



ENTERTAINMENT

***Third Quarter 2014
Report to Shareholders***

***For the Three and Nine Months Ended May 31, 2014
(Unaudited)***

TABLE OF CONTENTS

<i>Highlights</i>	3
<i>Significant Events in the Quarter</i>	3
<i>Significant Events Subsequent to the Quarter</i>	4
<i>Management’s Discussion and Analysis</i>	5
<i>Overview of Consolidated Results</i>	6
<i>Television</i>	10
<i>Radio</i>	12
<i>Corporate</i>	13
<i>Quarterly Consolidated Financial Information</i>	13
<i>Risks and Uncertainties</i>	15
<i>Outlook</i>	15
<i>Financial Position</i>	15
<i>Liquidity and Capital Resources</i>	17
<i>Outstanding Share Data</i>	19
<i>Changes in Internal Control Over Financial Reporting</i>	19
<i>Key Performance Indicators</i>	19
<i>Impact of New Accounting Policies</i>	22
<i>Consolidated Financial Statements and Notes</i>	23

CORUS ENTERTAINMENT INC.
Third Quarter Report to Shareholders

Highlights

Financial Highlights

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

(in thousands of Canadian dollars except per share amounts)	Three months ended		Nine months ended	
	2014	May 31, 2013 ⁽³⁾	2014	May 31, 2013 ⁽³⁾
Revenues				
Television	170,565	139,995	500,615	429,960
Radio	43,476	47,078	130,844	139,679
	214,041	187,073	631,459	569,639
Segment profit⁽¹⁾				
Television	75,679	58,154	216,237	176,786
Radio	11,678	14,874	35,985	43,484
Corporate	(7,626)	(8,464)	(20,933)	(20,227)
	79,731	64,564	231,289	200,043
Net income (loss) attributable to shareholders	(30,325)	89,913	126,682	148,016
Adjusted net income attributable to shareholders ^{(1) (2)}	41,602	34,519	123,560	111,110
Basic earnings (loss) per share	(\$ 0.36)	\$ 1.07	\$ 1.49	\$ 1.77
Adjusted basic earnings per share ^{(1) (2)}	\$ 0.49	\$ 0.41	\$ 1.46	\$ 1.33
Diluted earnings (loss) per share	(\$ 0.36)	\$ 1.07	\$ 1.49	\$ 1.76
Free cash flow⁽¹⁾	59,399	41,475	182,440	121,084

⁽¹⁾ Adjusted net income attributable to shareholders, adjusted basic earnings per share, segment profit, segment profit margin and free cash flow do not have standardized meanings prescribed by IFRS. The Company reports on segment profit, segment profit margin and free cash flow because they are key measures used to evaluate performance. For definitions and explanations, see discussion under the Key Performance Indicators section of the 2014 Report to Shareholders.

⁽²⁾ For the three months ended May 31, 2014, excludes radio broadcast license and goodwill impairment charges of \$75.0 million (\$0.85 per share), business acquisition, integration and restructuring costs of \$0.6 million (\$0.01 per share), capital asset impairment charges of \$1.2 million (\$0.01 per share) and a decrease in the purchase price obligation of \$2.0 million (\$0.02 per share). For the nine month period ended May 31, 2014, excludes the impact of a \$127.9 million (\$1.51 per share) gain on remeasurement to fair value of the Company's 50% interest in TELETOON which was held prior to consolidation on September 1, 2013, radio broadcast license and goodwill impairment charges of \$83.0 million (\$0.92 per share), business acquisition, integration and restructuring costs of \$41.2 million (\$0.47 per share), capital asset impairment charges of \$1.2 million (\$0.01 per share), an increase in the purchase price obligation of \$3.3 million (\$0.04 per share), and investment impairment related charges of \$3.3 million (\$0.04 per share). For the three and nine month periods ended May 31, 2013, excludes the impact of a gain on disposition of the Food Network Canada investment of \$55.4 million (\$0.66 per share), while for the nine month period, the impact of debt refinancing costs of \$25.0 million (\$0.22 per share) are excluded as well.

⁽³⁾ Prior period figures have been restated to reflect the changes in accounting standards described in note 3 to the interim condensed consolidated financial statements contained in the 2014 Report to Shareholders.

Significant Events in the Quarter

- On March 3, 2014, the Company launched Country 104 (CKDK-FM), its newest country radio station broadcasting from Woodstock, Ontario.
- On March 10, 2014, the Company announced that its programming received 26 Canadian Screen Awards from the Academy of Canadian Cinema and Television.

CORUS ENTERTAINMENT INC.
Third Quarter Report to Shareholders

- On March 27, 2014, the Canadian Radio-television and Telecommunications Commission (“CRTC”) renewed the licenses of radio stations CKRU-FM (Peterborough), CFGQ-FM, CHQR-AM and CKRY-FM (Calgary).
- On March 31, 2014, the Company paid a monthly dividend of \$0.090417 and \$0.090833 per share to holders of its Class A and Class B Shares, respectively.
- On March 31, 2014, the Company’s Radio division launched JUMP! 106.9 (CKQB-FM), a brand new contemporary hit radio station in Ottawa. JUMP! 106.9 is unique in the market, with a core playlist of the biggest names in music, delivered in 90 minute non-stop music blocks.
- On March 31, 2014, the Company’s Toronto radio station, 102.1 the Edge, launched its new weekday lineup of on-air personalities who bring the best of alternative music, pop culture, irreverent humour and engaging entertainment to audiences.
- On April 3, 2014, the Company was recognized as one of Canada’s Future 40 Most Responsible Corporate Leaders by Corporate Knights Canada.
- On April 7, 2014, the Company’s Toronto radio station, Q107, expanded its playlist to include bands and artists from the '90s, 2000s and today. Q107 is and will continue to be Toronto’s rock station.
- On April 24, 2014, the CRTC launched Phase 3 of Let’s Talk TV: A Conversation with Canadians, a formal review of the television system that draws on the priorities identified by Canadians in Phase 1 and 2. The CRTC will hold a public hearing which will commence on September 8, 2014.
- On April 30, 2014, the Company paid a monthly dividend of \$0.090417 and \$0.090833 per share to holders of its Class A and Class B Shares, respectively.
- On May 26, 2014, the Company began originating Historia and Séries+ from Corus Quay, completing the migration of the former Bell/Astral services to Corus’ systems and processes.
- On May 30, 2014, the Company paid a monthly dividend of \$0.090417 and \$0.090833 per share to holders of its Class A and Class B Shares, respectively.

Significant Events Subsequent to the Quarter

- On June 11, 2014, the Company released its second annual Corporate Social Responsibility (“CSR”) Report. The Report provides a summary of the Company’s commitment to its employees, industry, community and long-term success, and is available on the Company’s website at www.corusent.com.
- On June 16, 2014, the Company’s HBO Canada announced that the popular epic fantasy series, *Game of Thrones*, was the most-watched series in Canadian Pay TV history with an average audience of more than 1.2 million viewers.
- On June 18, 2014, the Company’s newly established Quebec operations Corus Média received 19 nominations at the 2014 Prix Gémeaux, including 12 nominations for the original series *La Murraine* on Séries+.
- On June 21, 2014, the Company’s Nelvana Studios received two 2014 Daytime Creative Arts Emmy® Awards for the preschool series *Bubble Guppies*.
- On June 28, 2014, Corus filed an intervention with the CRTC concerning their “Let’s Talk TV” policy proceeding. See Broadcasting Notice of Consultation CRTC 2014-190 for the description of the context of the public hearing, which will commence on September 8, 2014.
- On June 30, 2014, the Company paid a monthly dividend of \$0.090417 and \$0.090833 per share to holders of its Class A and Class B Shares, respectively.

CORUS ENTERTAINMENT INC.
Third Quarter Report to Shareholders

Management's Discussion and Analysis

Management's Discussion and Analysis of the financial position and results of operations for the three and nine months ended May 31, 2014 is prepared at June 30, 2014. The following should be read in conjunction with Management's Discussion and Analysis, consolidated financial statements and the notes thereto included in the Company's August 31, 2013 Annual Report and the interim condensed 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.

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 relate to, among other things, our objectives, goals, strategies, intentions, plans, estimates and outlook, including advertising, distribution, merchandise and subscription revenues, operating costs and tariffs, taxes and fees, and can generally be identified by the use of the words such as "believe", "anticipate", "expect", "intend", "plan", "will", "may" and other similar expressions. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances 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.

This document contains forward-looking statements about expected future events and financial operating performance of the Company. The Company has not provided guidance for fiscal 2014,

CORUS ENTERTAINMENT INC.
Third Quarter Report to Shareholders

however, annual targets for fiscal 2015 and related assumptions are described in the *Outlook* section of this Management's Discussion and Analysis.

For a discussion on the Company's results of operations for fiscal 2013, please refer to the Company's Annual Report for the year ended August 31, 2013 filed on SEDAR on December 3, 2013.

The following discussion describes the significant changes in the consolidated results from operations.

Overview of Consolidated Results

For fiscal 2014, the operating results of TELETOON Canada Inc. ("TELETOON"), as well as its assets and liabilities, have been fully consolidated effective September 1, 2013 as a consequence of meeting the definition of control under IFRS 10 - *Consolidated Financial Statements*. Accordingly, a business combination had occurred in accordance with IFRS 3 - *Business Combinations* and as a result, TELETOON must be accounted for by applying the acquisition method. On December 20, 2013, the Company received Canadian Radio-television and Telecommunications Commission ("CRTC") approval to complete the acquisition of the remaining 50% interest in TELETOON that it did not already own as well as the acquisition of Historia and Séries+, s.e.n.c. ("H&S"). These acquisitions closed on January 1, 2014. On January 24, 2014, the CRTC approved the Company's acquisition of the Ottawa-based radio stations (CKQB-FM and CJOT-FM) and the transaction closed on January 31, 2014. As a result of these business combinations, the Company's consolidated results for fiscal 2014 reflect 100% interest of TELETOON effective September 1, 2013, 100% interest in H&S effective January 1, 2014, and 100% interest in the two Ottawa-based radio stations effective January 31, 2014 (refer to note 17 of the interim condensed consolidated financial statements for further details on all acquisitions).

For fiscal 2013, as a result of retroactive application of IFRS 11 - *Joint Arrangements*, the Company is no longer permitted to proportionately consolidate its 50% equity interest in the operations of TELETOON up to August 31, 2013 (i.e. prior to the business combination on September 1, 2013) and is required to account for its investment using the equity method of accounting. As a consequence, the Television revenues and segment profit for the third quarter of fiscal 2013 were reduced by \$13.0 million and \$3.7 million, respectively and instead, Corus' share of TELETOON's net income of \$2.3 million was reported as *Other expense (income)* in the Consolidated Statements of Income and Comprehensive Income. For the nine months ended May 31, 2013, the Television revenues and segment profit were reduced by \$40.3 million and \$15.5 million, respectively, and Corus' share of TELETOON's net income of \$11.0 million was reported as *Other expense (income)* in the Consolidated Statements of Income and Comprehensive Income. The restatement did not change reported net income for fiscal 2013.

Net loss attributable to shareholders for the third quarter of fiscal 2014 was \$30.3 million on revenues of \$214.0 million, as compared to net income of \$89.9 million on revenues of \$187.1 million in the prior year. Consolidated segment profit increased 23% from the prior year, with an increase of 30% in the Television segment, offset by a decrease of 21% in the Radio segment. Further analysis is provided in the discussions of segmented results.

Net income attributable to shareholders for the nine month period ended May 31, 2014 was \$126.7 million on revenues of \$631.5 million, as compared to \$148.0 million on revenues of \$569.6 million in the prior year. Consolidated segment profit increased 16% from the prior year, with Television up 22% and Radio down 17%. Further analysis is provided in the discussions of segmented results.

CORUS ENTERTAINMENT INC.
Third Quarter Report to Shareholders

Revenues

Revenues for the third quarter of fiscal 2014 were \$214.0 million, an increase of 14% from \$187.1 million last year. On a consolidated basis, advertising revenues increased by 17%, subscriber revenues increased by 24% and merchandising, distribution and other revenues decreased by 22%. Revenues increased for Television by 22%, while Radio decreased by 8% in the third quarter compared to the prior year. Refer to discussions of segmented results for additional analysis of revenues.

For the nine month period ended May 31, 2014, revenues of \$631.5 million represented an increase of 11% from \$569.6 million last year. On a consolidated basis, advertising revenues increased by 16%, subscriber revenues increased by 20% and merchandising, distribution and other revenues decreased by 28%. Refer to discussions of segmented results for additional analysis of revenues.

Direct cost of sales, general and administrative expenses

Direct cost of sales, general and administrative expenses for the third quarter of fiscal 2014 were \$134.3 million, up 10% from \$122.5 million in the prior year. This increase resulted from higher costs in Television offset by decreases in the Corporate and Radio reporting segments. For the nine month period ended May 31, 2014, expenses of \$400.2 million represented an 8% increase over the prior year and are attributable to higher costs in the Television and Corporate reporting segments, offset by a minimal decrease in the Radio segment. Refer to the discussions of segmented results for additional analysis of expenses.

Depreciation and amortization

Depreciation and amortization expense of \$7.4 million for the third quarter of fiscal 2014 was up \$0.5 million from \$6.9 million in the third quarter of fiscal 2013, as a result of a \$1.2 million capital asset impairment charge in the Radio division. For the nine month period ended May 31, 2014, depreciation expense of \$18.7 million represented a \$2.2 million decrease over the prior year as a result of lower depreciation on property, plant and equipment, primarily as a result of the completion of lease terms, offset by the \$1.2 million asset impairment and additional amortization of intangible assets, specifically software.

Interest expense

On February 3, 2014, the Company's credit agreement with a syndicate of banks was amended and restated. The principal amendment effected was the establishment of a two year \$150.0 million term facility, maturing February 3, 2016, incremental to the existing \$500.0 million revolving facility maturing February 11, 2017. The \$150.0 million term facility was fully drawn on inception and the proceeds were used to reduce the amount drawn on the revolving facility. Both the term and revolving facilities are subject to the same covenants and security. Interest rates on both the term and revolving facility loans fluctuate with Canadian prime rate, Canadian bankers' acceptances and/or LIBOR plus an applicable margin.

Contemporaneously with the amendment and restatement of the credit agreement, the Company entered into a Canadian dollar interest rate swap agreement to fix the interest rate on \$150.0 million at 1.375%, plus an applicable margin, to February 3, 2016.

Interest expense of \$13.5 million in the third quarter of fiscal 2014 was \$3.0 million higher than the prior year due to increased bank debt to finance business acquisitions during the year. Interest expense of \$35.3 million for the nine month period ended May 31, 2014 was \$0.5 million lower than the prior year.

CORUS ENTERTAINMENT INC.
Third Quarter Report to Shareholders

This resulted from lower average interest rates on outstanding debt as a consequence of the issue of \$550.0 million, 4.25% Senior Unsecured Guaranteed Notes due February 11, 2020 (the “2020 Notes”) and repayment of \$500.0 million 7.25% Senior Unsecured Guaranteed Notes due February 11, 2017 (the “2017 Notes”), offset by increased interest on bank loans and increased imputed interest charges on discounted liabilities. The effective interest rate on bank loans and notes for the three and nine month periods ended May 31, 2014, was 4.1% and 4.3%, compared to 4.9% and 6.2%, respectively, last year.

Broadcast license and goodwill impairment

Broadcast licenses and goodwill are tested for impairment annually as at August 31 or more frequently if events or changes in circumstances indicate that they may be impaired. For both the second and third quarters, certain radio clusters had actual results and revised cash flow projections that fell short of previous estimates, which indicated that interim broadcast license and goodwill impairment testing was required. As a result of these tests, the Company recorded a broadcast license impairment charge of \$8.0 million in the second quarter and broadcast license and goodwill impairment charges of \$75.0 million in the third quarter of fiscal 2014 (refer to note 8 of the interim condensed consolidated financial statements for further details).

Debt refinancing

In the second quarter of fiscal 2013, the Company issued \$550.0 million principal amount of the 2020 Notes. Concurrently, the Company provided notice of its intention to redeem the existing \$500.0 million principal amount of the 2017 Notes effective March 16, 2013. The notice of redemption on the 2017 Notes resulted in the Company recording a pre-tax debt refinancing cost of \$25.0 million in the second quarter of fiscal 2013. The components of this cost include the early redemption premium of \$18.1 million and the non-cash write-off of unamortized financing fees of \$6.9 million.

Gain on acquisition

In the first quarter of fiscal 2014, the Company recorded a non-cash gain of \$127.9 million resulting from the remeasurement to fair value of the Company’s original 50% interest in TELETOON which was held prior to the acquisition of control on September 1, 2013.

Gain on sale of associated company

In the third quarter of fiscal 2013, the Company recorded a gain of \$55.4 million on the disposition of its non-controlling interest in Food Network Canada to Shaw Communications Inc. (“Shaw”), a related party subject to common voting control.

Business acquisition, integration and restructuring costs

In the third quarter of fiscal 2014, the Company incurred an additional \$0.6 million of business acquisition, integration and restructuring costs related to the recent business acquisitions. In the third quarter of fiscal 2013, the Company incurred \$2.1 million of costs related to completed and pending business combinations as well as integration planning.

For the nine month period ended May 31, 2014, the Company incurred \$41.2 million of business acquisition, integration and restructuring costs, which included \$9.3 million in restructuring costs related to the organizational structure realignment and recent business acquisitions. In addition the Company, upon acquisition of control of TELETOON on September 1, 2013, H&S on January 1, 2014 and the two

CORUS ENTERTAINMENT INC.
Third Quarter Report to Shareholders

Ottawa radio stations on January 31, 2014, recorded \$31.9 million related to the present value of CRTC tangible benefit obligations to be paid over a seven-year period, to benefit the Canadian broadcasting system.

Other (income) expense, net

Other (income) expense for the three and nine months ended May 31, 2014 was income of \$1.5 million and expense of \$7.2 million, respectively, compared to income of \$2.2 million and \$10.9 million, respectively, in the prior year. The increase in the third quarter relates to the decrease of \$2.0 million arising from the revaluation of the purchase price obligation to Bell Media Inc. ("Bell") on the acquisition of control of TELETOON (refer to note 17 of the interim condensed consolidated financial statements for further details), offset by higher income from joint ventures (TELETOON) in the prior year of \$2.3 million.

For the nine month period ended May 31, 2014, the decrease of \$18.1 million relates primarily to higher income from joint ventures (TELETOON) in the prior year of \$11.0 million, and in the current year lower equity earnings from investments in associates of \$2.0 million, impairment charges on certain investments of \$1.1 million and a cumulative increase of \$3.3 million in the purchase price obligation to Bell (refer to note 17 of the interim condensed consolidated financial statements for further details).

Income tax expense

The effective tax rate for the nine months ended May 31, 2014 was 24.9% compared to the Company's 26.5% statutory rate. This lower effective tax rate reflects that the non-cash gain resulting from the remeasurement to fair value of the Company's original 50% interest in TELETOON and goodwill impairment are not subject to tax, and also reflects that a tax deduction is not expected to be available in respect to certain transaction-related costs.

Net income (loss) and earnings per share

Net loss attributable to shareholders for the third quarter of fiscal 2014 was \$30.3 million, as compared to net income of \$89.9 million last year. Loss per share attributable to shareholders for the third quarter of fiscal 2014 were \$0.36 per share basic and diluted compared with earnings per share of \$1.07 per share basic and diluted last year. Net loss for the current quarter includes radio broadcast license and goodwill impairment charges of \$75.0 million (\$0.85 per share), business acquisition, integration and restructuring costs of \$0.6 million (\$0.01 per share), capital asset impairment charges of \$1.2 million (\$0.01 per share) and a decrease in the purchase price obligation of \$2.0 million (\$0.02 per share). Removing the impact of these items results in an adjusted net income attributable to shareholders of \$41.6 million (\$0.49 per share basic). Net income attributable to shareholders for the prior year quarter includes a gain from the disposition of the Company's non-controlling interest in Food Network Canada of \$55.4 million. Removing the impact of this item results in an adjusted net income attributable to shareholders of \$34.5 million (\$0.41 per share basic).

Net income attributable to shareholders for the nine month period ended May 31, 2014 was \$126.7 million, as compared to \$148.0 million last year. Earnings per share attributable to shareholders for the nine month period ended May 31, 2014 were \$1.49 per share for both basic and diluted, compared with \$1.77 per share basic and \$1.76 per share diluted in the prior year. Net income for the year-to-date includes a non-cash gain on the remeasurement to fair value of Corus' original 50% ownership interest in TELETOON of \$127.9 million (\$1.51 per share), radio goodwill and broadcast license impairment of \$83.0 million (\$0.92 per share), capital asset impairment charges of \$1.2 million (\$0.01 per share), business acquisition, integration and restructuring costs of \$41.2 million (\$0.47 per

CORUS ENTERTAINMENT INC.
Third Quarter Report to Shareholders

share), an increase in the purchase price obligation of \$3.3 million (\$0.04 per share), and investment impairment related charges of \$3.3 million (\$0.04 per share). Removing the impact of these items results in an adjusted net income attributable to shareholders of \$123.6 million (\$1.46 per share). Net income attributable to shareholders for the prior year includes a pre-tax charge for debt refinancing of \$25.0 million (\$0.22 per share) and the gain from the disposition of Food Network Canada of \$55.4 million (\$0.66 per share). Removing the impact of these items results in an adjusted net income attributable to shareholders of \$111.1 million (\$1.33 per share) in the prior year-to-date.

The weighted average number of basic shares outstanding for the three and nine months ended May 31, 2014, was 85,124,000 and 84,838,000, 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 Company's dividend reinvestment plan.

Other comprehensive income (loss), net of tax

Other comprehensive income for the year-to-date was \$2.0 million, compared to \$1.6 million in the prior year. This increase of \$0.4 million resulted from a year-over-year decrease on the unrealized change in fair value of available-for-sale investments and higher unrealized changes in cash flow hedges.

Television

The Television division is comprised of: YTV; Treehouse; Nickelodeon (Canada); ABC Spark; TELETOON, TÉLÉTOON, TELETOON Retro, TÉLÉTOON Rétro and Cartoon Network (Canada); W Network; OWN: Oprah Winfrey Network (Canada); W Movies; Sundance Channel (Canada); Historia and Séries+ (acquired January 1, 2014); 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 (production and distribution of films and television programs, and merchandise licensing), Kids Can Press (publishing) and Toon Boom (animation software); the Company's majority interest in CMT (Canada), Teletino (TLN, EuroWorld Sport, Mediaset Italia, Sky TG24, Teleniños, Univision (Canada) (formerly TLN en Español), Telebimbi, CineLatino), and CosmopolitanTV.

Financial Highlights

(thousands of Canadian dollars)	Three months ended		Nine months ended	
	2014	May 31, 2013 ⁽²⁾	2014	May 31, 2013 ⁽²⁾
Revenues	170,565	139,995	500,615	429,960
Expenses	94,886	81,841	284,378	253,174
Segment profit ⁽¹⁾	75,679	58,154	216,237	176,786

⁽¹⁾As defined in the "Key Performance Indicators" section

⁽²⁾The fiscal 2013 quarters presented above have been restated for the application of IFRS 11 - *Joint Arrangements*

CORUS ENTERTAINMENT INC.
Third Quarter Report to Shareholders

As a result of the business combinations, the Television results for fiscal 2014 reflect 100% interest in TELETOON effective September 1, 2013, and 100% interest in Historia and Séries+ effective January 1, 2014 (refer to note 17 of the interim condensed consolidated financial statements for further details on all acquisitions).

For fiscal 2013, as a result of retroactive application of IFRS 11 – *Joint Arrangements*, the Television revenues and segment profit for the third quarter of fiscal 2013 were reduced by \$13.0 million and \$3.7 million, respectively and instead, Corus' share of TELETOON's net income of \$2.3 million was reported as *Other expense (income)* in the Consolidated Statements of Income and Comprehensive Income. For the nine months ended May 31, 2013, the Television revenues and segment profit were reduced by \$40.3 million and \$15.5 million, respectively, and Corus' share of TELETOON's net income of \$11.0 million was reported as *Other expense (income)* in the Consolidated Statements of Income and Comprehensive Income. The restatement did not change reported net income for fiscal 2013 (refer to note 3 of the interim condensed consolidated financial statements for further details).

Revenues increased 22% in the third quarter of fiscal 2014, primarily as a result of the accounting changes indicated above with respect to TELETOON effective September 1, 2013, and the acquisition of Historia and Séries+, effective January 1, 2014, which drove the overall increase in specialty advertising revenues of 42% and an increase in subscriber revenues of 24%. Although specialty advertising and subscriber revenues were up due to acquisitions, this was offset by a general softness in the advertising market and a decline in Movie Central subscribers, as well as packaging and rate changes on certain specialty networks. Movie Central (including HBO Canada) ended the quarter with 941,000 subscribers. Merchandising, distribution and other revenues declined 27% in the quarter as a result of the timing of service work in the Nelvana Studio, lower domestic distribution sales and lower merchandising revenues. On a year-to-date basis, specialty advertising revenues were up 38%, subscriber revenues were up 20% and merchandising, distribution and other revenues were down 33% from the prior year.

Total expenses increased 16% in the third quarter of fiscal 2014, due to consolidation of the 100% interest in TELETOON in the current year effective September 1, 2013, restatement of the prior year to remove Corus' 50% proportionately consolidated interest in TELETOON, and the acquisition of Historia and Séries+, effective January 1, 2014. Direct cost of sales (which includes amortization of program rights and film investments, and other cost of sales) was up 8%, as the growth related to the TELETOON accounting changes and the acquisition of Historia and Séries+ were offset by lower program rights and film amortization, and lower variable costs associated with the merchandising business. General and administrative expenses were up 26% year-over-year, as savings related to the timing of certain expenditures and a continued focus on cost controls were offset by the impact of the accounting changes related to TELETOON and the acquisition of Historia and Séries+. On a year-to-date basis, direct cost of sales were up 9%, while general and administrative expenses were up 17% from the prior year.

Segment profit increased 30% in the third quarter of fiscal 2014 and 22% year-to-date. Segment profit margin for the quarter increased to 44% from 42% last year and to 43% from 41% last year on a year-to-date basis. The improvement in segment profit margin is primarily a result of swift integration of the acquired assets, a reduced proportion of the lower margin merchandising and distribution businesses and an ongoing focus on expense control throughout the core business.

CORUS ENTERTAINMENT INC.
Third Quarter Report to Shareholders

Radio

The Radio division is comprised of 39 radio stations situated primarily in high-growth urban centres in English Canada, with a concentration in the densely populated area of Southern Ontario. Corus is one of Canada's leading radio operators in terms of audience reach.

Financial Highlights

(thousands of Canadian dollars)	Three months ended		Nine months ended	
	May 31, 2014	2013	2014	May 31, 2013
Revenues	43,476	47,078	130,844	139,679
Expenses	31,798	32,204	94,859	96,195
Segment profit ⁽¹⁾	11,678	14,874	35,985	43,484

⁽¹⁾As defined in the "Key Performance Indicators" section

Revenues decreased 8% in the third quarter of fiscal 2014 and 6% for the year-to-date. The division continued to experience a soft advertising market in addition to ratings challenges in some markets.

Direct cost of sales, general and administrative expenses decreased by 1% in the quarter and year-to-date. Variable expenses decreased 6% in the quarter and 4% year-to-date, driven by lower sales commissions and copyright fees in connection with the revenue decline. Fixed costs, which represent a much higher proportion of the cost structure, increased 1% in the quarter and are in line with the prior year on a year-to-date basis. The increase in the third quarter was related to incremental costs from the recently acquired Ottawa radio stations, offset by lower employee-related costs. On a year-to-date basis, the division maintained tight cost controls through lower employee-related and premises costs which were offset by incremental costs from the Ottawa radio stations, higher hockey broadcast rights fees, and higher marketing and promotion expenses.

Segment profit decreased 21% in the third quarter of fiscal 2014 and 17% for the year-to-date. As a result of the revenue softness, the Radio division's margin decreased from 32% in the prior year to 27% this quarter and decreased from 31% to 28% on a year-to-date basis.

The Company recorded a non-cash impairment charge in broadcast licenses and goodwill of \$75.0 million in the third quarter of fiscal 2014 and \$83.0 million on a year-to-date basis. These charges are excluded from the determination of segment profit.

Subsequent to the quarter, management implemented strategic changes that address both programming and sales strategies, which will reposition the division for earnings growth in fiscal 2015 and beyond. The restructuring costs will be recorded in the fourth quarter of 2014 and will result in annualized cost savings in the range of \$3.0 million to \$4.0 million.

CORUS ENTERTAINMENT INC.
Third Quarter Report to Shareholders

Corporate

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

Financial Highlights

	Three months ended		Nine months ended	
	2014	2013	2014	2013
(thousands of Canadian dollars)				
Share-based compensation	2,607	3,968	7,316	8,007
Other general and administrative costs	5,019	4,496	13,617	12,220
	7,626	8,464	20,933	20,227

Share-based compensation includes expenses related to the Company's stock options and other long-term incentive plans (such as Performance Share Units - "PSUs", Deferred Share Units - "DSUs", and Restricted Share Units - "RSUs"). The expense fluctuates with changes in assumptions, primarily regarding the Company's share price and number of units estimated to vest. Lower third quarter and year-to-date fiscal 2014 share-based compensation reflects a decrease in the number of units that achieved vesting targets.

Other general and administrative costs were higher in the third quarter of fiscal 2014, primarily as a result of timing of expense recognition in the current year's quarter compared to the prior year. Year-to-date costs were up largely due to a rebate on operating costs related to Corus Quay in the prior year.

Quarterly Consolidated Financial Information

Seasonal fluctuations

As discussed in Management's Discussion and Analysis for the year ended August 31, 2013, 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 interim condensed consolidated financial statements for each of the eight most recent quarters ended May 31, 2014. In Management's opinion, these unaudited consolidated financial statements have been prepared on a basis consistent with the audited consolidated financial statements in the Company's Annual Report for the year ended August 31, 2013.

CORUS ENTERTAINMENT INC.
Third Quarter Report to Shareholders

[thousands of Canadian dollars, except per share amounts]

	Revenues	Segment profit ^[1]	Net income attributable to shareholders	Earnings per share	
				Basic	Diluted
2014					
3rd quarter	214,041	79,731	(30,325)	(\$ 0.36)	(\$ 0.36)
2nd quarter	191,413	59,282	6,116	\$ 0.07	\$ 0.07
1st quarter	226,005	92,276	150,891	\$ 1.78	\$ 1.78
2013					
4th quarter ^[2]	181,897	50,931	11,879	\$ 0.14	\$ 0.14
3rd quarter ^[2]	187,073	64,564	89,913	\$ 1.07	\$ 1.07
2nd quarter ^[2]	172,620	50,962	5,944	\$ 0.07	\$ 0.07
1st quarter ^[2]	209,946	84,517	52,159	\$ 0.63	\$ 0.62
2012					
4th quarter ^[3]	195,624	60,862	23,341	\$ 0.28	\$ 0.28

Notes:

^[1]As defined in "Key Performance Indicators"

^[2]The fiscal 2013 quarters have been restated for the application of IFRS 11 - *Joint Arrangements*

^[3]The fiscal 2012 quarters presented above have not been restated for the application of IFRS 11 - *Joint Arrangements* and are as originally reported

Significant items causing variations in quarterly results

- Net income attributable to shareholders for the third quarter of fiscal 2014 was negatively impacted by non-cash radio broadcast license and goodwill impairment charges of \$75.0 million (\$0.85 per share), capital asset impairment charges of \$1.2 million (\$0.01 per share), business acquisition, integration and restructuring costs of \$0.6 million (\$0.01 per share) and positively impacted by a decrease in the purchase price obligation of \$2.0 million (\$0.02 per share).
- Net income attributable to shareholders for the second quarter of fiscal 2014 was negatively impacted by non-cash radio broadcast license impairment charges of \$8.0 million (\$0.07 per share), business acquisition, integration and restructuring costs of \$18.7 million (\$0.20 per share), and positively impacted by a decrease in the purchase price obligation of \$2.1 million (\$0.02 per share).
- Net income attributable to shareholders for the first quarter of fiscal 2014 was positively impacted by a non-cash gain of \$127.9 million (\$1.51 per share) resulting from the remeasurement to fair value of the Company's 50% interest in TELETOON which was held prior to the consolidation on September 1, 2013. This was offset by business acquisition, integration and restructuring costs of \$21.9 million (\$0.25 per share), an increase in the purchase price obligation of \$7.3 million (\$0.09 per share) and investment impairment related charges of \$3.3 million (\$0.04 per share).
- Net income attributable to shareholders for the fourth quarter of fiscal 2013 was negatively impacted by a non-cash expense of \$5.7 million (\$0.05 per share) related to broadcast license impairments on certain Radio clusters, a charge of \$5.2 million (\$0.05 per share) related to restructuring costs and investment impairment charges of \$7.1 million (\$0.07 per share).
- Net income attributable to shareholders for the third quarter of fiscal 2013 was positively impacted by the gain of \$55.4 million (\$0.66 per share) related to the disposal of the Company's non-controlling interest in Food Network Canada.
- Net income attributable to shareholders for the second quarter of fiscal 2013 was negatively impacted by the early redemption of all of the \$500.0 million, 7.25% Senior Unsecured Guaranteed Notes that were due on February 10, 2017. A debt refinancing charge of \$25.0 million (\$0.22 per

CORUS ENTERTAINMENT INC.

Third Quarter Report to Shareholders

share) was recorded to reflect the redemption premium and the write-off of unamortized financing charges related to the 2017 Notes.

- Net income attributable to shareholders for the fourth quarter of fiscal 2012 was negatively impacted by a non-cash expense of \$6.8 million (\$0.08 per share) related to an increase in the Ontario long-term tax rate which was substantively enacted in the fourth quarter of fiscal 2012.

Risks and Uncertainties

There have been no material changes in any risks or uncertainties facing the Company since the year ended August 31, 2013.

Outlook

The following forward-looking information is governed in its entirety by the “Cautionary Statement Regarding Forward-Looking Statements” found in the introductory section of this MD&A.

At its annual Investor Day on January 29, 2014, the Company provided fiscal 2015 financial guidance of \$340.0 million to \$360.0 million in consolidated segment profit, and free cash flow in excess of \$170.0 million. The segment profit guidance is based on the proforma fiscal 2013 results of the Company’s core business, assuming a starting point from its recently completed acquisitions (refer to note 17 of the interim condensed consolidated financial statements for further details) of \$330.0 million in segment profit, which includes projected synergies of \$12.0 million. It also assumes growth scenarios of a 2%, 3% and 4% compound annual growth rate and the Company’s ability to successfully integrate the acquisitions and achieve targeted synergies within its expected timelines. These scenarios are based on a growing Canadian economy, Government of Canada Gross Domestic Product forecast increases of 2% to 3% for 2015 to support the discretionary nature of advertising expenditures, minimal subscriber growth based on historical subscriber trending and minimal merchandising, distribution and other revenues growth based on timing of the launches of our new merchandise brands. Free cash flow guidance for fiscal 2015 is based on the Company’s recent historical working capital run-rates and annual capital expenditures of \$15.0 million to \$20.0 million, the inclusion of free cash flow from the acquisitions noted above and the Company’s ability to meet its segment profit guidance for fiscal 2015 of \$340.0 million to \$360.0 million. Even though Corus recorded non-cash broadcast license and goodwill impairment charges related to Radio in the current year, with the recent changes in programming and sales strategies at Radio, Corus is maintaining its overall consolidated outlook for fiscal 2015 and stated 2015 financial guidance.

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

Financial Position

The major change in the Company’s consolidated results arises from the consolidation of 100% interest in TELETOON effective September 1, 2013 as a consequence of meeting the definition of control under IFRS 10 – *Consolidated Financial Statements*, the consolidation of 100% interest in Historia and Séries+ (“H&S”), effective January 1, 2014, and 100% interest in two radio stations in Ottawa (CKQB-FM and CJOT-FM), effective January 31, 2014 (refer to note 17 of the interim condensed consolidated financial statements for further details). For fiscal 2013, as a result of retroactive application of IFRS 11 – *Joint Arrangements*, the prior year was restated by replacing the proportionate consolidation of TELETOON at 50% with a single investment amount in the “Investments in joint venture” line item in the consolidated

CORUS ENTERTAINMENT INC.
Third Quarter Report to Shareholders

statements of financial position (refer to note 3 to the interim condensed consolidated financial statements for further details).

Total assets at May 31, 2014 and August 31, 2013 were \$2.8 billion and \$2.2 billion, respectively. The following discussion describes the significant changes in the consolidated statements of financial position since August 31, 2013.

Current assets at May 31, 2014 were \$256.7 million, down \$53.4 million from August 31, 2013. Cash and cash equivalents decreased by \$43.0 million. Refer to the discussion of cash flows in the next section.

Accounts receivable increased \$38.9 million, of which \$35.0 million relates to the business acquisitions. 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.

Promissory note receivable of \$47.8 million arose in fiscal 2013 from the sale of the Company's non-controlling interest in Food Network Canada to Shaw Media Inc. ("Shaw") and the acquisition of the remaining 49% interest in ABC Spark from Shaw. The balance was settled upon the completion of the Company's acquisition of Shaw's 50% interest in H&S on January 1, 2014.

Tax credits receivable increased \$3.6 million as a result of tax credit accruals exceeding receipts related to film and interactive productions.

Intangibles, investments and other assets increased \$1.4 million, primarily as a result of increases in investments offset by equity losses from associates.

Investment in joint venture was eliminated as a result of the consolidation of 100% interest in TELETOON upon acquisition of control on September 1, 2013.

Property, plant and equipment decreased \$7.9 million as a result of asset impairment charges of \$1.2 million and depreciation expense exceeded additions for the first nine months of fiscal 2014.

Program and film rights increased \$54.9 million of which \$77.5 million relates to the business acquisitions. As well, additions of acquired rights of \$131.1 million were offset by amortization of \$153.8 million during the first nine months of fiscal 2014.

Film investments increased \$6.0 million as film spending (net of tax credit accruals) of \$19.3 million was offset by film amortization of \$13.3 million.

Broadcast licenses increased \$464.9 million, as business acquisitions added \$482.4 million, offset by impairment charges of \$17.5 million related to the Radio segment. Goodwill increased \$291.2 million, as business acquisitions added \$356.7 million, offset by impairment charges of \$65.5 million related to the Radio segment.

Accounts payable and accrued liabilities increased \$84.0 million, of which \$14.7 million relates to the business acquisitions. The increase is also a result of higher current program rights payable, film production accruals, dividends payable and accrued liabilities. The increase in accrued liabilities primarily results from increases in the current portion of CRTC tangible benefits payable of \$6.2 million related to the business acquisitions as well as an increase in merchandising third-party participation accruals.

CORUS ENTERTAINMENT INC.
Third Quarter Report to Shareholders

Provisions are consistent with the prior year balance as a result of payments against provisions being higher than accruals made relating to workforce reduction and business initiatives taken in first nine months of fiscal 2014.

Long-term debt at May 31, 2014 was \$873.6 million, up \$334.6 million as a result of the Company's utilization of credit facilities to finance the business acquisitions.

Other long-term liabilities increased by \$25.9 million, of which \$37.6 million relates to the business acquisitions. The increase is also due to the long-term portion of CRTC tangible benefits of \$27.1 million relating to the business acquisitions offset by lower program rights payable.

Share capital increased \$20.3 million, as the issuance of shares from treasury under the Company's dividend reinvestment plan and issuance of stock options added \$18.6 million and \$1.7 million, respectively, to share capital.

Contributed surplus increased \$1.2 million due to share-based compensation expense of \$1.5 million, offset by the issuance of shares under the stock option plan of \$0.3 million.

Liquidity and Capital Resources

Cash flows

Overall, the Company's cash and cash equivalents position decreased by \$43.0 million over the nine months ended May 31, 2014. Free cash flow for the nine months ended May 31, 2014 was \$182.4 million, compared to free cash flow of \$121.1 million in the prior year. This increase in free cash flow primarily reflects higher cash from operating activities and timing of program rights payments, and does not represent a full year run-rate. Refer to Key Performance Indicators for a reconciliation of free cash flow to consolidated statements of cash flows.

Cash provided by operating activities in the nine months ended May 31, 2014 was \$191.2 million, compared to \$121.4 million last year. The increase of \$69.8 million arises from higher net income from operations before non-cash items of \$52.1 million, lower additions to film investments of \$16.2 million and lower working capital usage of \$10.6 million, offset by higher spend on program rights of \$9.1 million.

Cash used in investing activities in the nine months ended May 31, 2014 was \$512.1 million, compared to \$11.0 million in the prior year. The increase of \$501.1 million is attributable to the business acquisitions of TELETOON, Historia, Séries+ and the Ottawa radio stations of \$496.7 million, and lower dividends from joint venture of \$9.1 million, offset by a decrease of \$2.6 million in additions to property, plant and equipment, a decrease in net cash outflows for intangibles, investments and other assets of \$1.9 million.

Cash used in financing activities in the nine months ended May 31, 2014 was \$227.9 million, compared to \$64.1 million provided by financing activities in the prior year. In the current year, the Company incurred \$333.1 million in bank loans to finance the business acquisitions, paid dividends of \$54.3 million and decreased capital leases by \$7.8 million. In the prior year, the Company issued the 2020 Notes of \$550.0 million, redeemed the 2017 Notes of \$500.0 million and paid \$26.7 million in financing fees. The bank debt was paid down by \$29.9 million, \$1.5 million of shares were repurchased under the Normal Course Issuer Bid and dividends of \$47.3 million were paid.

CORUS ENTERTAINMENT INC.
Third Quarter Report to Shareholders

Liquidity

The Company's capital management objectives are to maintain financial flexibility in order to pursue its strategy of organic growth combined with strategic acquisitions and provide returns to its shareholders. The Company defines capital as the aggregate of its shareholders' equity and long-term debt less cash and cash equivalents.

The Company manages its capital structure in accordance with changes in economic conditions. In order to maintain or adjust its capital structure, the Company may elect to issue or repay long-term debt, issue shares, repurchase shares through a normal course issuer bid, pay dividends or undertake any other activities as deemed appropriate under the specific circumstances.

The Company monitors capital using several key performance metrics, including: net debt to segment profit ratio and dividend yield. The Company's stated long-term objectives are not to exceed a net debt to segment profit ratio of 3.5 times, and to maintain a dividend yield in excess of 2.5%. In the short term, the Company may permit the net debt to segment profit ratio to go outside of the long-term guideline range (for long-term investment opportunities), but endeavours to return to the policy guideline range as the Company believes that these objectives provide a reasonable framework for providing a return to shareholders and is supportive of maintaining the Company's credit ratings. The Company is currently operating within these internally imposed objectives.

On February 3, 2014, the Company's credit agreement with a syndicate of banks was amended and restated. The principal amendment effected was the establishment of a two year \$150.0 million term facility, maturing February 3, 2016, incremental to the existing \$500.0 million revolving facility maturing February 11, 2017. The revolving facility is used to finance permitted acquisitions and capital expenditures and for general corporate requirements in the ordinary course of business, while the term loan facility is used to refinance outstanding advances under the revolving facility. Both the term and revolving facilities are subject to the same covenants and security. Interest rates on both the term and revolving facility loans fluctuate with Canadian prime rate, Canadian bankers' acceptances and/or LIBOR plus an applicable margin. As at May 31, 2014, the Company had available approximately \$315.0 million under the revolving term credit facility and was in compliance with all loan covenants.

As at May 31, 2014, the Company had a cash balance of \$38.2 million and a positive working capital balance. In January 2014, the Company utilized \$491.4 million of cash-on-hand and existing bank lines of credit to close the acquisition of the specialty television services Historia, Séries+, two Ottawa-based radio stations and the remaining 50% of TELETOON Canada Inc. (refer to note 17 of the interim condensed consolidated financial statements for further details).

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, 2014, net debt was \$835.4 million, up from \$457.7 million at August 31, 2013. Net debt to segment profit at May 31, 2014 was 3.0 times compared to 1.8 times at August 31, 2013. Segment profit for the net debt to segment profit calculation reflects aggregate amounts as reported by the Company for the most recent four quarters. The increase in net debt and net debt to segment profit reflects increased debt to finance the business acquisitions, but only includes segment profit for the acquired assets from the date of acquisition. Refer to the Key Performance Indicators section for further discussion.

CORUS ENTERTAINMENT INC.
Third Quarter Report to Shareholders

Total capitalization

Book value at May 31, 2014 was \$2,136.2 million, an increase of \$457.7 from August 31, 2013. The increase results from an increase in bank debt to finance acquisitions.

Off-Balance Sheet arrangements and derivative financial instruments

During the second quarter of fiscal 2014, the Company entered into Canadian interest rate swap agreements to fix the interest rate on its outstanding term loan facility. The counterparties of the swap agreements are highly rated financial institutions and the Company does not anticipate any non-performance. The fair value or future cash flows of interest rate swap derivatives increase (decrease) with fluctuations in market interest rates. The estimated fair value of these agreements at May 31, 2014 is \$0.1 million, which has been recorded in the interim condensed consolidated statements of financial position as a liability.

Contractual commitments

The Company has added no other significant unfulfilled contractual obligations in the third quarter of fiscal 2014.

Outstanding Share Data

As at June 30, 2014, 3,428,292 Class A Voting Shares and 81,997,527 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, 2014 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 Management's Discussion and Analysis contained in the Annual Report for the year ended August 31, 2013, 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, 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; debt refinancing; non-cash gains or losses and certain other income and expenses (note 13 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. Segment profit does not have any standardized

CORUS ENTERTAINMENT INC.
Third Quarter Report to Shareholders

meaning prescribed by IFRS and is not necessarily comparable to similar measures presented by other companies.

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

Free cash flow

Free cash flow is calculated as cash provided by operating activities less cash used in investing activities, as reported in the consolidated statements of cash flows, and then adding back cash used specifically for business combinations and strategic investments. Free cash flow is a key metric used by the investing community that measures the Company’s ability to repay debt; finance strategic business acquisitions and investments; pay dividends; and repurchase shares. Free cash flow does not have any standardized meaning prescribed by IFRS and is not necessarily comparable to similar measures presented by other companies. Free cash flow should not be considered in isolation or as a substitute for cash flows prepared in accordance with IFRS as issued by the IASB.

[thousands of Canadian dollars]	Three months ended		Nine months ended	
	2014	May 31, 2013⁽¹⁾	2014	May 31, 2013⁽¹⁾
Cash provided by (used in):				
Operating activities	63,483	43,039	191,234	121,447
Investing activities	(11,222)	(3,974)	(512,139)	(10,977)
	52,261	39,065	(320,905)	110,470
Add back: cash used for business combinations and strategic investments	7,138	2,410	503,345	10,614
Free cash flow	59,399	41,475	182,440	121,084

⁽¹⁾ The fiscal 2013 quarters presented above have been restated for the application of IFRS 11 - *Joint Arrangements*

Adjusted net income and adjusted basic earnings per share

Adjusted net income and adjusted basic earnings per share are non-GAAP financial measures which are defined as net income before items considered by management to be unusual or typically non-recurring in nature such as: goodwill and broadcast license impairment; debt refinancing; non-cash gains or losses and certain other income and expenses. Management believes that adjusted net income and adjusted basic earnings per share are important measures to increase comparability of performance between periods. The intent of adjusted net income and adjusted basic earnings per share is to provide additional useful information to investors and analysts and the measures do not have any standardized meaning under IFRS. Adjusted net income and adjusted basic earnings per share should therefore not be considered in isolation or used in substitute for measures of performance prepared in accordance with IFRS. Other issuers may calculate adjusted net income and adjusted basic earnings per share differently.

CORUS ENTERTAINMENT INC.
Third Quarter Report to Shareholders

Adjusted net income and adjusted basic earnings per share reconciliation

(thousands of Canadian dollars, except per share amounts)	Three months ended		Nine months ended	
	2014	May 31, 2013	2014	May 31, 2013
Net income (loss) attributable to shareholders	(30,325)	89,913	126,682	148,016
Adjustments (net of tax):				
Gain on remeasurement to fair value of original 50% of TELETOON	—	—	(127,884)	—
Broadcast license and goodwill impairment charge	72,537	—	78,460	—
Capital asset impairment charges	913	—	913	—
(Decrease) increase in purchase price obligation	(1,952)	—	3,336	—
Impact of business acquisition, integration and restructuring costs	429	—	38,800	—
Gain on disposition of Food Network Canada investment	—	(55,394)	—	(55,394)
Impact of investment impairment charges	—	—	3,253	—
Debt refinancing costs related to issuance of \$550.0 million of Senior Unsecured Guaranteed Notes	—	—	—	18,488
Adjusted net income attributable to shareholders	41,602	34,519	123,560	111,110
Basic earnings (loss) per share	(\$0.36)	\$1.07	\$1.49	\$1.77
Adjustments (net of tax):				
Gain on remeasurement to fair value of original 50% of TELETOON	—	—	(1.51)	—
Broadcast license and goodwill impairment charge	0.85	—	0.92	—
Capital asset impairment charges	0.01	—	0.01	—
(Decrease) increase in purchase price obligation	(0.02)	—	0.04	—
Impact of business acquisition, integration and restructuring costs	0.01	—	0.47	—
Gain on disposition of Food Network Canada investment	—	(0.66)	—	(0.66)
Impact of investment impairment charges	—	—	0.04	—
Debt refinancing costs related to issuance of \$550.0 million of Senior Unsecured Guaranteed Notes, net of tax at 26.15%	—	—	—	0.22
Adjusted basic earnings per share	\$0.49	\$0.41	\$1.46	\$1.33

Net Debt / Net Debt to Segment Profit

Net debt is calculated as long-term debt less cash and cash equivalents as reported in the consolidated statements of financial position. Net debt is an important measure as it reflects the principal amount of debt owing by the Company as at a particular date. Net debt to segment profit is an important measure of the Company's liquidity. Net debt and net debt to segment profit do not have any standardized meaning prescribed by IFRS and are not necessarily comparable to similar measures presented by other companies.

(thousands of Canadian dollars)	As at May 31, 2014	As at August 31, 2013 ⁽¹⁾
Long-term debt	873,587	538,966
Cash and cash equivalents	(38,236)	(81,266)
Net debt	835,351	457,700

CORUS ENTERTAINMENT INC.
Third Quarter Report to Shareholders

(thousands of Canadian dollars)	As at May 31, 2014	As at August 31, 2013 ⁽¹⁾
Net debt (numerator)	835,351	457,700
Segment profit (denominator) ⁽²⁾	282,220	250,974
Net debt to segment profit	3.0	1.8

⁽¹⁾ Prior period figures have been restated to reflect the changes in accounting standards described in note 3 to the interim condensed consolidated financial statements contained in the 2014 Report to Shareholders.

⁽²⁾ Reflects aggregate amounts for the most recent four quarters, as detailed in the table in the “Quarterly Consolidated Financial Information” section and includes the segment profit of the acquired assets from the date of acquisition.

Impact of New Accounting Policies

The International Accounting Standards Board (“IASB”) continues to issue new and revised IFRS. A listing of the recent accounting pronouncements promulgated by the IASB and not yet adopted by Corus, is included in note 3 of Corus’ August 31, 2013 consolidated financial statements and note 3 of Corus’ May 31, 2014 interim condensed consolidated financial statements.

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

[unaudited - in thousands of Canadian dollars]	As at May 31, 2014	As at August 31, 2013 ⁽¹⁾	As at September 1, 2012 ⁽¹⁾
ASSETS			
Current			
Cash and cash equivalents	38,236	81,266	19,198
Accounts receivable	203,206	164,302	163,345
Promissory note receivable	—	47,759	—
Income taxes recoverable	4,789	351	9,542
Prepaid expenses and other	10,447	16,392	12,619
Total current assets	256,678	310,070	204,704
Tax credits receivable	45,133	41,564	43,865
Intangibles, investments and other assets (note 4)	44,345	42,975	42,390
Investment in joint venture	—	125,931	121,704
Property, plant and equipment	143,274	151,192	163,280
Program and film rights (note 5)	287,442	232,587	229,306
Film investments (note 6)	68,284	62,274	67,847
Broadcast licenses (note 7 and 8)	979,984	515,036	520,770
Goodwill (note 7 and 8)	937,191	646,045	646,045
Deferred tax assets (note 14)	38,093	39,463	28,327
	2,800,424	2,167,137	2,068,238
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	248,422	164,443	177,367
Income taxes payable (note 14)	—	—	1,303
Provisions	3,912	3,941	2,322
Total current liabilities	252,334	168,384	180,992
Long-term debt (note 9)	873,587	538,966	518,258
Other long-term liabilities	119,174	93,241	87,588
Deferred tax liabilities	254,504	145,713	145,310
Total liabilities	1,499,599	946,304	932,148
SHAREHOLDERS' EQUITY			
Share capital (note 10)	957,477	937,183	910,005
Contributed surplus	8,432	7,221	7,835
Retained earnings	315,185	256,517	198,445
Accumulated other comprehensive income (loss)	3,618	1,653	(812)
Total equity attributable to shareholders	1,284,712	1,202,574	1,115,473
Equity attributable to non-controlling interest	16,113	18,259	20,617
Total shareholders' equity	1,300,825	1,220,833	1,136,090
	2,800,424	2,167,137	2,068,238

See accompanying notes

⁽¹⁾ Restated to reflect retroactive application of IFRS 11 - *Joint Arrangements* (note 3)

CORUS ENTERTAINMENT INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Three months ended		Nine months ended	
	2014	May 31, 2013 ⁽¹⁾	2014	May 31, 2013 ⁽¹⁾
[unaudited - in thousands of Canadian dollars except per share amounts]				
Revenues	214,041	187,073	631,459	569,639
Direct cost of sales, general and administrative expenses (note 11)	134,310	122,509	400,170	369,596
Depreciation and amortization	7,385	6,904	18,653	20,805
Interest expense (note 12)	13,453	10,456	35,327	35,859
Broadcast license and goodwill impairment (note 7 and 8)	75,000	—	83,000	—
Debt refinancing	—	—	—	25,033
Business acquisition, integration and restructuring costs	560	2,147	41,216	2,147
Gain on acquisition (note 17)	—	(55,394)	(127,884)	(55,394)
Other (income) expense, net (note 13)	(1,489)	(2,193)	7,216	(10,860)
Income (loss) before income taxes	(15,178)	102,644	173,761	182,453
Income tax expense (note 14)	13,691	11,132	43,224	30,045
Net income (loss) for the period	(28,869)	91,512	130,537	152,408
Net income (loss) attributable to:				
Shareholders	(30,325)	89,913	126,682	148,016
Non-controlling interest	1,456	1,599	3,855	4,392
	(28,869)	91,512	130,537	152,408
Earnings (loss) per share attributable to shareholders:				
Basic	(\$ 0.36)	\$ 1.07	\$ 1.49	\$ 1.77
Diluted	(\$ 0.36)	\$ 1.07	\$ 1.49	\$ 1.76
Net income (loss) for the period	(28,869)	91,512	130,537	152,408
Other comprehensive income (loss), net of tax:				
Items that may be reclassified subsequently to income:				
Unrealized foreign currency translation adjustment	(646)	204	1,620	1,685
Unrealized change in fair value of available-for-sale investments	392	(368)	454	(42)
Unrealized change in fair value of cash flow hedges	37	—	(109)	—
	(217)	(164)	1,965	1,643
Comprehensive income (loss) for the period	(29,086)	91,348	132,502	154,051
Comprehensive income (loss) attributable to:				
Shareholders	(30,542)	89,749	128,647	149,659
Non-controlling interest	1,456	1,599	3,855	4,392
	(29,086)	91,348	132,502	154,051

See accompanying notes

⁽¹⁾ Restated to reflect retroactive application of IFRS 11 - *Joint Arrangements* (note 3)

**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 equity attributable to shareholders	Non- controlling interest	Total equity
At August 31, 2013	937,183	7,221	256,517	1,653	1,202,574	18,259	1,220,833
Comprehensive income	—	—	126,682	1,965	128,647	3,855	132,502
Dividends declared	—	—	(68,014)	—	(68,014)	(6,001)	(74,015)
Issuance of shares under stock option plan	1,737	(278)	—	—	1,459	—	1,459
Issuance of shares under dividend reinvestment plan	18,557	—	—	—	18,557	—	18,557
Share-based compensation expense	—	1,489	—	—	1,489	—	1,489
At May 31, 2014	957,477	8,432	315,185	3,618	1,284,712	16,113	1,300,825
<hr/>							
At August 31, 2012	910,005	7,835	198,445	(812)	1,115,473	20,617	1,136,090
Comprehensive income	—	—	148,016	1,643	149,659	4,392	154,051
Dividends declared	—	—	(62,914)	—	(62,914)	(5,715)	(68,629)
Issuance of shares under stock option plan	1,155	(2,200)	—	—	(1,045)	—	(1,045)
Issuance of shares under dividend reinvestment plan	20,350	—	—	—	20,350	—	20,350
Shares repurchased	(708)	—	(756)	—	(1,464)	—	(1,464)
Share-based compensation expense	—	1,162	—	—	1,162	—	1,162
Acquisition of non-controlling interest	—	—	(17,231)	—	(17,231)	(1,881)	(19,112)
At May 31, 2013	930,802	6,797	265,560	831	1,203,990	17,413	1,221,403

See accompanying notes

CORUS ENTERTAINMENT INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended		Nine months ended	
	2014	May 31, 2013⁽¹⁾	2014	May 31, 2013⁽¹⁾
[unaudited - in thousands of Canadian dollars]				
OPERATING ACTIVITIES				
Net income (loss) for the period	(28,869)	91,512	130,537	152,408
Add (deduct) non-cash items:				
Depreciation and amortization	7,385	6,904	18,653	20,805
Broadcast license and goodwill impairment	75,000	—	83,000	—
Amortization of program and film rights	51,624	43,493	153,768	126,714
Amortization of film investments	4,201	7,691	13,256	17,399
Deferred income taxes	(637)	(3,250)	4,384	(9,976)
Increase (decrease) in purchase price obligation	(1,952)	—	3,336	—
Share-based compensation expense	528	430	1,489	1,162
Imputed interest	3,840	2,526	10,985	7,679
Tangible benefit obligation	—	—	31,916	—
Debt refinancing	—	—	—	25,033
Gain on sale of associated company	—	(55,394)	—	(55,394)
Gain on acquisition	—	—	(127,884)	—
Other	485	(4,174)	1,900	(12,624)
Net change in non-cash working capital balances related to operations	14,870	1,978	3,312	(7,325)
Payment of program and film rights	(43,975)	(33,968)	(104,653)	(95,491)
Net additions to film investments	(19,017)	(14,709)	(32,765)	(48,943)
Cash provided by operating activities	63,483	43,039	191,234	121,447
INVESTING ACTIVITIES				
Additions to property, plant and equipment	(3,435)	(2,853)	(7,715)	(10,317)
Business combinations	(5,265)	—	(496,706)	—
Dividends from investment in joint venture	—	1,290	—	9,041
Net cash flows for intangibles, investments and other assets	(2,321)	(2,321)	(7,395)	(9,287)
Other	(201)	(90)	(323)	(414)
Cash used in investing activities	(11,222)	(3,974)	(512,139)	(10,977)
FINANCING ACTIVITIES				
Increase (decrease) in bank loans	(39,964)	—	333,101	(29,925)
Issuance of notes	—	—	—	550,000
Redemption of notes	—	(500,000)	—	(500,000)
Financing fees	—	(18,125)	(587)	(26,732)
Issuance of shares under stock option plan	566	135	1,459	884
Shares repurchased	—	—	—	(1,464)
Dividends paid	(16,380)	(14,586)	(48,316)	(41,584)
Dividends paid to non-controlling interest	—	(599)	(6,001)	(5,715)
Other	(532)	(4,488)	(1,781)	(9,589)
Cash provided by (used in) financing activities	(56,310)	(537,663)	277,875	(64,125)
Net change in cash and cash equivalents during the period	(4,049)	(498,598)	(43,030)	46,345
Cash and cash equivalents, beginning of the period	42,285	564,141	81,266	19,198
Cash and cash equivalents, end of the period	38,236	65,543	38,236	65,543

Supplemental cash flow disclosures (note 16)

See accompanying notes

⁽¹⁾ Restated to reflect retroactive application of IFRS 11 - *Joint Arrangements* (note 3)

CORUS ENTERTAINMENT INC.
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
May 31, 2014

(in thousands of Canadian dollars, except per share information)

1. CORPORATE INFORMATION

Corus Entertainment Inc. (the “Company” or “Corus”) is a diversified Canadian communications and entertainment company. The Company is incorporated under the *Canada Business Corporations Act* and its Class B Non-Voting Shares are listed on the Toronto Stock Exchange (the “TSX”) under the symbol CJR.B.

The Company’s registered office is at 1500, 850 – 2nd Street SW, Calgary Alberta, T2P 0R8. The Company’s executive office is at Corus Quay, 25 Dockside Drive, Toronto, Ontario, M5A 0B5.

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

2. STATEMENT OF COMPLIANCE

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (“IASB”). The accounting policies used in the preparation of these interim condensed consolidated financial statements conform with those in the Company’s audited annual consolidated financial statements for the year ended August 31, 2013, except as described in note 3. These interim condensed consolidated financial statements do not include all the information and disclosures required in annual financial statements and, accordingly, should be read in conjunction with the Company’s annual consolidated financial statements for the year ended August 31, 2013, which are available at www.sedar.com and on the Company’s website at www.corusent.com.

These interim condensed consolidated statements have been authorized for issue in accordance with a resolution of the Audit Committee, as delegated by the Board of Directors, on July 9, 2014.

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, 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.

CORUS ENTERTAINMENT INC.
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
May 31, 2014

(in thousands of Canadian dollars, except per share information)

Changes in accounting policies

In December 2011, the IASB amended both IAS 32 - *Financial Instruments: Presentation* and IFRS 7 - *Financial Instruments: Disclosures* by moving the disclosure requirements in IAS 32 to IFRS 7 and enhancing the disclosures about offsetting financial assets and liabilities. The effective date of the amendments is for the Company's fiscal year commencing September 1, 2013. The Company has assessed the impact of these standards and there is no impact on its 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 the Company's fiscal year commencing September 1, 2013. The Company has assessed the impact of this standard and determined there is no impact on its 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 the Company's fiscal year commencing September 1, 2013. The adoption of this standard will affect disclosures but will not have an impact on the recognized amounts or measurements in the consolidated financial statements. As required, the enhanced disclosures will be included in the annual consolidated financial statements for the year ended August 31, 2014.

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 the Company's fiscal year commencing September 1, 2013. The adoption of this standard will affect disclosures but did not otherwise have a material impact on the consolidated financial statements. As required, the enhanced disclosures will be included in the annual consolidated financial statements for the year ended August 31, 2014.

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 the Company's fiscal year commencing September 1, 2013. The adoption of the standard will have the impact noted in IFRS 11 - *Joint Arrangements* below.

CORUS ENTERTAINMENT INC.
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
May 31, 2014

(in thousands of Canadian dollars, except per share information)

IAS 36 – Impairment of Assets

The Company has early adopted the amendments of IAS 36, *Recoverable Amount of Disclosures for Non-Financial Assets*, effective September 1, 2013. These amendments amend the disclosure requirement relating to non-financial assets such that companies are required to disclose the recoverable amount of an asset (or CGU) only in periods in which impairment has been recorded or reversed in respect of that asset (or CGU). The amendments also expand and clarify the disclosure requirements when an asset's (or CGU's) recoverable amount has been determined on the basis of fair value less cost of sale. The amendment is effective for annual periods beginning on or after January 1, 2014, retrospectively, with early adoption permitted. The Company has elected to early adopt the provisions of these amendments in these consolidated financial statements.

IFRS 11 - Joint Arrangements

IFRS 11 replaced IAS 31 *Interests in Joint Ventures* and SIC 13 - *Jointly Controlled Entities - Non-monetary Contributions by Venturers*. The standard eliminates the use of the proportionate consolidation method to account for jointly controlled entities. Joint ventures as defined in IFRS 11 have been accounted for using the equity method of accounting while, for a joint operation, the venturer will recognize its rights to and obligations for the assets, liabilities, revenues and expenses of the joint operation. The new standard was effective for Corus' fiscal year commencing September 1, 2013 with retroactive application to September 1, 2012. Historically, the Company proportionately consolidated its jointly controlled entity, TELETOON Canada Inc. With the adoption of this standard, the revenues, expenses, assets and liabilities from these operations for Corus' prior fiscal year are no longer proportionately consolidated in the Company's consolidated financial statements but have been replaced by "Investment in joint venture" in the consolidated statements of financial position and the Company's share of the joint venture's income is contained in *Other expense (income), net* in the consolidated statements of income and comprehensive income. The effect of the Company's retroactive application of this standard is summarized below for the consolidated statements of financial position, income and comprehensive income and cash flows for the periods indicated.

CORUS ENTERTAINMENT INC.
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
May 31, 2014

(in thousands of Canadian dollars, except per share information)

Reconciliation of changes related to the retroactive adoption of IFRS 11 - *Joint Arrangements* in the consolidated statements of financial position, income and comprehensive income, and cash flows for the periods indicated.

Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

	August 31, 2013			September 1, 2012		
	Originally Reported	IFRS 11 Adjustment	Restated	Originally Reported	IFRS 11 Adjustment	Restated
Assets						
Cash and cash equivalents	86,081	(4,815)	81,266	24,588	(5,390)	19,198
Accounts receivable	176,504	(12,202)	164,302	173,421	(10,076)	163,345
Promissory note receivable	47,759	—	47,759	—	—	—
Income taxes recoverable	341	10	351	9,542	—	9,542
Prepaid expenses and other	16,416	(24)	16,392	12,664	(45)	12,619
Total current assets	327,101	(17,031)	310,070	220,215	(15,511)	204,704
Tax credits receivable	41,564	—	41,564	43,865	—	43,865
Intangibles, investments and other assets	42,975	—	42,975	42,390	—	42,390
Investments in joint venture	—	125,931	125,931	—	121,704	121,704
Property, plant and equipment	151,398	(206)	151,192	163,563	(283)	163,280
Program and film rights	289,181	(56,594)	232,587	271,244	(41,938)	229,306
Film investments	62,734	(460)	62,274	67,983	(136)	67,847
Broadcast licenses	563,771	(48,735)	515,036	569,505	(48,735)	520,770
Goodwill	674,393	(28,348)	646,045	674,393	(28,348)	646,045
Deferred tax assets	39,463	—	39,463	28,327	—	28,327
	2,192,580	(25,443)	2,167,137	2,081,485	(13,247)	2,068,238
Liabilities and Shareholders' Equity						
Accounts payable and accrued liabilities	172,663	(8,220)	164,443	185,991	(8,624)	177,367
Income taxes payable	—	—	—	—	1,303	1,303
Provisions	3,941	—	3,941	2,322	—	2,322
Total current liabilities	176,604	(8,220)	168,384	188,313	(7,321)	180,992
Long-term debt	538,966	—	538,966	518,258	—	518,258
Other long-term liabilities	105,020	(11,779)	93,241	87,853	(265)	87,588
Deferred tax liabilities	151,157	(5,444)	145,713	150,971	(5,661)	145,310
Total liabilities	971,747	(25,443)	946,304	945,395	(13,247)	932,148
Shareholders' Equity						
Share capital	937,183	—	937,183	910,005	—	910,005
Contributed surplus	7,221	—	7,221	7,835	—	7,835
Retained earnings	256,517	—	256,517	198,445	—	198,445
Accumulated other comprehensive income (loss)	1,653	—	1,653	(812)	—	(812)
Total equity attributable to shareholders	1,202,574	—	1,202,574	1,115,473	—	1,115,473
Equity attributable to non-controlling interest	18,259	—	18,259	20,617	—	20,617
Total shareholders' equity	1,220,833	—	1,220,833	1,136,090	—	1,136,090
	2,192,580	(25,443)	2,167,137	2,081,485	(13,247)	2,068,238

CORUS ENTERTAINMENT INC.
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
May 31, 2014

(in thousands of Canadian dollars, except per share information)

Consolidated Statements of Income and Comprehensive Income

(in thousands of Canadian dollars)	Three months ended May 31, 2013			Nine months ended May 31, 2013		
	Originally Published	IFRS 11 Adjustment	Restated	Originally Published	IFRS 11 Adjustment	Restated
Revenues	200,060	(12,987)	187,073	609,907	(40,268)	569,639
Direct cost of sales, general and administrative expenses	131,834	(9,325)	122,509	394,340	(24,744)	369,596
Segment profit	68,226	(3,662)	64,564	215,567	(15,524)	200,043
Depreciation and amortization	6,926	(22)	6,904	20,872	(67)	20,805
Interest expense	10,456	—	10,456	35,859	—	35,859
Debt refinancing	—	—	—	25,033	—	25,033
Business acquisition, integration and restructuring costs	2,147	—	2,147	2,147	—	2,147
Gain on sale of associated company	(55,394)	—	(55,394)	(55,394)	—	(55,394)
Other expense (income), net	82	(5)	77	162	(16)	146
Income from joint venture	—	(2,270)	(2,270)	—	(11,006)	(11,006)
Income before income taxes	104,009	(1,365)	102,644	186,888	(4,435)	182,453
Income tax expense	12,497	(1,365)	11,132	34,480	(4,435)	30,045
Net income for the period	91,512	—	91,512	152,408	—	152,408
Net income attributable to:						
Shareholders	89,913	—	89,913	148,016	—	148,016
Non-controlling interest	1,599	—	1,599	4,392	—	4,392
	91,512	—	91,512	152,408	—	152,408
Earnings per share attributable to shareholders:						
Basic	\$ 1.07	—	\$ 1.07	\$ 1.77	—	\$ 1.77
Diluted	\$ 1.07	—	\$ 1.07	\$ 1.76	—	\$ 1.76
Net income for the period	91,512	—	91,512	152,408	—	152,408
Other comprehensive income (loss), net of tax:						
Items that may be reclassified subsequently to income:						
Unrealized foreign currency translation adjustment	204	—	204	1,685	—	1,685
Unrealized change in fair value of available-for-sale investments	(368)	—	(368)	(42)	—	(42)
	(164)	—	(164)	1,643	—	1,643
Comprehensive income for the period	91,348	—	91,348	154,051	—	154,051
Comprehensive income attributable to:						
Shareholders	89,749	—	89,749	149,659	—	149,659
Non-controlling interest	1,599	—	1,599	4,392	—	4,392
	91,348	—	91,348	154,051	—	154,051

CORUS ENTERTAINMENT INC.
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
May 31, 2014

(in thousands of Canadian dollars, except per share information)

Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)

	Three months ended May 31, 2013			Nine months ended May 31, 2013		
	Originally Published	IFRS 11 Adjustment	Restated	Originally Published	IFRS 11 Adjustment	Restated
Operating Activities						
Net income for the period	91,512	—	91,512	152,408	—	152,408
Add (deduct) non-cash items:						
Depreciation and amortization	6,926	(22)	6,904	20,872	(67)	20,805
Amortization of program and film rights	49,476	(5,983)	43,493	142,077	(15,363)	126,714
Amortization of film investment	7,691	—	7,691	17,399	—	17,399
Deferred income taxes	(3,250)	—	(3,250)	(9,976)	—	(9,976)
Share-based compensation expense	430	—	430	1,162	—	1,162
Imputed interest	2,526	—	2,526	7,679	—	7,679
Debt refinancing	—	—	—	25,033	—	25,033
Gain on sale of associated company	(55,394)	—	(55,394)	(55,394)	—	(55,394)
Other	(404)	(3,770)	(4,174)	(118)	(12,506)	(12,624)
Net change in non-cash working capital balances related to operations	1,521	457	1,978	(8,025)	700	(7,325)
Payment of program and film rights	(38,895)	4,927	(33,968)	(106,327)	10,836	(95,491)
Net additions to film investment	(14,709)	—	(14,709)	(48,943)	—	(48,943)
Cash provided by operating activities	47,430	(4,391)	43,039	137,847	(16,400)	121,447
Investing Activities						
Additions to property, plant and equipment	(2,856)	3	(2,853)	(10,328)	11	(10,317)
Dividends from investments in joint ventures	—	1,290	1,290	—	9,041	9,041
Net cash flows for intangibles, investments and other assets	(2,321)	—	(2,321)	(9,287)	—	(9,287)
Other	(90)	—	(90)	(414)	—	(414)
Cash used in investing activities	(5,267)	1,293	(3,974)	(20,029)	9,052	(10,977)
Financing Activities						
Decrease in bank loans	—	—	—	(29,925)	—	(29,925)
Issuance of notes	—	—	—	550,000	—	550,000
Redemption of notes	(500,000)	—	(500,000)	(500,000)	—	(500,000)
Financing fees	(18,125)	—	(18,125)	(26,732)	—	(26,732)
Issuance of shares under stock option plan	135	—	135	884	—	884
Shares repurchased	—	—	—	(1,464)	—	(1,464)
Dividends paid	(14,586)	—	(14,586)	(41,584)	—	(41,584)
Dividends paid to non-controlling interest	(599)	—	(599)	(5,715)	—	(5,715)
Other	(4,488)	—	(4,488)	(9,589)	—	(9,589)
Cash used in financing activities	(537,663)	—	(537,663)	(64,125)	—	(64,125)
Net change in cash and cash equivalents during the period	(495,500)	(3,098)	(498,598)	53,693	(7,348)	46,345
Cash and cash equivalents, beginning of the period	573,781	(9,640)	564,141	24,588	(5,390)	19,198
Cash and cash equivalents, end of the period	78,281	(12,738)	65,543	78,281	(12,738)	65,543

CORUS ENTERTAINMENT INC.
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
May 31, 2014

(in thousands of Canadian dollars, except per share information)

Pending accounting changes

IFRS 9 - Financial Instruments: Classification and Measurement

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. In 2013, the IASB also incorporated new accounting requirements for hedging. The effective date of this pronouncement has been tentatively set to be effective for annual periods beginning on or after January 1, 2018. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

IFRIC 21 – Levies

In May 2013, the IFRS Interpretations Committee (IFRIC), with the approval of the IASB, issued IFRIC 21 – *Levies*. IFRIC 21 provides guidance on when to recognize a liability to pay a levy imposed by government that is accounted for in accordance with IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets*. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014, which will be September 1, 2014 for Corus, and is to be applied retrospectively. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, which covers principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2017, which will be September 1, 2017 for Corus. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

IAS 16 – Property, Plant and Equipment and IAS 38 – Intangibles

In May 2014, the IASB issued amendments to IAS 16 and IAS 38, prohibiting the use of revenue-based depreciation for property, plant and equipment and significantly limiting the use of revenue-based amortization for intangible assets. These amendments are effective for annual periods beginning on or after January 1, 2016, which will be September 1, 2016 for Corus, and is to be applied prospectively.

4. INTANGIBLES, INVESTMENTS AND OTHER ASSETS

	Intangibles	Investments in associates	Other assets	Total
Balance - August 31, 2013	19,726	6,710	16,539	42,975
Increase (decrease) in investment	2,277	(963)	4,688	6,002
Amortization of intangible assets	(5,156)	—	—	(5,156)
Fair value adjustment	—	—	524	524
Balance - May 31, 2014	16,847	5,747	21,751	44,345

CORUS ENTERTAINMENT INC.
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
May 31, 2014
(in thousands of Canadian dollars, except per share information)

5. PROGRAM AND FILM RIGHTS

Balance - August 31, 2013	232,587
Net additions	131,084
Acquisitions (note 17)	77,539
Amortization	(153,768)
Balance - May 31, 2014	287,442

6. FILM INVESTMENTS

Balance - August 31, 2013	62,274
Net additions	19,266
Amortization	(13,256)
Balance - May 31, 2014	68,284

7. BROADCAST LICENSES AND GOODWILL

Broadcast licenses and goodwill are tested for impairment annually as at August 31 or more frequently if events or changes in circumstances indicate that they may be impaired. During the second and third quarters of fiscal 2014, the Company concluded that an interim goodwill impairment test for the Radio segment and broadcast license impairment test for certain CGUs in Radio was required. As a result of these tests, the Company recorded broadcast license and goodwill impairment charges of \$8.0 million and \$75.0 million in the second and third quarters of fiscal 2014, respectively, as certain radio clusters had actual results that fell short of previous estimates and the outlook for these markets is less robust.

The changes in the book value of goodwill for the period ended May 31, 2014 were as follows:

	Total
Balance - August 31, 2013	646,045
Acquisitions (note 17)	356,695
Impairments (note 8)	(65,549)
Balance - May 31, 2014	937,191

The changes in the book value of broadcast licenses for the period ended May 31, 2014 were as follows:

	Total
Balance - August 31, 2013	515,036
Acquisitions (note 17)	482,399
Impairments (note 8)	(17,451)
Balance - May 31, 2014	979,984

CORUS ENTERTAINMENT INC.
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
May 31, 2014

(in thousands of Canadian dollars, except per share information)

8. IMPAIRMENT TESTING

At each reporting date, the Company is required to assess its intangible assets and goodwill for potential indicators of impairment, such as an adverse change in business climate that may indicate that these assets may be impaired. If any such indication exists, the Company is required to perform an impairment test.

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

In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

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

Segment profit growth rates are based on management's best estimates considering historical and expected operating plans, strategic plans, economic considerations and the general outlook for the industry and markets in which the CGU operates. The projections are prepared separately for each of the Company's CGUs to which the individual assets are allocated and are based on the most recent financial budgets approved by the Company's Board of Directors and management forecasts generally covering a period of five years with growth rate assumptions. For longer periods, a terminal growth rate is determined and applied to project future cash flows after the fifth year. This growth rate is based on management's best estimates considering the industry, operating income trends and growth prospects for that specific CGU or group of CGUs.

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

If the recoverable amount of a CGU or group of CGUs is less than its carrying amount, an impairment loss is recognized.

CORUS ENTERTAINMENT INC.
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
May 31, 2014

(in thousands of Canadian dollars, except per share information)

During the second and third quarters of fiscal 2014, the Company tested certain CGUs in its Radio segment for impairment with respect to broadcast licenses and the Radio segment group of CGUs overall for goodwill impairment. The tests were performed using the assumptions in the table below:

	May 31, 2014	February 28, 2014
For the Radio VIU calculations in the period		
Pre-tax discount rate	13% - 15%	14% - 15%
Earnings growth rate	2.0% - 7.9%	2.0% - 7.2%
Terminal growth rate	2%	2%

In the second quarter, the Company determined that there was a broadcast license impairment in two Radio CGUs in Ontario. For one CGU, the Company used VIU to determine the recoverable amount, which resulted in an impairment charge of \$6.0 million, while the FVLCS was used for the second CGU, which resulted in an impairment charge of \$2.0 million that reduced the carrying value (primarily broadcast licenses) of these CGUs to their recoverable amount. The recoverable amount for the Radio segment group of CGUs' overall goodwill impairment test was based on VIU.

In the third quarter, operating results in the Radio segment fell below previous estimates made in the second quarter, as the Radio segment continued to experience a soft advertising market and rating challenges in some markets. As well, the overall radio advertising market experienced a year-over-year decline in the quarter and on a year-to-date basis, causing the Company to lower its cash flow projections to reflect a weaker near term outlook. As a result, the Company determined there was a broadcast license impairment in three Radio CGUs in Ontario and one in British Columbia, as well as a goodwill impairment in the Radio segment group of CGUs overall.

In the third quarter, for three CGUs, the Company used VIU to determine the recoverable amount, while the FVLCS was used for one CGU, which resulted in impairment charges totalling \$10.7 million (predominantly comprised of broadcast license impairments) that reduced the carrying values of these CGUs to their recoverable amount at the end of the third quarter. The recoverable amount of these CGUs after the impairment charges is \$49.0 million.

The recoverable amount for the Radio segment group of CGUs' overall goodwill impairment test was based on VIU. In the third quarter, the Company recognized an impairment charge of \$65.5 million, based on the conclusions stated in the preceding paragraph. The recoverable amount and carrying value of the Radio segment group of CGUs after the impairment charge is \$378.7million.

The pre-tax discount and growth rates used by the Company for the purpose of its Radio VIU calculations performed during the period were:

Sensitivity to changes in assumptions

An increase of 50 basis points in the pre-tax discount rate, a decrease of 50 basis points in the earnings growth rate each year, or a decrease of 50 basis points in the terminal growth rate, each used in isolation to perform the Radio goodwill impairment test, would have resulted in additional goodwill impairment in the Radio segment of between \$8.0 million and \$16.0 million. However, no material additional broadcast license impairments would arise.

CORUS ENTERTAINMENT INC.
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
May 31, 2014

(in thousands of Canadian dollars, except per share information)

The Company did not conduct an impairment test on goodwill and broadcast licenses related to the Television segment as the recoverable amount of each of the CGUs exceeded their carrying value by a significant amount at the time of its annual impairment testing, performed on August 31, 2013.

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

	May 31, 2014	August 31, 2013
Goodwill		
Television	760,760	412,764
Radio	176,431	233,281
	937,191	646,045

	May 31, 2014	August 31, 2013
Broadcast licenses		
Television		
Managed brands	825,000	351,101
Other	7,424	7,424
Radio ⁽¹⁾	147,560	156,511
	979,984	515,036

⁽¹⁾ Broadcast licenses for Radio consist of all Radio CGUs combined. There is no individual Radio CGU that comprises more than 10% of the total broadcast license balance.

9. LONG-TERM DEBT

	May 31, 2014	August 31, 2013
Bank loans	333,603	—
Senior unsecured guaranteed notes	550,000	550,000
Unamortized financing fees	(10,016)	(11,034)
	873,587	538,966

Interest rates on the balance of the bank loans fluctuate with Canadian bankers' acceptances and/or LIBOR. As at May 31, 2014, the weighted average interest rate on the outstanding bank loans and Notes was 4.0% (2013 – 4.3%). Interest on the bank loans and Notes averaged 4.1% for the third quarter and 4.3% year-to-date of fiscal 2014 (2013 – 4.9% and 6.2%).

The banks hold as collateral a first ranking charge on all assets and undertakings of Corus and certain of Corus' subsidiaries as designated under the credit agreement. Under the facility, the Company has undertaken to comply with financial covenants regarding a minimum interest coverage ratio and a maximum debt to cash flow ratio. Management has determined that the Company was in compliance with the covenants provided under the bank loans as at May 31, 2014.

CORUS ENTERTAINMENT INC.
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
May 31, 2014

(in thousands of Canadian dollars, except per share information)

On February 3, 2014, the Company's credit agreement with a syndicate of banks was amended and restated. The principal amendment effected was the establishment of a two year \$150.0 million term facility, maturing February 3, 2016, incremental to the existing \$500.0 million revolving facility maturing February 11, 2017. The \$150.0 million term facility was fully drawn on inception and the proceeds were used to reduce the amount drawn on the revolving facility. Both the term and revolving facilities are subject to the same covenants and security. Interest rates on both the term and revolving facility loans fluctuate with Canadian prime rate, Canadian bankers' acceptances and/or LIBOR plus an applicable margin.

Contemporaneously with the amendment and restatement of the credit agreement, the Company entered into Canadian dollar interest rate swap agreements to fix the interest rate on \$150.0 million at 1.375%, plus an applicable margin, to February 3, 2016. The fair value of Level 2 financial instruments such as interest rate swap agreements is calculated by way of discounted cash flows, using market interest rates and applicable credit spreads. As at May 31, 2014, the fair value of the interest rate swap approximates its carrying value. The Company has assessed that there is no ineffectiveness in the hedge of its interest rate exposure. The effectiveness of the hedging relationship is reviewed on a quarterly basis. As an effective hedge, unrealized gains or losses on the interest rate swap agreements are recognized in OCI.

10. 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

	Class A		Class B		Total
	Voting Shares		Non-Voting Shares		
	#	\$	#	\$	\$
Balance – August 31, 2013	3,430,292	26,564	81,049,146	910,619	937,183
Conversion of Class A Voting Shares to Class B Non-Voting Shares	—	—	—	—	—
Issuance of shares under stock option plan	—	—	80,800	1,737	1,737
Issuance of shares under dividend reinvestment plan	—	—	770,331	18,557	18,557
Balance – May 31, 2014	3,430,292	26,564	81,900,277	930,913	957,477

CORUS ENTERTAINMENT INC.
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
May 31, 2014

(in thousands of Canadian dollars, except per share information)

Earnings per share

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

	Three months ended		Nine months ended	
	May 31,		May 31,	
	2014	2013	2014	2013
Net income attributable to shareholders (numerator)	(30,325)	89,913	126,682	148,016
Weighted average number of shares outstanding (denominator)				
Weighted average number of shares				
outstanding - basic	85,124	84,022	84,838	83,709
Effect of dilutive securities	301	353	318	320
Weighted average number of shares				
outstanding - diluted	85,425	84,375	85,156	84,029

Share-based compensation

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

	May 31, 2014	August 31, 2013
Outstanding employee stock options	2,740,073	2,158,073
Exercisable employee stock options	1,376,523	1,063,380
Outstanding PSUs	943,932	910,301
Outstanding DSUs	845,374	738,516
Outstanding RSUs	142,313	138,618

Share-based compensation expense recorded for the third quarter and year-to-date of fiscal 2014 in respect of these plans was \$2,607 and \$7,316 (2013 – \$3,968 and \$8,007). As at May 31, 2014, the carrying value of the PSU, DSU and RSU units was \$25,697 (August 31, 2013 – \$27,046).

Dividend reinvestment plan

In fiscal 2014, the Company issued 770,331 Class B Non-Voting Shares, resulting in an increase in share capital of \$18,557.

11. DIRECT COST OF SALES, GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended		Nine months ended	
	May 31,		May 31,	
	2014	2013	2014	2013
Amortization of program rights	51,624	43,493	153,768	126,714
Amortization of film investments	4,201	7,691	13,256	17,399
Other cost of sales	5,682	4,777	19,338	25,838
Employee costs	37,642	39,019	111,653	112,677
Other general and administrative	35,161	27,529	102,155	86,968
	134,310	122,509	400,170	369,596

CORUS ENTERTAINMENT INC.
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
May 31, 2014

(in thousands of Canadian dollars, except per share information)

12. INTEREST EXPENSE

	Three months ended		Nine months ended	
	2014	2013	2014	2013
Interest on long-term debt	9,254	7,430	23,203	26,895
Imputed interest on long-term liabilities	3,840	2,524	10,985	7,677
Other	359	502	1,139	1,287
	13,453	10,456	35,327	35,859

13. OTHER EXPENSE (INCOME), NET

	Three months ended		Nine months ended	
	2014	2013	2014	2013
Interest income	(74)	(368)	(449)	(721)
Foreign exchange loss (gain)	(138)	275	494	748
Equity loss (earnings) of investees	302	(511)	1,708	(326)
Income from joint venture	—	(2,270)	—	(11,006)
Increase (decrease) in purchase price obligation	(1,952)	—	3,336	—
Other	373	681	2,127	445
	(1,489)	(2,193)	7,216	(10,860)

14. INCOME TAXES

The reconciliation of income taxes attributable to operations computed at the statutory rates to income tax expense for year-to-date fiscal 2014 and 2013 is as follows:

	2014		2013	
	\$	%	\$	%
Tax at combined federal and provincial rates	46,101	26.5%	48,350	26.5%
Income subject to tax at less than statutory rates	(100)	(0.1%)	(871)	(0.5%)
Non-taxable portion of capital gains	(33,930)	(19.5%)	(10,153)	(5.6%)
Goodwill impairment	17,340	10.0%	—	—%
Transaction costs	9,627	5.5%	—	—%
Increase (recovery) of various tax reserves	2,356	1.4%	(7,190)	(3.9%)
Miscellaneous differences	1,830	1.1%	(91)	(0.0%)
	43,224	24.9%	30,045	16.5%

CORUS ENTERTAINMENT INC.
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
May 31, 2014

(in thousands of Canadian dollars, except per share information)

15. BUSINESS SEGMENT INFORMATION

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

Television

The Television division is comprised of specialty television networks, pay television services, conventional television stations, and the Corus content business, which consists of the production and distribution of films and television programs, merchandise licensing, publishing and animation software. Revenues are generated from subscriber fees, advertising and the licensing of proprietary films and television programs, merchandise licensing, publishing and animation software sales.

Radio

The Radio division comprises 39 radio stations, situated primarily in high-growth urban centres in English Canada, with a concentration in the densely populated area of Southern Ontario. Revenues are derived from advertising aired over these stations.

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

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

The accounting policies of the segments are the same as those described in the summary of significant accounting policies of the most recent audited consolidated financial statements.

Revenues and segment profit

Three months ended May 31, 2014

	Television	Radio	Corporate	Consolidated
Revenues	170,565	43,476	—	214,041
Direct cost of sales, general and administrative expenses	94,886	31,798	7,626	134,310
Segment profit (loss)	75,679	11,678	(7,626)	79,731
Depreciation and amortization				7,385
Interest expense				13,453
Broadcast license and goodwill impairment				75,000
Business acquisition, integration and restructuring costs				560
Other income, net				(1,489)
Loss before income taxes				(15,178)

CORUS ENTERTAINMENT INC.
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
May 31, 2014

(in thousands of Canadian dollars, except per share information)

Three months ended May 31, 2013

	Television	Radio	Corporate	Consolidated
Revenues	139,995	47,078	—	187,073
Direct cost of sales, general and administrative expenses	81,841	32,204	8,464	122,509
Segment profit (loss)	58,154	14,874	(8,464)	64,564
Depreciation and amortization				6,904
Interest expense				10,456
Gain on sale of associated company				(55,394)
Business acquisition, integration and restructuring costs				2,147
Other income, net				(2,193)
Income before income taxes				102,644

Nine months ended May 31, 2014

	Television	Radio	Corporate	Consolidated
Revenues	500,615	130,844	—	631,459
Direct cost of sales, general and administrative expenses	284,378	94,859	20,933	400,170
Segment profit (loss)	216,237	35,985	(20,933)	231,289
Depreciation and amortization				18,653
Interest expense				35,327
Broadcast license and goodwill impairment				83,000
Business acquisition, integration and restructuring costs				41,216
Gain on acquisition				(127,884)
Other expense, net				7,216
Income before income taxes				173,761

Nine months ended May 31, 2013

	Television	Radio	Corporate	Consolidated
Revenues	429,960	139,679	—	569,639
Direct cost of sales, general and administrative expenses	253,174	96,195	20,227	369,596
Segment profit (loss)	176,786	43,484	(20,227)	200,043
Depreciation and amortization				20,805
Interest expense				35,859
Gain on sale of associated company				(55,394)
Debt refinancing				25,033
Business acquisition, integration and restructuring costs				2,147
Other income, net				(10,860)
Income before income taxes				182,453

CORUS ENTERTAINMENT INC.
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
May 31, 2014

(in thousands of Canadian dollars, except per share information)

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

Revenues are derived from the following areas:

	Three months ended		Nine months ended	
	2014	May 31, 2013	2014	May 31, 2013
Advertising	108,039	91,961	319,281	274,475
Subscriber fees	86,522	70,006	249,199	207,622
Merchandising, distribution and other	19,480	25,106	62,979	87,542
	214,041	187,073	631,459	569,639

Segment assets and liabilities

	May 31, 2014	August 31, 2013
Assets		
Television	2,213,389	1,408,929
Radio	388,897	460,341
Corporate	198,138	297,867
	2,800,424	2,167,137
Liabilities		
Television	452,620	251,387
Radio	73,224	75,488
Corporate	973,755	619,429
	1,499,599	946,304

Assets and liabilities are located primarily within Canada.

16. CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Three months ended		Nine months ended	
	2014	May 31, 2013	2014	May 31, 2013
Interest paid	3,630	3,848	18,641	23,259
Interest received	74	368	449	721
Income taxes paid	11,007	12,596	37,752	28,503

17. BUSINESS COMBINATIONS AND DIVESTITURES

Acquisition of control of Teletoon Canada Inc. (“TELETOON”)

On September 1, 2013, Corus determined that the definition of control as defined under IFRS 10 – *Consolidated Financial Statements* with respect to its investment in TELETOON was met. The determination of control was based on the following:

(1) Power over the investee:

- Effective September 1, 2013, as a consequence of an amendment to TELETOON’s underlying Shareholders Agreement and changes to its board composition, Corus gained majority Board representation of TELETOON. This resulted in the Company gaining significant decision-making ability to direct the relevant activities of TELETOON;

(2) Exposure, or rights to variable returns of the investee:

- The Company had exposure to variable returns of TELETOON through its existing 50% equity interest, a fixed purchase price option, and potential operating synergies; and,

(3) The ability to use power over the investee to affect the amount of the investor’s returns:

- The Company’s rights to direct the relevant activities of TELETOON were substantive, and its exposure to the variable returns from TELETOON were such that the Company’s ability to direct TELETOON’s relevant activities could have a significant impact to Corus as an owner.

Accordingly, a business combination had occurred in accordance with IFRS 3 – *Business Combinations* and as a result, TELETOON must be accounted for by applying the acquisition method. On December 20, 2013, the Company received CRTC approval to complete the acquisition of the remaining 50% interest in TELETOON that it did not already own. This acquisition closed on January 1, 2014. As a result of the change in control, the Company’s existing equity interest must be remeasured to fair value as at the date of change in control, September 1, 2013.

The fair value of the Company’s equity interest in TELETOON before the business combination amounted to \$253.8 million. The Company recorded a non-cash gain of \$127.9 million in the first quarter of fiscal 2014 as a result of the remeasurement to fair value of its 50% previously owned equity interest of TELETOON, which is recorded as *Gain on acquisition* in the Consolidated Statements of Income and Comprehensive Income.

The results of the operations of TELETOON, as well as its assets and liabilities, were included in the Television segment effective September 1, 2013 at 100%. The preliminary purchase price equation, which was accounted for using the purchase method, includes certain estimates and will be finalized within twelve months of the acquisition date.

Acquisition of control of Historia and Séries+ s.e.nc. (“H&S”)

On January 1, 2014, the Company acquired 50% of the outstanding shares of the French-language specialty channels, H&S from Bell as part of its acquisition of Astral Media Inc. (“Astral”). In addition, on the same date, the Company acquired the remaining 50% of the outstanding shares of H&S from Shaw Media Inc. (“Shaw”), a related party to Corus subject to common voting control. The results of operations of H&S, as well as its assets and liabilities, are included in the Television segment at 100% interest, effective January 1, 2014.

The preliminary purchase price equation, which was accounted for using the purchase method, includes certain estimates and will be finalized within twelve months of the acquisition date.

Acquisition of control of Ottawa radio stations (CJOT-FM and CKQB-FM, "Ottawa radio")

On January 31, 2014, the Company acquired 100% of the outstanding shares of the Ottawa radio stations from Bell. The results of operations of Ottawa radio, as well as their assets and liabilities, are included in the Radio segment at 100% interest, effective January 31, 2014.

The preliminary purchase price equation, which was accounted for using the purchase method, includes certain estimates and will be finalized within twelve months of the acquisition date.

Purchase price equations

The following table summarizes the fair value of the consideration owing and the fair value assigned to each major class of assets and liabilities for each preliminary purchase price equation.

Fair value recognized on acquisition date:	TELETOON	H&S	Ottawa radio	Total
Assets				
Cash	4,815	—	—	4,815
Restricted cash	4,815	—	—	4,815
Accounts receivable	24,332	9,631	1,079	35,042
Other assets	48	16	47	111
Property, plant and equipment	—	—	923	923
Program and film rights	69,036	8,503	—	77,539
Broadcast license	284,000	189,899	8,500	482,399
	387,046	208,049	10,549	605,644
Liabilities				
Accounts payable and accrued liabilities	(10,023)	(3,563)	(1,130)	(14,716)
Other long-term liabilities	(35,119)	—	(2,444)	(37,563)
Deferred tax liability	(53,253)	(50,041)	(2,108)	(105,402)
	(98,395)	(53,604)	(5,682)	(157,681)
Total identifiable net assets at fair value	288,651	154,445	4,867	447,963
Goodwill arising on acquisition	218,979	129,017	8,699	356,695
Fair value of existing 50% ownership interest	(253,815)	—	—	(253,815)
Purchase price obligation on acquisition date	253,815	283,462	13,566	550,843

The Company identified intangible assets of \$482.4 million related to broadcast licenses. Goodwill of \$356.7 million arises principally from the ability to leverage media content and the expected operating synergies arising from the integration of the acquired businesses with Corus' existing operations. None of the goodwill recognized is expected to be deductible for income tax purposes.

In fiscal 2014, the Company incurred \$41.2 million in transaction, restructuring and consulting costs related to the business acquisitions. The Company, upon acquisition of control of TELETOON, H&S and the two Ottawa radio stations on September 1, 2013, January 1, 2014 and January 31, 2014, respectively, recorded a charge of \$31.9 million related to the present value of the CRTC tangible benefit obligation to be paid over a seven-year period, to benefit the Canadian broadcasting system as part of these acquisitions. These costs were recorded in the Consolidated Statements of Income and Comprehensive Income in the line item entitled *Business acquisition, integration and restructuring costs*.

In addition to the purchase price obligation included in the preliminary purchase price equations above, a liability of \$8.1 million was estimated as owing to Bell and Shaw for working capital

adjustments as at February 28, 2014. In the third quarter of fiscal 2014, working capital adjustments of \$5.3 million were settled in cash, with a corresponding \$2.0 million income adjustment included in *Other (income) expense, net* (note 13) in the Consolidated Statements of Income and Comprehensive Income. A liability of \$1.2 million for the estimated remaining purchase price owing to Bell for working capital adjustments was included in current liabilities in the Consolidated Statement of Financial Position as at May 31, 2014.

Proforma disclosures

The following pro forma supplemental information presents certain results of operations as if the transactions noted above had been completed at the beginning of the fiscal period presented.

For the nine months ended May 31, 2014:

(in thousands of dollars except per share amounts)	As currently reported ⁽¹⁾	Pro forma ⁽²⁾
Revenues	631,459	652,590
Net income attributable to shareholders	126,682	134,290

⁽¹⁾ Revenues of \$100.1 million and net income of \$25.5 million are included in the Consolidated Statements of Income and Comprehensive Income from the date of acquisition.

⁽²⁾ Pro forma amounts for the nine months ended May 31, 2014, reflect H&S and the two Ottawa radio stations as if they were acquired September 1, 2013. TELETOON was fully consolidated effective September 1, 2013.

The pro forma supplemental information is based on estimates and assumptions which are believed to be reasonable. The pro forma supplemental information is not necessarily indicative of the Company's consolidated financial results in future periods or the results that would have been realized had the business acquisitions been completed at the beginning of the period presented. The pro forma supplemental information excludes business integration costs and opportunities.

Transactions with Shaw Communications Inc. ("Shaw")

During the third quarter of 2013, the Company entered into a series of agreements with Shaw, a related party subject to common voting control.

On April 30, 2013, the Company disposed of its 20% interest in Food Network Canada to Shaw Media, a division of Shaw, for \$66.8 million, resulting in a gain of \$55.4 million. Contemporaneously, on April 30, 2013, the Company acquired the remaining 49% interest in the voting shares of ABC Spark from Shaw, increasing its ownership interest to 100%. The carrying value of the non-controlling interest of ABC Spark at the acquisition date was \$1.9 million. The \$17.2 million difference between the consideration and the carrying value of the interest acquired was recognized in retained earnings within shareholders' equity in fiscal 2013. The Company received a non-interest bearing promissory note from Shaw of \$47.8 million to satisfy the net consideration in respect of these transactions.

On December 31, 2013, the Company acquired from Shaw its 50% interest in its two French-language channels, Historia and Séries+ s.e.nc. ("H&S"). The promissory note from Shaw was settled upon closing of the Company's acquisition of H&S from Shaw.



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