471** | 34,204 |
| Imputed interest on long-term liabilities | **2,894** | 2,827 | **8,904** | 7,911 |
| Other | **625** | 698 | **1,652** | 1,368 |
| | **13,190** | 14,693 | **40,027** | 43,483 |

## 12. OTHER INCOME, NET

| | Three months ended May 31, | | Nine months ended May 31, | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| Interest income | **(382)** | (101) | **(457)** | (630) |
| Foreign exchange losses (gains) | **593** | (26) | **1,110** | (2,290) |
| Share of earnings of associates | **(894)** | (259) | **(1,651)** | (1,110) |
| Gain on acquisition | **(2,383)** | — | **(2,383)** | — |
| Other | **(466)** | (583) | **(1,321)** | 1,819 |
| | **(3,532)** | (969) | **(4,702)** | (2,211) |

## 13. INCOME TAXES

The reconciliation of income taxes attributable to operations computed at the statutory rates to income tax expense for year-to-date fiscal 2012 and 2011 is as follows:

| | **Fiscal 2012** | | Fiscal 2011 | |
|---|---|---|---|---|
| | **$** | **%** | $ | % |
| Tax at combined federal and provincial rate | **46,214** | **26.8** | 48,554 | 29.0 |
| Income subject to tax at less than statutory rates | **(3,029)** | **(1.8)** | (1,675) | (1.0) |
| Miscellaneous differences | **(2,115)** | **(1.2)** | (247) | (0.1) |
| | **41,070** | **23.8** | 46,632 | 27.9 |

(unaudited – in thousands of Canadian dollars, except share information)

## 14. BUSINESS COMBINATION AND DISPOSITION

On March 1, 2012, the Company acquired the remaining 50 percent of the outstanding ordinary shares of Toon Boom Animation Inc. ("Toon Boom",) a digital content and animation creation software company that delivers its products and services online to its global community. Previous to this, the Company held 50 percent equity ownership and proportionately consolidated Toon Boom. The fair value of the Company's equity interest in Toon Boom before the business combination amounted to $4.1 million. The Company recorded a pre-tax accounting gain of $2.4 million as a result of measuring at fair value its 50 percent previously owned equity ownership of Toon Boom, which is recorded in other expense (income), net.

The results of operations of this company, as well as their assets and liabilities, are now included in the Television segment effective March 1, 2012 at 100 percent. The total cash consideration paid was $4.1 million. The preliminary purchase equation, which was accounted for using the purchase method, is summarized below:

| **Fair value recognized on acquisition** | |
|---|---|
| Net assets | 5,897 |
| Goodwill | 2,311 |
| Fair value of 100% of Toon Boom | 8,208 |
| Fair value of initial equity investment in Toon Boom | (4,104) |
| **Cash consideration given** | **4,104** |

The Company identified intangible assets of $2.7 million and goodwill, which primarily relates to the workforce, of $2.3 million and is expected to not be deductible for income tax purposes.

In the second quarter of fiscal 2011, the Company completed the sale of its Quebec radio stations. The Canadian Radio-television and Telecommunications Commission ("CRTC") approved the disposition on December 17, 2010 and the sale closed February 1, 2011 with a purchase price of $84.0 million (including a working capital adjustment of $4.0 million). Cash of $75.0 million was paid on the $84.0 million in adjusted proceeds at the time of closing, with the remaining $9.0 million paid on February 1, 2012. As a result, operating results have been reclassified to net income after tax for the period from discontinued operations in accordance with IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*. The assets and liabilities of the Quebec radio stations have not been reclassified to assets and liabilities held for sale at September 1, 2010 as they did not qualify to be presented as such at that date. The summarized financial information for the discontinued Quebec radio operations is shown below:

| | Three Months Ended **May 31,** | | Nine Months Ended **May 31,** | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| Revenues | — | — | — | 28,836 |
| Direct cost of sales, general and administrative expenses | — | — | — | 24,738 |
| Segment profit | — | — | — | 4,098 |
| Other expenses | — | — | — | 2,621 |
| Income from discontinued operations | — | — | — | 1,477 |
| Gain on disposal | — | — | — | 4,102 |
| Income tax expense | — | — | — | 556 |
| **Net income for the period from discontinued operations** | — | — | — | 5,023 |

(unaudited – in thousands of Canadian dollars, except share information)

## 15. BUSINESS SEGMENT INFORMATION

The Company reports its operations in two segments: Radio and Television.

**Radio**

The Radio division is comprised of 37 radio stations, situated primarily in high-growth urban centres in English Canada. Revenues are derived from advertising aired over these stations and related websites.

**Television**

The Television division includes interests in several specialty television networks, pay television, conventional television stations, the Nelvana content business and the related merchandising, distribution licensing and publishing business. Revenues are generated from subscriber fees, advertising and the licensing of proprietary films and television programs, merchandise licensing and publishing. The Corporate results represent the incremental cost of corporate overhead in excess of the amount allocated to the other operating segments.

Management evaluates each division's performance based on revenues less direct cost of sales, general and administrative expenses. Segment profit excludes depreciation, interest expense, restructuring charges and certain other income and expenses (notes 11 and 12).

### Revenues and segment profit

**Three months ended May 31, 2012**

| | Radio | Television | Corporate | Consolidated |
|---|---|---|---|---|
| Revenues | **49,329** | **154,749** | **—** | **204,078** |
| Direct cost of sales, general and administrative expenses | **33,178** | **88,017** | **7,227** | **128,422** |
| **Segment profit (loss)[(1)]** | **16,151** | **66,732** | **(7,227)** | **75,656** |
| Depreciation | **870** | **816** | **4,653** | **6,339** |
| Interest expense | **(256)** | **6,118** | **7,328** | **13,190** |
| Restructuring | **1,053** | **1,151** | **121** | **2,325** |
| Other expense (income), net | **(55)** | **(866)** | **(2,611)** | **(3,532)** |
| **Income (loss) before income taxes** | **14,539** | **59,513** | **(16,718)** | **57,334** |

Three months ended May 31, 2011

| | Radio | Television | Corporate | Consolidated |
|---|---|---|---|---|
| Revenues | 50,745 | 161,043 | — | 211,788 |
| Direct cost of sales, general and administrative expenses | 34,745 | 91,051 | 7,223 | 133,019 |
| **Segment profit (loss)[(1)]** | 16,000 | 69,992 | (7,223) | 78,769 |
| Depreciation | 817 | 736 | 4,650 | 6,203 |
| Interest expense | (74) | 6,182 | 8,585 | 14,693 |
| Restructuring | 79 | 6 | 7 | 92 |
| Other expense (income), net | (515) | 396 | (850) | (969) |
| **Income (loss) before income taxes** | 15,693 | 62,672 | (19,615) | 58,750 |

**Nine months ended May 31, 2012**

| | Radio | Television | Corporate | Consolidated |
|---|---|---|---|---|
| Revenues | **143,577** | **503,075** | – | **646,652** |
| Direct cost of sales, general and administrative expenses | **101,145** | **295,427** | **20,963** | **417,535** |
| **Segment profit (loss)[(1)]** | **42,432** | **207,648** | **(20,963)** | **229,117** |
| Depreciation | **2,427** | **2,168** | **14,636** | **19,231** |
| Interest expense | **(160)** | **19,350** | **20,837** | **40,027** |
| Restructuring | **1,053** | **1,151** | **121** | **2,325** |
| Other expense (income), net | **(42)** | **(1,861)** | **(2,799)** | **(4,702)** |
| **Income (loss) before income taxes** | **39,154** | **186,840** | **(53,758)** | **172,236** |

(unaudited – in thousands of Canadian dollars, except share information)

Nine months ended May 31, 2011

| | Radio | Television | Corporate | Consolidated |
|---|---|---|---|---|
| Revenues | 148,031 | 476,989 | — | 625,020 |
| Direct cost of sales, general and administrative expenses | 103,845 | 266,805 | 24,963 | 395,613 |
| **Segment profit (loss)**[1] | 44,186 | 210,184 | (24,963) | 229,407 |
| Depreciation | 2,313 | 3,255 | 12,796 | 18,364 |
| Interest expense | 2,398 | 16,059 | 25,026 | 43,483 |
| Restructuring | 750 | 9 | 1,583 | 2,342 |
| Other expense (income), net | (1,009) | (1,822) | 620 | (2,211) |
| **Income (loss) before income taxes** | 39,734 | 192,683 | (64,988) | 167,429 |

(1) See definitions and discussion under Key Performance Indicators in MD&A

Revenues are derived from the following areas:

| | Three months ended May 31, | | Nine months ended May 31, | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| Advertising | **97,076** | 104,374 | **300,395** | 306,873 |
| Subscriber fees | **74,285** | 76,176 | **224,350** | 225,537 |
| Merchandise, distribution and other | **32,717** | 31,238 | **121,907** | 92,610 |
| | **204,078** | 211,788 | **646,652** | 625,020 |

## 16. CONSOLIDATED STATEMENT OF CASH FLOWS

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

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

| | Three months ended May 31, | | Nine months ended May 31, | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| Interest paid | **1,331** | 2,802 | **22,618** | 27,604 |
| Interest received | **382** | 101 | **457** | 630 |
| Income taxes paid | **10,774** | 4,152 | **38,833** | 27,043 |

## 17. SUBSEQUENT EVENTS

On June 20, 2012, the Ontario government passed legislation cancelling planned future corporate tax rate reductions. As a result, the Company will be required to remeasure certain deferred tax assets and liabilities in its fourth quarter ending August 31, 2012; the Company anticipates that this remeasurement will result in a deferred tax expense of approximately $6 million.

## TRANSITION TO IFRS

In preparing its opening IFRS consolidated statement of financial position, the Company has adjusted amounts previously reported that have been prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position and financial performance on the Transition Date, for the three months ended November 30, 2010, for the year ended August 31, 2011 and as at August 31, 2011, are set out in the tables and notes in the Company's condensed consolidated financial statements for the first quarter ended November 30, 2011. The Company has also selected certain transition exemptions on the Transition Date, the details of which are also in the notes to the November 30, 2011 condensed consolidated financial statements. These financial statements are available at www.sedar.com and on the Company's website at www.corusent.com.

An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position and financial performance for the three and nine months ended May 31, 2011 and as at May 31, 2012 is set out in the following tables and notes that accompany the tables. There were no material adjustments to the operating, investing or financing activity subtotals in the fiscal 2011 annual and May 31, 2011 consolidated statements of cash flows as a result of the conversion to IFRS.

(unaudited – in thousands of Canadian dollars, except share information)

## Reconciliation of Consolidated Statements of Income and Comprehensive Income for the three and nine months ended May 31, 2011

| | | May 31, 2011 | | | | | |
|---|---|---|---|---|---|---|---|
| | | Three months ended | | | Nine months ended | | |
| | Notes | Previous Canadian GAAP | Effect of transition to IFRS | IFRS | Previous Canadian GAAP | Effect of transition to IFRS | IFRS |
| Revenues | | 211,788 | — | 211,788 | 625,020 | — | 625,020 |
| Direct cost of sales, general and administrative expenses | T1, T2, T3, T4 | 134,511 | (1,492) | 133,019 | 398,130 | (2,517) | 395,613 |
| Depreciation | | 6,203 | — | 6,203 | 18,364 | — | 18,364 |
| Interest expense | | 14,693 | — | 14,693 | 43,483 | — | 43,483 |
| Restructuring | | 93 | (1) | 92 | 2,342 | — | 2,342 |
| Other income, net | | (969) | — | (969) | (2,211) | — | (2,211) |
| Income from continuing operations before income taxes and non-controlling interest | | 57,257 | 1,493 | 58,750 | 164,912 | 2,517 | 167,429 |
| Income tax expense | T6 | 14,900 | 370 | 15,270 | 45,892 | 740 | 46,632 |
| Non-controlling interest | T5 | 3,128 | (3,128) | — | 6,956 | (6,956) | — |
| Net income for the period from continuing operations | | 39,229 | 4,251 | 43,480 | 112,064 | 8,733 | 120,797 |
| Net income for the period from discontinued operations | | — | — | — | 5,023 | — | 5,023 |
| **Net income for the period** | | 39,229 | 4,251 | 43,480 | 117,087 | 8,733 | 125,820 |
| **Net income attributable to:** | | | | | | | |
| Shareholders from continuing operations | | 39,229 | 1,123 | 40,352 | 112,064 | 1,777 | 113,841 |
| Shareholders from discontinued operations | | — | — | — | 5,023 | — | 5,023 |
| Non-controlling interest | T5 | — | 3,128 | 3,128 | — | 6,956 | 6,956 |
| | | 39,229 | 4,251 | 43,480 | 117,087 | 8,733 | 125,820 |
| **Basic earnings per share attributable to shareholders** | | | | | | | |
| From continuing operations | | $0.48 | $0.01 | $0.49 | $1.37 | $0.02 | $1.39 |
| From discontinued operations | | — | — | — | $0.06 | — | $0.06 |
| | | $0.48 | $0.01 | $0.49 | $1.43 | $0.02 | $1.45 |
| **Diluted earnings per share attributable to shareholders** | | | | | | | |
| From continuing operations | | $0.47 | $0.01 | $0.49 | $1.36 | $0.02 | $1.38 |
| From discontinued operations | | — | — | — | $0.06 | — | $0.06 |
| | | $0.47 | $0.01 | $0.49 | $1.42 | $0.02 | $1.44 |
| **Net income for the period** | | 39,229 | 4,251 | 43,480 | 117,087 | 8,733 | 125,820 |
| Other comprehensive income (loss), net of tax | | | | | | | |
| Unrealized foreign currency translation adjustment | | 4 | — | 4 | (1,857) | — | (1,857) |
| Unrealized change in fair value of available-for-sale investments | | (77) | — | (77) | (1) | — | (1) |
| Actuarial gain on defined benefit plans | T3 | — | — | — | — | 433 | 433 |
| | | (73) | — | (73) | (1,858) | 433 | (1,425) |
| **Comprehensive income for the period** | | 39,156 | 4,251 | 43,407 | 115,229 | 9,166 | 124,395 |
| **Attributable to:** | | | | | | | |
| Shareholders | | 39,156 | 1,123 | 40,279 | 115,229 | 2,210 | 117,439 |
| Non-controlling shareholders | | — | 3,128 | 3,128 | — | 6,956 | 6,956 |
| | | 39,156 | 4,251 | 43,407 | 115,229 | 9,166 | 124,395 |

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited – in thousands of Canadian dollars, except share information)

### Reconciliation of Consolidated Statement of Changes in Equity on May 31, 2011

| | Notes | Share capital | Contributed surplus | Retained earnings | AOCI | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|
| **Reported under Canadian GAAP as at May 31, 2011** | | **879,058** | **9,142** | **169,663** | **(13,014)** | **—** | **1,044,849** |
| **IFRS adjustments increase (decrease):** | | | | | | | |
| Program and film rights | T1 | — | — | (3,482) | — | — | (3,482) |
| Film investments | T2 | — | — | (17,781) | — | — | (17,781) |
| Broadcast licenses | | — | — | 28,257 | — | — | 28,257 |
| Accounts payable and accrued liabilities | T2 | — | — | (2,017) | — | — | (2,017) |
| Employee benefits | T3 | — | — | (3,477) | — | — | (3,477) |
| Share-based compensation | T4 | — | 938 | (1,391) | — | — | (453) |
| Foreign currency IFRS 1 adjustment | | — | — | (11,498) | 11,498 | — | — |
| Non-controlling interest | T5 | — | — | — | — | 18,947 | 18,947 |
| Income taxes | T6 | — | — | (22,561) | — | — | (22,561) |
| **Reported under IFRS as at May 31, 2011** | | **879,058** | **10,080** | **135,713** | **(1,516)** | **18,947** | **1,042,282** |

### Notes to the May 31, 2011 reconciliation schedules:

(T1) **Program and film rights**

Amortization of program rights in direct cost of sales, general and administrative expenses for the nine months ended May 31, 2011 was $0.035 million higher under IFRS than it was under previous Canadian GAAP ($0.1 million lower for the three months ended May 31, 2011). This was primarily the result of the changes made to the amortization method for certain program rights (refer to notes T2, T12 and T17 – November 30, 2011).

(T2) **Film investments**

Amortization of film investments in direct cost of sales, general and administrative expenses for the nine months ended May 31, 2011 was $4.6 million lower under IFRS than it was under previous Canadian GAAP ($1.3 million lower for the three months ended May 31, 2011). This was primarily the result of the changes made to certain third-party-produced equity film investments on the Transition Date and similar impacts for additional arrangements entered into in the period (refer to notes T3, T6, T13 and T18 – November 30, 2011).

(T3) **Employee benefits**

Employee costs in direct cost of sales, general and administrative expenses for the nine months ended May 31, 2011 was $1.3 million higher under IFRS than it was under previous Canadian GAAP (nil for the three months ended May 31, 2011). Other comprehensive income for the nine months ended May 31, 2011 was $0.4 million higher under IFRS than it was under previous Canadian GAAP as a result of actuarial gains recognized in the second quarter related to its employee benefit plans (refer to notes T7 and T20 – November 30, 2011). The amount recognized in the period is not retained in accumulated other comprehensive income but goes directly to retained earnings.

(T4) **Share-based compensation**

Employee costs in direct cost of sales, general and administrative expenses for the nine months ended May 31, 2011 was $0.3 million higher under IFRS than it was under previous Canadian GAAP ($0.036 lower for the three months ended May 31, 2011). This was primarily the result of the changes made to the accounting for stock-based compensation plans (refer to notes T8, T14 and T21 – November 30, 2011).

(T5) **Non-controlling interest**

IFRS requires non-controlling interests to be classified as a component of equity. Under previous Canadian GAAP, non-controlling interest was classified outside of equity.

(T6) **Income taxes**

The income tax adjustment includes the income tax impact of the transition adjustments (refer to notes T11, T16 and T23 – November 30, 2011) and the related changes in the consolidated statements of income and comprehensive income through May 31, 2011.