

# corus.

corus.  
annual report 2018

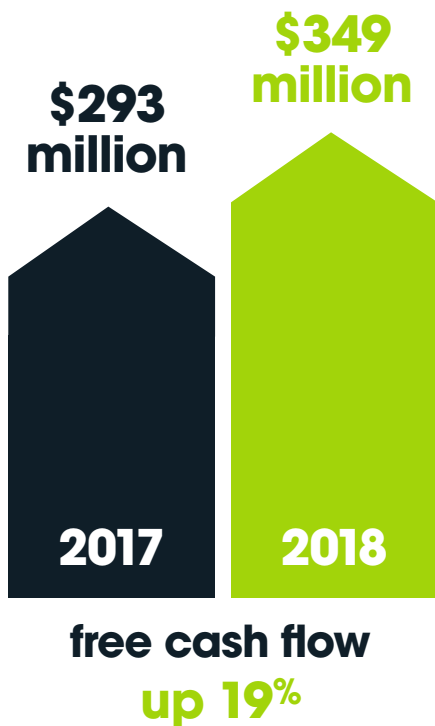


**“Our assets consistently deliver **strong free cash flow**, providing the fuel that powers the Corus engine and enabling us to strategically invest to create the future, **strengthen our balance sheet** and return cash to shareholders.”**

- Doug Murphy and Heather Shaw -  
from the Message to Shareholders

# table of contents

financial highlights	4
message to shareholders	7
maximizing audiences	10
monetizing audiences	12
rationalizing our operating model	13
our brands	14
board of directors	16
officers	16
executive leadership team	16
management's discussion and analysis	17
management's responsibility for financial reporting	50
independent auditors' report	51
consolidated statements of financial position	52
consolidated statements of income and comprehensive income	53
consolidated statements of changes in equity	54
consolidated statements of cash flows	55
notes to consolidated financial statements	56
corporate information	97



# financial highlights

## ANNUAL SELECTED FINANCIAL INFORMATION<sup>(1)</sup>

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

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

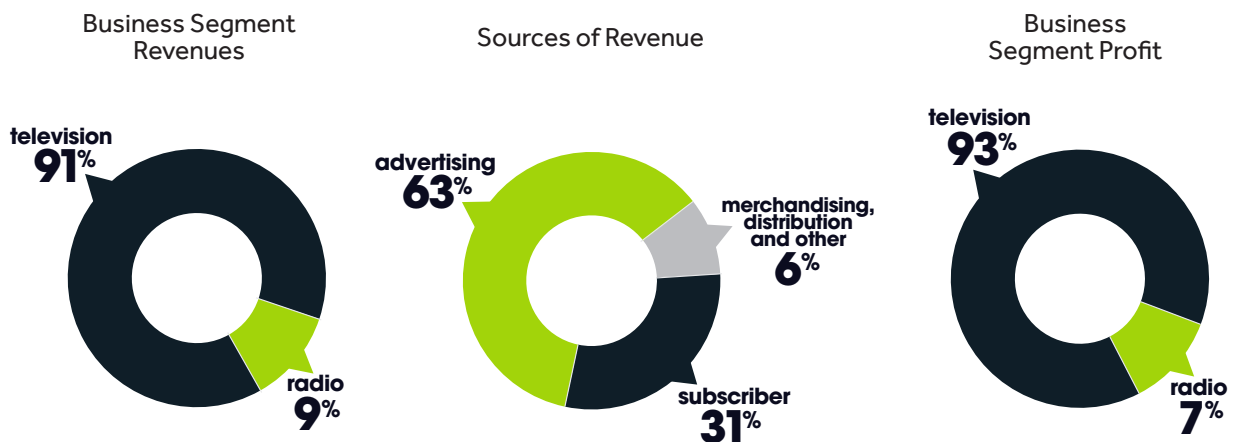
	2018	2017
Revenues	<b>1,647.3</b>	1,679.0
Segment profit <sup>(2)</sup>	<b>575.6</b>	578.1
Net income (loss) attributable to shareholders	<b>(784.5)</b>	191.7
Adjusted net income attributable to shareholders <sup>(2)</sup>	<b>238.4</b>	220.5
Basic earnings (loss) per share	<b>\$(3.77)</b>	\$0.95
Adjusted basic earnings per share <sup>(2)</sup>	<b>\$1.14</b>	\$1.10
Diluted earnings (loss) per share	<b>\$(3.77)</b>	\$0.95
Total assets	<b>4,883.0</b>	6,067.8
Long-term debt (inclusive of current portion)	<b>1,983.9</b>	2,091.6
Cash dividends declared per share		
Class A Voting	<b>\$1.1350</b>	\$1.1350
Class B Non-Voting	<b>\$1.1400</b>	\$1.1400

Notes:

<sup>(1)</sup> For further information, refer to the Annual Management's Discussion and Analysis on page 17.

<sup>(2)</sup> As defined in Key Performance Indicators section on page 29.

## FISCAL 2018 FINANCIAL PROFILE



“ **maximize** our audiences | **monetize** our audiences | **rationalize** our operating model

Continuous cost savings will enable us to make the necessary investments to diversify our revenues. In concert with our strategic priorities, actively pursuing these principles is how we will position Corus to compete and win over the long term. ”

**Doug Murphy**  
President and CEO

**Heather Shaw**  
Executive Chair



# message to shareholders.

Corus is clear-eyed about the challenges and opportunities of an evolving media marketplace. Shifts in audience behaviour and demand for more targeted advertising solutions are driving unprecedented change in our industry. What has not changed is that audiences still delight in and consume great content as they engage with their favourite shows and brands.

The transformation of Corus began nearly three years ago when we acquired Shaw Media, providing us with the scope and scale needed to succeed. We continue to execute against our three strategic priorities with discipline and focus. These priorities are to:

- 1. Own and control more content;**
- 2. Engage our audiences; and**
- 3. Expand into new and adjacent markets.**

The pursuit of these priorities is paired with an unyielding commitment to optimize our operations and our core business. Think of this as the continuous tuning of a powerful engine: as we leverage our asset base and execute our strategic priorities, we have the added horsepower from our core business—a leading portfolio of powerful brands and engaging content—to attract and monetize big, high-value audiences.

Corus is Canada's largest pure play media and content company. In that context, we have embraced three foundational first principles: to maximize audiences, to monetize those audiences and to continually rationalize our operating model. Continuous cost savings will enable us to make the necessary investments to diversify our revenues. In concert with our strategic priorities, actively pursuing these principles is how we will position Corus to compete and win over the long term.

Our national conventional network, Global, is home to some of Canada's most-watched shows and news programming. Our 44 specialty channels include many of Canada's biggest brands, such as W Network, Showcase, HGTV Canada, HISTORY®, Treehouse and YTV. We have a major presence in eight of Canada's 10 largest English-language radio markets, with 39 radio stations across the country.





**Corus is investing in the creation of more original content through Nelvana and Corus Studios. These investments attract significant audiences for our core media business in Canada while providing revenue diversification from content sales in global markets.**

This year, we increased our owned content slate with many new and returning series. Nelvana announced partnerships with some of the world's leading content producers, including Discovery Kids, Sesame Workshop and Sumitomo, that will further expand our global children's animated content footprint. In addition to continuing our production of leading lifestyle programming, Corus Studios successfully ventured into new genres with promising new series like *Rust Valley Restorers* and *Fire Masters*, both of which are proving to have broad appeal in the international marketplace.

As our industry evolves, we are innovating our product offerings as we strive to follow audiences where they consume content. This past year, we launched a premium video-on-demand (VOD) product, now available for sale to our distribution partners on 10 of our biggest television brands. While this is an emerging opportunity, early results are encouraging: total on-demand views on our new premium VOD offering have nearly doubled and advertiser interest for dynamic ad insertion within VOD content is strong.

Corus is working with our industry in Canada to seize an opportunity to align around a shared technology roadmap that would optimize our future revenues with the emerging advertising opportunities resulting from the next generation of video distribution platforms. In doing so, we aim to set industry standards and enable best-in-class solutions that will jointly benefit advertisers, distributors and broadcasters.

In addition to our new premium VOD offering, Global Entertainment and Global News continued to expand and broaden their presence with Canadians. We experienced significant growth at [globalnews.ca](http://globalnews.ca), as well as on our Global GO app, which launched this year on Apple TV and Google Chromecast.

Social media presents a unique opportunity for Corus to engage audiences on new and emerging platforms. Our new social digital advertising agency [so.da](http://so.da), which launched this past summer, is expanding our presence on these growing platforms, not only by offering immersive brand experiences and compelling content on Corus-owned brands, but also by leveraging our deep social expertise to support advertisers with social strategies and content development. In doing so, [so.da](http://so.da) will create incremental revenue streams.

**As we work to maximize our audiences, we are taking concrete steps to better monetize them. We aim to be indispensable to our advertising clients by making targeted investments to enhance our suite of advanced advertising and data analytics capabilities, while building strong, solution-oriented relationships.**

Audience-based buying has proven to be a clear winner for us, as we change the way television advertising is sold. This new approach will gain traction in the coming years with the full-scale launch of Cynch, our supply-side buying platform that simplifies and automates the buying experience. Our ambition is that Cynch will be an essential element of an industry solution that offers advertisers a common definition of audience segments in an easy-to-use interface.



This past year, the Corus team managed our operations with diligence and discipline to offset revenue challenges. As a result, Corus delivered record free cash flow of \$349 million, up from \$293 million in fiscal 2017. **Our assets consistently deliver strong free cash flow, providing the fuel that powers the Corus engine and enabling us to strategically invest to create the future, strengthen our balance sheet and return cash to shareholders.**

In a clear demonstration of our unrelenting commitment to expense control, Corus delivered essentially flat segment profit and impressive segment profit margins of 35 per cent, while contending with a revenue decline of two per cent.

Our revised capital allocation policy strikes the right balance between paying down debt, funding our dividend and investing to diversify our revenues. Corus has made continuous progress on debt repayment and de-levering as we pursue our leverage target of below 3.0 times net debt to segment profit. We made significant progress in fiscal 2018, ending the year at 3.28 times net debt to segment profit, and we will continue to pay down our bank debt to achieve further financial flexibility.


Our strong free cash flow, impressive segment profit margins and steady progress toward our leverage target underpin our commitment to returning value to shareholders. We will continue to focus on these metrics as we evolve our business and execute our plan.

We cannot see around the corner and the complete implementation of our plan will take time. There will also be variability quarter-to-quarter as we drive Corus along a road to long-term stability and resilience. That said, our sights are firmly focused on where we need to go as a company and industry, inclusive of advertisers, broadcasters, distributors and producers, especially as governments and regulators evaluate and implement policy changes.

This year, our team throughout the company demonstrated impressive commitment and resiliency as we embraced the challenges and opportunities presented by our rapidly evolving and dynamic marketplace. We firmly believe we have the vision, plan and team in place to build for a strong, sustainable and winning future.



**Doug Murphy**  
President and CEO



**Heather Shaw**  
Executive Chair

# maximizing audiences

Corus consistently delivers high-value audiences—but we won't stop there.

## own more content

The Corus Advantage remains at the centre of our Own More Content strategy: we continue to maximize our required Canadian programming spending to create owned, original content that attracts audiences to our powerful media brands in Canada, while delivering revenue diversification through increased sales in international markets.

### Nelvana increased its strong slate of programming

Fourteen animated children's series were in various stages of production at the end of the year, including *Esme & Roy* and *Hotel Transylvania: The Series*, as well as returning fan-favourite *Max & Ruby*.

We announced innovative new co-production partnerships with Discovery Kids, Sesame Workshop and Sumitomo, which are expected to further accelerate our Own More Content strategy.

### Corus Studios expanded into new lifestyle content genres

We greenlit 11 new or continuing series for production this year, as we expand into new genres, such as travel and escape, food, fashion, automotive and science, in addition to renewing new seasons of international hits, such as *Masters of Flip*, *Backyard Builds* and *Home to Win*.



Fire Masters



Esme & Roy



Rust Valley Restorers

### Kids Can Press continued to produce award-winning books

*The Way Home in the Night* by Akiko Miyakoshi enjoyed international success and *The Most Magnificent Thing* by Ashley Spires sold 500,000 copies worldwide, which Nelvana has now produced as a feature film-quality, short-form animated special for sale in fiscal 2019.

#### Source:

1. Numeris PPM Data, Broadcast Year 2017-2018 (Aug 28/17 to Aug 26/18), Mon-Su 2a-2a, Adults 25-54 Average Minute Audience (000), Canadian Commercial English Specialty + Digital excluding sports, Total Canada.
2. Numeris PPM Data, Broadcast Year 2017-2018 (Aug 28/17 to Aug 26/18), Mon-Su 2a-2a, Women 25-54 Average Minute Audience (000), Canadian Commercial English Specialty + Digital excluding sports, Total Canada.
3. Numeris PPM Data, Broadcast Year 2017-2018 (Aug 28/17 to Aug 26/18), Mon-Su 2a-2a, Kids 2-11 Average Minute Audience (000), Canadian Specialty Digital English Kids Specialty Only, Total Canada.

# engaging our audiences

The core of our business is the strength of Global and our powerful suite of specialty television services.

**4 of 5<sup>1</sup>**  
Specialty Channels  
Among Adults

**4 of 5<sup>2</sup>**  
Specialty Channels  
Among Women

**8 of 10<sup>3</sup>**  
Specialty Channels  
Among Kids

stream anytime  
**GLOBALTV.COM**

The success of our leading conventional and specialty television channels has been meaningfully enhanced and broadened as we expand onto new platforms. Audiences are increasingly able to watch our content where and when they want.

This year, Corus launched our most widely-distributed app, Global GO, on Google Chromecast and Apple TV while Global News built on its powerful online presence with globalnews.ca. The success of Global GO and globalnews.ca is a clear demonstration that we are committed to following our audiences as we diversify our revenues.

Corus launched our new premium video-on-demand (VOD) offering with Rogers and Shaw this year. Total VOD views since launch of this product with Rogers have nearly doubled, a clear indication of the growth potential on this platform.



The Most Magnificent Thing



FBI



so.da's production studio

## so.da

In June 2018, Corus launched so.da, our new, full-service social digital advertising agency, to help grow our audiences on new platforms and, in doing so, create incremental revenue streams. With some of the best social marketing experts, and a clear track record of success with social engagement, we are leveraging these skills to further optimize our core.



## CuriousCast

This past summer, Corus launched a new podcast network, CuriousCast. Our great brands, content and talent extend seamlessly into the podcasting platform where millions of listeners consume and engage with great content. In a few short months, CuriousCast has had more than 1 million downloads per month of its more than 35 shows.



**so.da and CuriousCast are two examples of how Corus is using our talent, team and asset base to further engage our audiences. They are part of a larger plan to make strategic investments as we continue to discover more opportunities to leverage the power of our core business.**

# monetizing audiences

In a changing media landscape, we need to be indispensable to our advertising clients, now more than ever.

## audience-based buying and Cynch

Over the past several years, we have broken new ground with audience-based buying and have made strategic investments to enhance our suite of advanced advertising and data analytics capabilities.

Audience-based buying is changing how we sell television ads by providing greater targeting capabilities using more relevant audience segments, such as "fashionistas" or "empty nesters." We were the first broadcaster in Canada to offer audience-based buying and it has proven to be a clear differentiator for Corus in the marketplace. We anticipate the launch of Cynch, our audience-based buying platform, will accelerate this shift.

Cynch makes it easier than ever to buy targeted audiences in a brand-safe and trusted environment, while at the same time providing our advertising customers with up-to-date data on the performance of their campaigns. This technology is the cornerstone of how Corus will compete with the transactional efficiency of digital advertising while providing the distinctive reach, impact and value of television advertising.

Cynch is in beta testing and feedback from our advertising partners, which has been very positive, is informing our future roadmap. Corus is refining this new and exciting platform as we work toward a full launch in the coming year.



The launch of Cynch, Corus' audience-based buying platform, will accelerate the shift to selling television ads with greater targeting capabilities using more relevant audience segments, while also making it easier than ever for advertisers to buy targeted audiences.



## revenue diversification

As Corus maximizes and monetizes our audiences, revenue diversification is an essential component of how we build long-term stability.

Leveraging our Own More Content strategy, Corus is delivering revenue diversification with international sales in more than 160 countries through Nelvana and Corus Studios.

Corus continues to build stronger partnerships with local advertising clients. Total spending from duplicated accounts across both television and radio increased 22 per cent compared to the previous year, up nearly \$9 million as we build on the Power of Local.

Last year, we expanded our presence in the important Asian animation market. Our animation software subsidiary Toon Boom opened a new Tokyo sales office to capitalize on the continued growth in the Japanese anime market.<sup>1</sup> Toon Boom also announced a talent development partnership called China Tales Incubator with WeKids for the Chinese animation market.



Corus' original content is distributed in more than **160 countries** worldwide

## rationalizing our operating model

In addition to maximizing and monetizing our audiences, we must continually rationalize our operating model to improve efficiencies and reduce our cost structure.

Corus is making targeted investments in technologies like artificial intelligence to grow audiences and automate manual processes. This will result in the transformation of how we run our business and evolve Corus into a consumer centric, data-driven company.

Over the past year, we have continued to work with industry-leading innovators like Integrate A.I. and IBM Watson to make smarter and faster decisions in a variety of ways. These include ensuring advertising is placed within a relevant context, enhancing the effectiveness of the marketing of our channels and shows, closed captioning and cybersecurity.

The result is a more efficiently run business that continuously rationalizes our operating model while driving out costs.

**Source:**

1. [www.hollywoodreporter.com/news/japans-anime-industry-grows-record-177b-boosted-by-your-name-exports-1058463](http://www.hollywoodreporter.com/news/japans-anime-industry-grows-record-177b-boosted-by-your-name-exports-1058463)

# Corus Television

## Conventional Stations



B.C.  
Okanagan  
Lethbridge  
Calgary  
Edmonton

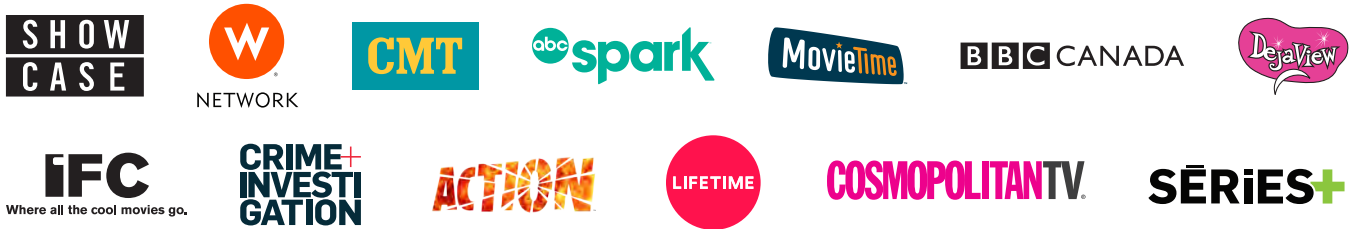
Saskatoon  
Regina  
Winnipeg  
Toronto  
Durham

Peterborough  
Kingston  
Montreal  
New Brunswick  
Halifax

## Lifestyle



## Drama



## Kids



## Original Content



## Multi-Platform Presence



\* Corus Entertainment owns less than a 50% equity position

# Corus Radio

## Vancouver, British Columbia

**AM730** CHMJ-AM  
AM730 All Traffic  
All The Time

Global News **RADIO** CKNW-AM  
**980 CKNW** Global News Radio  
980 CKNW

**ROCK 101** CFMI-FM  
GREATEST HITS 70's 80's & 90's  
Rock 101

**CFOX** CFOX-FM  
The World  
Famous CFOX  
WORLD FAMOUS @ 99.3FM

## Calgary, Alberta

Global News **RADIO** CHQR-AM  
**770 CHQR** Global News Radio  
770 CHQR

**Q107** CFGQ-FM  
Q107

**COUNTRY 105** CKRY-FM  
Country 105

## Edmonton, Alberta

**630 CHED** CHED-AM  
630 CHED

Global News **RADIO** CHQT-AM  
**880 Edmonton** Global News Radio  
880 Edmonton

**CISN 103.9** CISN-FM  
CISN COUNTRY  
103.9

**92.5 CHUCK** CKNG-FM  
92.5 Fresh Radio  
80s, 90s, EVERYTHING

## Winnipeg, Manitoba

Global News **RADIO** CJOB-AM  
**680 CJOB** Global News Radio  
680 CJOB

**Peggy @ 99.1** CJGV-FM  
Peggy @ 99.1  
Feel Good Winnipeg!

**POWER 97** CJKR-FM  
WINNIPEG'S ROCK  
Power 97

## Barrie/Collingwood, Ontario

**fresh RADIO 93.1** CHAY-FM  
93.1 Fresh Radio  
LOVE THE MUSIC

**BIG 101** CIQB-FM  
BIG HITS & REAL CLASSIC ROCK  
101.1 BIG FM

**The Peak 95.1 FM** CKCB-FM  
95.1 The Peak FM

## Kitchener, Ontario

**107.5 DAVE ROCKS** CJDV-FM  
107.5 DAVE ROCKS

**the 91.5 beat** CKBT-FM  
91.5 The Beat  
HIT MUSIC STATION

## Cornwall, Ontario

**fresh RADIO 104.5** CFLG-FM  
104.5 Fresh Radio  
TODAY'S BEST MIX

**boom 101.9** CJSS-FM  
boom 101.9  
70 80 90

## Guelph, Ontario

**1460 cjoy** CJOY-AM  
1460 CJOY  
our community first

**MAGIC 106.1** CIMJ-FM  
MAGIC 106.1  
TODAY'S BEST MIX

## Kingston, Ontario

**fresh RADIO 104.3** CKWS-FM  
104.3 Fresh Radio  
LOVE THE MUSIC

**BIG 96.3** CFMK-FM  
BIG HITS & REAL CLASSIC ROCK  
96.3 BIG FM

## Hamilton, Ontario

Global News **RADIO** CHML-AM  
**900 CHML** Global News Radio  
900 CHML

**fresh RADIO 95.3** CING-FM  
95.3 Fresh Radio  
TODAY'S BEST MIX

**108** CJXY-FM  
WORLD CLASSIC ROCK  
108  
Y108

## London/Woodstock, Ontario

Global News **RADIO** CFPL-AM  
**980 CFPL** Global News Radio  
980 CFPL

**fresh RADIO 103.1** CFHK-FM  
103.1 Fresh Radio  
TODAY'S BEST MIX

**FM96** CFPL-FM  
FM96

**COUNTRY 104** CKDK-FM  
Country 104  
#1 for Country HITS!

## Ottawa, Ontario

**Jump! 106.9** CKQB-FM  
JUMP! 106.9  
NON-STOP HITS

**boom 99.7** CJOT-FM  
boom 99.7  
70 80 90

## Peterborough, Ontario

**fresh RADIO 100.5** CKRU-FM  
100.5 Fresh Radio  
LOVE THE MUSIC

**THE WOLF 101.5** CKWF-FM  
CENTRAL ONTARIO'S BEST ROCK  
THE WOLF 101.5 FM

## Toronto, Ontario

Global News **RADIO** CFMJ-AM  
**640 Toronto** Global News Radio  
640 Toronto

**102.1 THE EDGE** CFNY-FM  
102.1 the Edge

**Q107** CILQ-FM  
GREAT HITS & REAL CLASSICS  
Q107

# board of directors

## **Heather Shaw**

Chair of the Board of Directors  
Chair of the Executive Committee

## **Doug Murphy**

Member of the Executive Committee

## **Fernand Bélisle**

Independent Lead Director  
Member of the Human Resources and Compensation Committee

## **Peter Bissonnette**

Member of the Executive Committee

## **Jean-Paul Colaco**

Member of the Corporate Governance Committee

## **Michael D'Avella**

Member of the Audit Committee

## **Trevor English**

## **John Frascotti**

Member of the Human Resources and Compensation Committee

## **Mark Hollinger**

Chair of the Corporate Governance Committee  
Member of the Audit Committee  
Member of the Executive Committee

## **Barry James**

Chair of the Audit Committee  
Member of the Executive Committee

## **Catherine Roozen**

Chair of the Human Resources and Compensation Committee  
Member of the Executive Committee

## **Julie Shaw**

Vice Chair of the Board of Directors  
Member of the Corporate Governance Committee

# officers

## **Heather Shaw**

Executive Chair

## **Doug Murphy**

President and Chief Executive Officer

## **Judy Adam, CPA, CA**

Senior Vice President, Finance

## **John Gossling, FCPA, FCA**

Executive Vice President  
and Chief Financial Officer

## **Dale Hancocks**

Executive Vice President and General Counsel

## **Gary Maavara**

Corporate Secretary

## **Greg McLelland**

Executive Vice President and Chief Revenue Officer

# executive leadership team

## **Doug Murphy**

President and Chief Executive Officer

## **Colin Bohm**

Executive Vice President,  
Business Development and Corporate Strategy

## **Cheryl Fullerton**

Executive Vice President,  
People and Communications

## **John Gossling, FCPA, FCA**

Executive Vice President and Chief Financial Officer

## **Dale Hancocks**

Executive Vice President and General Counsel

## **Shawn Kelly**

Executive Vice President, Technology

## **Greg McLelland**

Executive Vice President and Chief Revenue Officer



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Management's Discussion and Analysis of the financial position and results of operations for the year ended August 31, 2018 is prepared at October 18, 2018. The following should be read in conjunction with the Company's August 31, 2018 audited consolidated financial statements and notes therein. The financial highlights included in the discussion of the segmented results are derived from the audited consolidated financial statements. All amounts are stated in Canadian dollars unless specified otherwise.

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

### **USE OF NON-IFRS FINANCIAL MEASURES**

The Management's Discussion and Analysis contains references to certain measures that do not have a standardized meaning under IFRS as prescribed by the International Accounting Standards Board and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement IFRS measures by providing a further understanding of operations from management's perspective. Accordingly, non-IFRS measures should not be considered in isolation nor as a substitute for analysis of financial information reported under IFRS. The Company presents non-IFRS measures, specifically, segment profit, adjusted segment profit, adjusted net income, adjusted basic earnings per share, free cash flow, net debt and net debt to segment profit.

The Company believes these non-IFRS measures are frequently used by securities analysts, investors and other interested parties as measures of financial performance and to provide supplemental measures of operating performance and thus highlight trends that may not otherwise be apparent when relying solely on IFRS financial measures. A reconciliation of the Company's non-IFRS measures is included in this report which is available on Corus' website at [www.corusent.com](http://www.corusent.com).

### **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

To the extent any statements made in this document 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 information"). Forward-looking information relates 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, currency value fluctuations and interest rates. Forward-looking information is predictive in nature and can generally be identified by the use of words such as "believe", "anticipate", "expect", "intend", "plan", "will", "may" and other similar expressions. The forward looking information contained in this document includes, but is not limited to: statements that refer to expectations regarding the Company's anticipated dividend payment schedule and rate commencing in December 2018; expected timing for certain legislative changes; Corus' anticipated indebtedness and pro forma leverage and dividend yield targets. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances may be considered forward-looking information.

Although Corus believes that the expectations reflected in such forward-looking information are reasonable, such statements involve assumptions and risks and uncertainties and undue reliance should not be placed on such statements. Certain material factors or assumptions are applied with respect to the forward-looking information above, including without limitation: the estimates and judgments set out under the heading "Use of Estimates and Judgments", in this document; factors and assumptions regarding general market conditions and general outlook for the industry, interest rates, stability of the advertising, distribution, merchandise and subscription markets, operating costs and tariffs, taxes and fees, currency value fluctuations, interest rates, technology developments and assumptions regarding the stability of laws and governmental regulation and policies and the interpretation or application of those laws and regulations, consistent application of accounting policies, segment profit growth rates, future levels of capital expenditures, expected future cash flows and discount rates, 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 and subscriber 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, regulations and policies 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 information are set out under the heading "Risks and Uncertainties" in this document and under the heading "Risk Factors" 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 information to make decisions with respect to Corus, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Unless otherwise specified, all forward-looking information in this document speaks as of the date of this document. Unless otherwise required by applicable securities laws, Corus disclaims any intention or obligation to publicly update or revise any forward-looking information whether as a result of new information, events or circumstances that arise after the date thereof or otherwise.

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

## OVERVIEW

Corus Entertainment Inc. ("Corus" or the "Company") is a diversified Canadian-based integrated media and content company that creates and delivers high quality brands and content across platforms for audiences in Canada and around the world. The Company's portfolio of multimedia offerings encompasses 44 specialty television networks, 15 conventional television stations, 39 radio stations and a global content business, digital assets, book publishing, animation software, media and technology services.

Corus operates through two reporting segments: Television and Radio. The Corporate results represent the incremental cost of corporate overhead in excess of the amount allocated to the operating segments. Generally, Corus' financial results depend on a number of factors, including the strength of the Canadian national economy and the local economies of Corus' served markets, local and national market competition from other broadcasting stations, platforms and other advertising media, government regulation, market competition from other distributors of animated and unscripted lifestyle programming and Corus' ability to continue to provide popular programming.

## TELEVISION

The Television segment is comprised of 44 specialty television networks, 15 conventional television stations and the Corus content business, which includes the production and distribution of films and television programs, merchandise licensing, book publishing, animation software, and media and technology services. On February 28, 2018, Corus ceased operations of the Sundance channel. On April 1, 2016, Corus acquired 100% of Shaw Media Inc. ("Shaw Media") from Shaw Communications Inc. ("Shaw"), which included 19 specialty television networks, 12 Global Television branded conventional television stations, Global News, globalnews.ca, and HistoryGO and GlobalGO mobile apps (the "Acquisition"). On February 29, 2016, Corus ceased operations of its pay television business.

Revenues for the specialty television networks are generated from both advertising and subscribers, while revenues from the conventional television stations are derived primarily from advertising. Revenues for the content business are generated from licensing of proprietary films and television programs, merchandise licensing, book publishing, animation software, and media and technology service sales. For both advertising and subscriber revenues, it is critical that the Company offer Canadians entertaining content that engages them. The Company's content is available to Canadians through a variety of platforms, including conventional or specialty television, online websites or mobile apps. Catering to consumer demand for quality and choice, the Company strives to offer the best content available, to Canadians when and where they choose to consume it.

## RADIO

The Radio segment is comprised of 39 radio stations across Canada situated primarily in high-growth urban centres in English Canada, with a concentration in the densely populated area of Southern Ontario. The Company's primary method of distribution is over-the-air, analog radio transmission, with additional delivery platforms including HD Radio, websites and mobile apps.

Revenues for the Company's radio business are derived primarily from advertising.

**ANNUAL SELECTED FINANCIAL INFORMATION**

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

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

	2018	2017	2016	% Increase (Decrease)	
				2018 over 2017	2017 over 2016
<b>Revenues</b>	<b>1,647.3</b>	1,679.0	1,171.3	(1.9)	43.3
<b>Segment profit<sup>(1)</sup></b>	<b>575.6</b>	578.1	411.0	(0.4)	40.7
<b>Net income (loss) attributable to shareholders</b>	<b>(784.5)</b>	191.7	125.9		
<b>Adjusted net income attributable to shareholders<sup>(1)</sup></b>	<b>238.4</b>	220.5	129.9		
Basic earnings (loss) per share	<b>\$(3.77)</b>	\$0.95	\$0.96		
Adjusted basic earnings per share <sup>(1)</sup>	<b>\$1.14</b>	\$1.10	\$0.98		
Diluted earnings (loss) per share	<b>\$(3.77)</b>	\$0.95	\$0.96		
Total assets	<b>4,883.0</b>	6,067.8	6,093.4		
Long-term debt (inclusive of current portion)	<b>1,983.9</b>	2,091.6	2,196.0		
<b>Cash dividends declared per share</b>					
Class A Voting	<b>\$1.1350</b>	\$1.1350	\$1.1350		
Class B Non-Voting	<b>\$1.1400</b>	\$1.1400	\$1.1400		

## Notes:

<sup>(1)</sup> As defined in "Key Performance Indicators" section.

## RESULTS OF OPERATIONS

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

(in thousands of Canadian dollars, except percentages)

	2018	2017	% Increase (Decrease) 2018 over 2017
<b>Revenues</b>			
Television	<b>1,499,322</b>	1,529,792	(2.0)
Radio	<b>148,025</b>	149,216	(0.8)
	<b>1,647,347</b>	1,679,008	(1.9)
<b>Direct cost of sales, general and administrative expenses</b>			
Television	<b>957,533</b>	965,425	(0.8)
Radio	<b>107,717</b>	109,689	(1.8)
Corporate	<b>6,469</b>	25,811	(74.9)
	<b>1,071,719</b>	1,100,925	(2.7)
<b>Segment profit (loss)<sup>(1)</sup></b>			
Television	<b>541,789</b>	564,367	(4.0)
Radio	<b>40,308</b>	39,527	2.0
Corporate	<b>(6,469)</b>	(25,811)	(74.9)
	<b>575,628</b>	578,083	(0.4)
Depreciation and amortization	<b>81,861</b>	91,750	
Interest expense	<b>127,346</b>	156,716	
Broadcast license and goodwill impairment	<b>1,013,692</b>	—	
Business acquisition, integration and restructuring costs	<b>17,071</b>	31,983	
Other expense (income), net	<b>5,692</b>	(8,953)	
Income (loss) before income taxes	<b>(670,034)</b>	306,587	
Income tax expense	<b>88,129</b>	82,498	
<b>Net income (loss) for the year</b>	<b>(758,163)</b>	224,089	
<b>Net income (loss) for the year attributable to:</b>			
Shareholders	<b>(784,509)</b>	191,665	(509.3)
Non-controlling interest	<b>26,346</b>	32,424	(18.7)
<b>Net income (loss) for the year</b>	<b>(758,163)</b>	224,089	(438.3)

<sup>(1)</sup> As defined in Key Performance Indicators section

## FISCAL 2018 COMPARED TO FISCAL 2017

For a discussion on the Company's results of operations for the fourth quarter of fiscal 2018, we refer you to Corus' Fourth Quarter and Year-End 2018 Report to Shareholders filed on SEDAR on October 19, 2018.

The following discussion describes the significant changes in the consolidated results from operations for the year ended August 31, 2018 compared to the prior year.

### REVENUES

For the year ended August 31, 2018, consolidated revenues of \$1,647.3 million decreased 2% from \$1,679.0 million in the prior year. On a consolidated basis, advertising revenues decreased 3%, merchandising, distribution and other revenues increased by 5%, and subscriber revenues were consistent with the prior year. Revenues decreased in Television and Radio by 2%, and 1%, respectively, in the current year compared to the prior year. Further analysis of revenue is provided in the discussions of segmented results.

**DIRECT COST OF SALES, GENERAL AND ADMINISTRATIVE EXPENSES**

For the year ended August 31, 2018, direct cost of sales, general and administrative expenses of \$1,071.7 million decreased 3% from \$1,100.9 million in the prior year. On a consolidated basis, direct cost of sales were consistent with the prior year, while employee costs decreased 6% and other general and administrative expenses decreased by 3%. The decrease in employee costs was primarily due to a reduction in share-based compensation expense. Further analysis of expenses is provided in the discussion of segmented results.

**SEGMENT PROFIT**

For the year ended August 31, 2018, consolidated segment profit was \$575.6 million, relatively consistent with \$578.1 million in the prior year. Segment profit margin of 35% for the year ended August 31, 2018 was up from 34% in the prior year. Further analysis is provided in the discussion of segmented results.

**DEPRECIATION AND AMORTIZATION**

For the year ended August 31, 2018, depreciation and amortization expense was \$81.9 million, down from \$91.8 million in the prior year due primarily to lower capital expenditures in the current year.

**INTEREST EXPENSE**

Interest expense for the year ended August 31, 2018, was \$127.3 million, a decrease from \$156.7 million in the prior year. The decrease reflects lower interest on bank debt of \$14.0 million due to a lower interest rate margin resulting from reduced leverage, and lower bank debt in the current year. Imputed interest decreased by \$8.3 million compared to the prior year as a result of the reduction of long-term liabilities associated with program rights, trade marks and Canadian Radio-television and Telecommunications Commission ("CRTC") benefit obligations.

The effective interest rate on bank loans for the year ended August 31, 2018 was 4.3% compared to 4.7% in the prior year. The decrease in the effective rate for the year was attributable to a lower interest rate margin resulting from reduced leverage.

**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. In the third quarter of fiscal 2018, management identified indicators of impairment at the enterprise level, notably a significant decline in the Company's share price from August 31, 2017, which resulted in the Company's carrying value being significantly greater than its current market enterprise value. Accordingly, interim goodwill impairment testing was required for both the Television and Radio cash generating units ("CGUs"). As a result of these tests, the Company recorded a non-cash goodwill impairment charge of \$1,000.0 million in the Television operating segment in the third quarter of fiscal 2018. No goodwill impairment was identified in the Radio operating segment CGU (refer to note 11 of the audited consolidated financial statements for further details).

In addition, certain Radio markets had actual results and revised financial projections that fell short of previous estimates, indicating that interim broadcast license impairment testing was required. As a result of these tests, the Company recorded non-cash broadcast license impairment charges of \$13.7 million in the Radio segment (refer to note 11 of the audited consolidated financial statements for further details).

The Company has completed its annual impairment testing of broadcast licenses and goodwill and determined that there were no further impairment charges required or recoveries at August 31, 2018.

**BUSINESS ACQUISITION, INTEGRATION AND RESTRUCTURING COSTS**

For the year ended August 31, 2018, the Company incurred \$17.1 million of business acquisition, integration and restructuring costs compared to \$32.0 million in the prior year. The current fiscal year costs are related to restructuring costs associated with employee exits as well as costs associated with the denial of the sale of Historia and Séries+, and shutdown of the Sundance Channel. The prior year costs were attributable to ongoing integration activities, including an onerous premise lease provision of approximately \$7.0 million for the previous Shaw Media offices in Toronto, which were fully vacated during the first quarter of fiscal 2017. These costs are excluded from the determination of segment profit.

**OTHER EXPENSE (INCOME), NET**

Other expense for the year ended August 31, 2018 was \$5.7 million compared to income of \$9.0 million in the prior year. In the current year, other expense includes a foreign exchange loss of \$5.4 million, equity losses from associates of \$1.6 million, offset by income of \$1.2 million from the settlement of certain regulatory fees and the benefit of miscellaneous interest and other income. The prior year includes a foreign exchange gain of \$12.2 million, a venture fund distribution of \$2.9 million, and interest income of \$1.0 million, offset by equity losses from associates of \$2.7 million and impairment charges related to certain investments of \$5.3 million.

In the second quarter of fiscal 2018, the Company entered into a series of forward foreign exchange contracts totalling \$98.0 million USD, to fix the foreign exchange rate and therefore cash flows related to a portion of USD denominated liabilities. This resulted in unrealized foreign exchange gains of \$3.8 million for the year, which offset foreign exchange losses recorded related to the period end revaluation of USD denominated liabilities. Further discussion of this can be found in the *Liquidity and Capital Resources* section of this report under the heading *Derivative Financial Instruments*.

**INCOME TAX EXPENSE**

The effective tax rate for the year ended August 31, 2018 was a negative 13.2% as compared with the Company's 26.5% statutory tax rate. The effective tax rate for the year ended August 31, 2017 was 26.9% compared to the Company's 26.5% statutory rate. The lower effective tax rate in the current year is primarily a result of the non-taxable portion of broadcast license and goodwill impairments taken in the third quarter of fiscal 2018.

**NET INCOME (LOSS) ATTRIBUTABLE TO SHAREHOLDERS AND EARNINGS (LOSS) PER SHARE**

Net loss attributable to shareholders for the year ended August 31, 2018 was \$784.5 million (\$3.77 loss per share basic), as compared to net income attributable to shareholders of \$191.7 million (\$0.95 per share basic) in the prior year. Net loss attributable to shareholders for fiscal 2018 includes radio broadcast license and television goodwill impairment charges of \$1,013.7 million (\$4.85 per share) and business acquisition, integration and restructuring costs of \$17.1 million (\$0.06 per share). Adjusting for the impact of these items results in an adjusted net income attributable to shareholders of \$238.4 million (\$1.14 per share basic) for the current fiscal year. Net income attributable to shareholders for the year ended August 31, 2017 includes business acquisition, integration and restructuring costs of \$32.0 million (\$0.12 per share) and investment impairments of \$5.3 million (\$0.03 per share). Adjusting for the impact of these items results in an adjusted net income attributable to shareholders of \$220.5 million (\$1.10 per share basic) for the prior year.

The weighted average number of basic shares outstanding for the year ended August 31, 2018, was 208,257,000 compared to 201,065,000 in the prior year. The number of shares outstanding increased from the issuance of shares from treasury under the Company's dividend reinvestment plan.

**OTHER COMPREHENSIVE INCOME, NET OF INCOME TAX**

Other comprehensive income for the year ended August 31, 2018 was \$25.1 million, compared to \$33.4 million in the prior year. For the year ended August 31, 2018, other comprehensive income includes an actuarial gain on post-employment benefit plans of \$11.6 million, an unrealized gain on the fair value of cash flow hedges of \$12.9 million and an unrealized gain from foreign currency translation adjustments of \$0.7 million, offset by an unrealized loss on the fair value of available-for-sale investments of \$0.1 million. The prior year other comprehensive income includes an unrealized gain associated with remeasuring the fair value of cash flow hedges of \$27.4 million, an actuarial gain on post-employment benefit plans of \$6.9 million, offset by an unrealized loss from foreign currency translation adjustments of \$0.6 million, and an unrealized loss on the fair value of a venture fund investment of \$0.3 million.

## TELEVISION

The Television segment is comprised of 44 specialty television services, 15 conventional television stations and the Corus content business, which consists of the production and distribution of films and television programs, merchandise licensing, book publishing, animation software, media and technology services.

### FINANCIAL HIGHLIGHTS

(thousands of Canadian dollars)	Year ended August 31,	
	2018	2017
Revenues		
Advertising	903,420	939,843
Subscriber	507,756	506,666
Merchandising, distribution and other	88,146	83,283
Total revenues	1,499,322	1,529,792
Expenses	957,533	965,425
Segment profit <sup>(1)</sup>	541,789	564,367
Segment profit margin <sup>(1)</sup>	36%	37%

<sup>(1)</sup> As defined in the "Key Performance Indicators" section

For the year ended August 31, 2018, total revenues decreased 2% from the prior year as a result of a 4% decrease in advertising revenues, while subscriber revenues remained flat and merchandising, distribution and other revenues increased 6%. The decline in television advertising revenues reflects soft television advertising market conditions and lower audience levels, as well as and the negative impact of the 2018 Winter Olympics, which was broadcast on competitor services. The increase in merchandising, distribution and other revenues reflects higher production and distribution revenues from increased deliveries and higher merchandising revenues, offset by lower revenues from studio service work.

For the year ended August 31, 2018, total expenses decreased by 1%. Direct cost of sales were flat compared to the prior year and general and administrative expenses decreased by 1%. Amortization of program rights increased slightly during the year by 1% and were offset by lower film amortization expense at Nelvana. The decrease in general and administrative expenses for the year reflects continued cost containment efforts, offset by incremental investment in Advanced Advertising initiatives and higher costs for Global's morning shows, which were previously covered by CRTC benefit spending obligations that ceased as of August 31, 2017.

Segment profit<sup>(1)</sup> decreased 4% for the year. Segment profit margin<sup>(1)</sup> was 36% for the year compared to 37% in the prior year.

In the third quarter of fiscal 2018, the Company recorded a non-cash goodwill impairment of \$1,000.0 million with respect to the Television segment. The impairment charge resulted from the recoverable amount being lower than the carrying amount. The non-cash goodwill impairment charge is excluded from the determination of segment profit (refer to note 11 of the consolidated financial statements for further details).

<sup>(1)</sup> As defined in the "Key Performance Indicators" section

## RADIO

The Radio segment 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)	Year ended August 31,	
	2018	2017
Revenues	148,025	149,216
Expenses	107,717	109,689
Segment profit <sup>(1)</sup>	40,308	39,527
Segment profit margin <sup>(1)</sup>	27%	26%

<sup>(1)</sup> As defined in the "Key Performance Indicators" section

For the year ended August 31, 2018, revenues decreased 1% compared to the prior year. The majority of the decline was driven by ratings challenges and advertising softness in the western markets, offset by growth in the Ontario markets.

Direct cost of sales, general and administrative expenses decreased 2% for the year ended August 31, 2018. The decrease in general and administrative costs reflects continued focus on cost containment and operational efficiencies, particularly with the Global News operations.

For the year ended August 31, 2018, segment profit increased 2% and segment profit margin of 27% was an improvement compared to 26% in the prior year.

In the third quarter of fiscal 2018, the Company recorded non-cash impairment charges in broadcast licenses of \$13.7 million with respect to three Radio markets where revised financial projections fell short of previous estimates; thereby, causing the recoverable amounts to be lower than the carrying amounts at each of the CGUs. The non-cash broadcast license impairment charges are excluded from the determination of segment profit (refer to note 11 of the consolidated financial statements for further details).

<sup>(1)</sup> As defined in the "Key Performance Indicators" section

## CORPORATE

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

### FINANCIAL HIGHLIGHTS

(thousands of Canadian dollars)	Year ended August 31,	
	2018	2017
Share-based compensation	(7,818)	8,266
Other general and administrative costs	14,287	17,545
	6,469	25,811

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.

The decrease in share-based compensation expense for the year ended August 31, 2018 reflects the decline in the Company's share price from the prior year. Other general and administrative costs were lower, reflecting continued focus on cost containment.



## QUARTERLY CONSOLIDATED FINANCIAL INFORMATION

### SEASONAL FLUCTUATIONS

Corus' operating results are subject to seasonal fluctuations that can significantly impact quarter-to-quarter operating results. The Company's advertising revenues are dependent on general advertising revenues and retail cycles associated with consumer spending activity, accordingly the first and third quarter results tend to be the strongest and second and fourth quarter results tend to be the weakest in a fiscal year. The Company's merchandising and distribution revenues are dependent on the number and timing of film and television programs delivered as well as the timing and level of success achieved of associated merchandise licensed in the market, which cannot be predicted with certainty. Consequently, the Company's results may fluctuate materially from period-to-period and the results of any one period are not necessarily indicative of results for future periods.

The following table sets forth certain unaudited data derived from the Company's interim condensed consolidated financial statements for each of the eight most recent quarters ended August 31, 2018. In Management's opinion, these unaudited interim condensed consolidated financial statements have been prepared on a basis consistent with the audited consolidated financial statements in the Company's Annual Report for the years ended August 31, 2018 and August 31, 2017.

(thousands of Canadian dollars, except per share amounts)

	Revenues	Segment profit <sup>(1)</sup>	Net income (loss)	Adjusted net income	Earnings per share		
			attributable to shareholders	attributable to shareholders <sup>(1)</sup>	Basic	Diluted	Adjusted <sup>(1)</sup>
<b>2018</b>							
4th quarter	379,084	114,561	33,675	39,534	\$ 0.16	\$ 0.16	\$ 0.19
3rd quarter	441,410	170,421	(935,899)	78,112	\$ (4.49)	\$ (4.49)	\$ 0.37
2nd quarter	369,465	112,759	40,042	41,880	\$ 0.19	\$ 0.19	\$ 0.20
1st quarter	457,388	177,887	77,673	78,885	\$ 0.38	\$ 0.38	\$ 0.38
<b>2017</b>							
4th quarter	381,212	107,601	28,919	43,944	\$ 0.14	\$ 0.14	\$ 0.22
3rd quarter	461,628	175,813	66,719	70,141	\$ 0.33	\$ 0.33	\$ 0.35
2nd quarter	368,187	102,683	24,881	25,577	\$ 0.12	\$ 0.12	\$ 0.13
1st quarter	467,981	191,986	71,146	80,826	\$ 0.36	\$ 0.36	\$ 0.41

<sup>(1)</sup> As defined in "Key Performance Indicators".

### SIGNIFICANT ITEMS CAUSING VARIATIONS IN QUARTERLY RESULTS

- Net income attributable to shareholders for the fourth quarter of fiscal 2018 was negatively impacted by business acquisition, integration and restructuring costs of \$7.7 million (\$0.03 per share).
- Net loss attributable to shareholders for the third quarter of fiscal 2018 was negatively impacted by non-cash radio broadcast license and television goodwill impairment charges of \$1,013.7 million (\$4.84 per share) and business acquisition, integration and restructuring costs of \$5.3 million (\$0.02 per share).
- Net income attributable to shareholders for the second quarter of fiscal 2018 was negatively impacted by business acquisition, integration and restructuring costs of \$2.5 million (\$0.01 per share).
- Net income attributable to shareholders for the first quarter of fiscal 2018 was negatively impacted by business acquisition, integration and restructuring costs of \$1.6 million (\$nil per share).
- Net income attributable to shareholders for the fourth quarter of fiscal 2017 was negatively impacted by business acquisition, integration and restructuring costs of \$13.3 million (\$0.05 per share) and investment impairments of \$5.3 million (\$0.03 per share).
- Net income attributable to shareholders for the third quarter of fiscal 2017 was negatively impacted by business acquisition, integration and restructuring costs of \$4.6 million (\$0.02 per share).
- Net income attributable to shareholders for the second quarter of fiscal 2017 was negatively impacted by business acquisition, integration and restructuring costs of \$0.9 million (\$0.01 per share).
- Net income attributable to shareholders for the first quarter of fiscal 2017 was negatively impacted by business acquisition, integration and restructuring costs of \$13.2 million (\$0.05 per share).

## FINANCIAL POSITION

Total assets at August 31, 2018 were \$4.9 billion compared to \$6.1 billion at August 31, 2017. The following discussion describes the significant changes in the consolidated statements of financial position since August 31, 2017.

Current assets at August 31, 2018 were \$507.6 million, down \$17.8 million from August 31, 2017.

Cash and cash equivalents increased by \$1.1 million from August 31, 2017. Refer to the discussion of cash flows in the next section.

Accounts receivable decreased \$19.7 million from August 31, 2017. The accounts receivable balance is subject to seasonal trends. Typically, the balance is higher at the end of the first and third quarters and lower at the end of the second and fourth quarters as a result of the broadcast revenue seasonality. The Company carefully monitors the aging of its accounts receivable.

Tax credits receivable decreased \$0.1 million from August 31, 2017 as a result of tax credit receipts exceeding accruals relating to film productions.

Investments and other assets increased \$17.7 million from August 31, 2017, primarily as a result of additional investments in venture funds, certain post employment benefit plans being in a net asset position, unrealized gains relating to interest rate swaps and forward foreign exchange contracts, offset by net cash proceeds of \$24.6 million on interest rate swaps which were terminated on November 28, 2017. In the second quarter of fiscal 2018, the Company entered into a series of forward foreign exchange contracts totalling \$98.0 million USD, to fix the foreign exchange rate and therefore cash flows related to a portion of the Company USD denominated liabilities. Further discussion of this can be found in the Liquidity and Capital Resources section of this report under the heading Derivative Financial Instruments.

Property, plant and equipment decreased \$28.9 million from August 31, 2017 as a result of depreciation expense exceeding additions.

Program rights decreased \$110.0 million from August 31, 2017, as additions of acquired rights of \$408.4 million were offset by amortization of \$516.3 million and impairment charges of \$2.1 million resulting from the shutdown of the Sundance Channel.

Film investments increased \$2.7 million from August 31, 2017, as film additions (net of tax credit accruals) of \$18.9 million were offset by film amortization of \$16.2 million.

Intangibles decreased \$33.7 million from August 31, 2017, primarily as a result of impairment charges recorded on certain Radio broadcast licenses of \$13.7 million and amortization of finite life intangibles exceeding additions.

Goodwill decreased \$1,000.0 million as a result of impairment charges related to the Television segment in the third quarter of fiscal 2018.

Accounts payable and accrued liabilities decreased \$9.9 million from August 31, 2017, as a result of lower accrued liabilities and accruals for dividends payable and film production, offset by higher accruals for program rights and trade marks. The decrease in accrued liabilities relates primarily to the reduction in short-term compensation accruals, capital asset purchases, the short-term portion of tangible benefits and CRTC fees, offset by other working capital accruals.

Provisions, including the long-term portion, at August 31, 2018 were \$19.0 million compared to \$27.5 million at August 31, 2017. The decrease of \$8.5 million from August 31, 2017 is primarily a result of restructuring related payments exceeding additions.

Long-term debt, including the current portion, as at August 31, 2018 was \$1,983.9 million compared to \$2,091.6 million as at August 31, 2017. As at August 31, 2018, the \$106.4 million classified as the current portion of long-term debt reflects the mandatory repayments on the debt in the next twelve months. During the year ended August 31, 2018, the Company repaid bank loans of \$108.6 million, deferred \$4.1 million of financing fees and amortized \$5.1 million of deferred financing charges.

Other long-term liabilities decreased \$147.1 million from year end, primarily from decreases in long-term program rights payable, trade marks payable, post-employment benefit plans, and long-term employee obligations, offset by an increase in intangible liabilities and unearned revenues.

Share capital increased \$38.7 million, primarily as a result of the issuance of shares from treasury under the Company's dividend reinvestment plan. Contributed surplus increased \$0.7 million due to share-based compensation expense.

## LIQUIDITY AND CAPITAL RESOURCES

### CASH FLOWS

Overall, the Company's cash and cash equivalents position increased by \$1.1 million from the prior year end. Free cash flow for the year ended August 31, 2018 increased to \$349.0 million, from \$292.7 million in the prior year. A reconciliation of free cash flow to the consolidated statements of cash flows is provided in the Key Performance Indicators section.

Cash provided by operating activities for the year ended August 31, 2018 was \$370.9 million, compared to \$298.1 million in the prior year. The increase of \$72.8 million from the prior year arises from net proceeds of \$24.6 million from the termination of interest rate swaps, lower CRTC benefit payments of \$27.4 million, and lower cash used in working capital of \$37.4 million, offset by higher payments on both program rights of \$3.2 million and film investments of \$9.1 million.

Cash used in investing activities for the year ended August 31, 2018 was \$25.6 million, compared to \$20.9 million in the prior year. The current year includes additions to property, plant and equipment of \$16.1 million, offset by proceeds of \$0.8 million on the disposal of surplus land, and net cash outflows for intangibles, investments and other assets of \$10.3 million. The prior year includes additions to property, plant and equipment of \$27.0 million, and net cash outflows for intangibles, investments and other assets of \$6.3 million, offset by proceeds of \$5.3 million on the sale of a non-controlling interest in the Cooking Channel, a return of capital from a venture fund of \$4.1 million, and receipt of \$3.0 million from Shaw.

Cash used in financing activities for the year ended August 31, 2018 was \$344.2 million, compared to \$254.9 million in the prior year. The increase in the current year of \$89.3 million is primarily due to the increase in dividends paid during the fiscal 2018 year.

### 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 to 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 a leverage target (net debt to segment profit ratio) below 3.0 times and to maintain a dividend yield in excess of 2.5%. In the short term, the Company may permit the long-term leverage range to be exceeded (for long-term investment opportunities), but endeavours to return to the leverage target 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. As at August 31, 2018, the Company's leverage ratio was 3.28 times net debt to segment profit, down from 3.46 times at August 31, 2017. The Company is currently focused on deleveraging towards 3.0 times net debt to segment profit.

On June 26, 2018, the Company announced a new dividend framework with respect to its revised Capital Allocation Policy. Future dividend payments are subject to Board of Directors approval. The new dividend policy as approved by the Board of Directors is as follows:

- Effective September 1, 2018, Corus' annual dividend rate will be adjusted to \$0.24 per Class B Share and \$0.235 per Class A Share, in line with both the Company's long-term goal of maintaining a dividend yield in excess of 2.5% and current industry peer benchmarks.
- The dividend payment schedule will be changed from monthly to quarterly to be more consistent with industry practices.
- As permitted under Corus' Dividend Reinvestment Plan (the "Plan"), in lieu of issuing new shares, Corus will satisfy its share delivery obligation under the Plan by purchasing Class B Shares on the open market. In addition, Corus will move to a 0% discount for shares delivered under the plan.

On November 30, 2017, the Company's credit facilities with a syndicate of banks were amended. The principal amendments were the extension of the maturity dates to November 30, 2021 for the Revolving Facility and Term Facility Tranche 2, to November 30, 2022 for the Term Facility Tranche 1, and the fixing of mandatory repayments on the Term Facility to 1.25% per quarter. Interest rates on the Company's facilities fluctuate with Canadian bankers' acceptances and LIBOR.

As at August 31, 2018, the Company had available approximately \$300.0 million under the Revolving Facility, all of which could be drawn, and was in compliance with all loan covenants. As at August 31, 2018, the Company had a net cash balance of \$94.8 million.

For further details on the credit facilities amended on November 30, 2017 refer to note 14 of the Company's audited consolidated financial statements for the year ended August 31, 2018.

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 twelve months.

### TOTAL CAPITALIZATION

As at August 31, 2018, total capitalization was \$3,565.9 million, a decrease of \$1,031.5 million from August 31, 2017. The decrease is primarily attributable to the decrease in retained earnings (deficit) arising from broadcast license and goodwill impairment charges recorded in the third quarter of fiscal 2018, as well as the issuance of \$38.6 million in shares from treasury under the Company's dividend reinvestment plan, and an increase of cash of \$1.1 million, offset by lower net debt resulting from the repayment of debt of \$108.6 million during the year.

### OFF-BALANCE SHEET ARRANGEMENTS AND DERIVATIVE FINANCIAL INSTRUMENTS

On November 28, 2017, the Company terminated the swap agreements that fixed the interest rate on an initial \$457.0 million and \$1,414.0 million of its outstanding term loan facilities at 1.076% and 1.195%, respectively plus applicable margins to February 28, 2019 and February 26, 2021. As a result, the Company received \$24.6 million, net of interest, in cash upon settlement of these swaps, which was the fair value upon termination. The fair value of \$24.6 million was recorded in other comprehensive income and is being amortized as non-cash interest income in the consolidated statements of income (note 17).

On November 28, 2017, the Company entered into new interest swap agreements to fix the interest rate on the majority of its outstanding term loan facilities. The counterparties of the swap agreements are highly rated financial institutions and the Company does not anticipate any non-performance. The fair value of future cash flows of interest rate swap derivatives change with fluctuations in market interest rates. The estimated fair value of these agreements as at August 31, 2018 was \$23.2 million, which has been recorded in the consolidated statements of financial position as a long-term asset (note 5).

On January 5, 2018, the Company entered into a series of forward foreign exchange contracts totalling \$98.0 million USD, to fix the foreign exchange rate and therefore cash flows related to a portion of the Company's USD denominated liabilities. The forward contracts are not designated as hedges for accounting purposes; they are measured at fair value at each reporting date by reference to prices provided by the counterparty. The counterparty of the forward contracts is a highly rated financial institution and the Company does not anticipate any non-performance. The estimated fair value of future cash flows of the USD forward contract derivatives change with fluctuations in the foreign exchange rate of USD to Canadian dollars. The estimated fair value of these agreements as at August 31, 2018 was \$3.8 million, which has been recorded in the consolidated statements of financial position as a long-term asset (note 5), and within other expense (income), net in the consolidated statements of income (note 20).

### CONTRACTUAL COMMITMENTS

The Company has the following undiscounted contractual obligations at August 31, 2018:

(thousands of Canadian dollars)	Total	Within 1 year	2 - 3 years	4 - 5 years	More than 5 years
Total debt <sup>(1)</sup>	2,021,125	106,375	212,750	1,702,000	—
Purchase obligations <sup>(2)</sup>	907,699	525,236	289,554	91,731	1,178
Operating leases <sup>(3)</sup>	407,797	30,480	58,889	56,619	261,809
Other obligations <sup>(4)</sup>	158,701	49,296	74,522	33,975	908
Financing leases	5,464	3,794	1,670	—	—
<b>Total contractual obligations</b>	<b>3,500,786</b>	<b>715,181</b>	<b>637,385</b>	<b>1,884,325</b>	<b>263,895</b>

<sup>(1)</sup> Principal repayments

<sup>(2)</sup> Purchase obligations are contractual obligations under contracts relating to program rights, satellite and signal transport costs, and various other operating expenditures, that the Company has committed to for periods ranging from one to ten years.

<sup>(3)</sup> Operating leases included office, equipment and automobile leases.

<sup>(4)</sup> Other obligations included financial liabilities, trade marks, other intangibles and CRTC commitments.

In addition to the contractual obligations in the table above, the Company will pay interest on any bank debt outstanding in future periods. In fiscal 2018, the Company incurred interest on bank debt of \$89.0 million (2017 – \$103.1 million).

## KEY PERFORMANCE INDICATORS

The Company measures the success of its strategies using a number of key performance indicators. These have been outlined below, including a discussion as to their relevance, definitions, calculation methods and underlying assumptions. In addition to disclosing results in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"), the Company also provides supplementary non-IFRS measures as a method of evaluating the Company's performance. Certain key performance indicators are not measurements in accordance with IFRS and should not be considered as an alternative to net income or any other measure of performance under IFRS. These non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers.

## REVENUE

Revenue is a measurement defined by IFRS. Revenue is the gross inflow of economic benefits arising in the course of the ordinary activities of an entity that results in increases in equity, such as cash, receivables or other consideration arising from the sale of products and services and is net of items such as trade or volume discounts and certain excise and sales taxes. It is one of the bases upon which free cash flow, a key performance indicator defined below, is determined; therefore, it measures the potential to deliver free cash flow as well as indicating the level of growth in a competitive marketplace.

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

The Company's sources of revenue are well diversified, with revenue streams for the year ended August 31, 2018 derived primarily from three areas: advertising 63%, subscriber fees 31% and merchandising, distribution and other 6% (2017 – 64%, 30%, and 6%, respectively).

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

Direct cost of sales, and general and administrative expenses include amortization of program rights (costs of programming intended for broadcast, from which advertising and subscriber revenues are derived); amortization of film investments (costs associated with internally produced and acquired television and film programming, from which distribution and licensing revenues are derived); other cost of sales relating to merchandising, studio service work, book publishing, marketing (research and advertising costs); employee remuneration; regulatory license fees; and, selling, general administration which includes overhead costs. For the year ended August 31, 2018, consolidated direct cost of sales, and general and administrative expenses were comprised of direct cost of sales 52%, employee remuneration 29%, and general and administrative expenses 19% (2017 – 51%, 30%, and 19%, respectively).

## SEGMENT PROFIT AND SEGMENT PROFIT MARGIN

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 comprehensive income. Segment profit and segment profit margin may be calculated and presented for an individual operating segment, a line of business, or for the consolidated Company. The Company believes these are important measures as they allow the Company to evaluate the operating performance of its business segments or lines of business 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; significant intangible and other asset impairment; debt refinancing; non-cash gains or losses; business acquisition, integration and restructuring costs; gain (loss) on disposition; and certain other income and expenses as included in note 20 to the audited 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 22 to the audited consolidated financial statements. Segment profit margin is calculated by dividing segment profit by revenues. Segment profit and segment profit margin do not have any standardized meaning prescribed by IFRS and are not necessarily comparable to similar measures presented by other companies. Segment profit and segment profit margin should not be considered in isolation or as a substitute for net income prepared in accordance with IFRS as issued by the IASB.

(thousands of Canadian dollars, except percentages)	2018	2017
Revenues	1,647,347	1,679,008
Direct cost of sales, general and administrative expenses	1,071,719	1,100,925
<b>Segment profit</b>	<b>575,628</b>	578,083
<b>Segment profit margin</b>	<b>35.0%</b>	34.0%

### 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 and deducting net proceeds from dispositions. Free cash flow is a key metric used by the investment 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 International Accounting Standards Board ("IASB").

(thousands of Canadian dollars)	2018	2017
Cash provided by (used in):		
Operating activities	370,907	298,133
Investing activities	(25,580)	(20,908)
	345,327	277,225
Add back: cash used for business combinations and strategic investments <sup>(1)</sup>	3,680	15,435
<b>Free cash flow</b>	<b>349,007</b>	292,660

<sup>(1)</sup> Strategic investments are comprised of investments in venture funds and associated companies.

### ADJUSTED NET INCOME AND ADJUSTED BASIC EARNINGS PER SHARE

Management uses adjusted net income and adjusted basic earnings per share as a measure of enterprise-wide performance. Adjusted net income and adjusted basic earnings per share are defined as net income and basic earnings per share before items such as: non-recurring gains or losses related to acquisitions and/or dispositions of investments; costs of debt refinancing; non-cash impairment charges; and business acquisition, integration and restructuring costs. Management believes that adjusted net income and adjusted basic earnings per share are useful measures that facilitate period-to-period operating comparisons. Adjusted net income and adjusted basic earnings per share do not have any standardized meaning prescribed by IFRS and are not necessarily comparable to similar measures presented by other companies. Adjusted net income and adjusted basic earnings per share should not be considered in isolation or as a substitute for net income and basic earnings per share prepared in accordance with IFRS as issued by the IASB.

(thousands of Canadian dollars, except per share amounts)	2018	2017
<b>Net income (loss) attributable to shareholders</b>	<b>(784,509)</b>	191,665
<b>Adjustments, net of income tax:</b>		
Investment in associates impairment	—	5,250
Broadcast license and goodwill impairment charges	1,010,061	—
Business acquisition, integration and restructuring costs	12,859	23,573
<b>Adjusted net income attributable to shareholders</b>	<b>238,411</b>	220,488
<b>Basic earnings (loss) per share</b>	<b>(\$3.77)</b>	\$0.95
<b>Adjustments, net of income tax:</b>		
Investment in associates impairment	—	0.03
Broadcast license and goodwill impairment charges	4.85	—
Business acquisition, integration and restructuring costs	0.06	0.12
<b>Adjusted basic earnings per share</b>	<b>\$1.14</b>	\$1.10

**NET DEBT**

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

(thousands of Canadian dollars)	<b>2018</b>	2017
Total bank debt	<b>1,983,933</b>	2,091,580
Cash and cash equivalents	<b>(94,801)</b>	(93,701)
<b>Net debt</b>	<b>1,889,132</b>	1,997,879

**NET DEBT TO SEGMENT PROFIT**

Net debt to segment profit is calculated as net debt divided by segment profit. It is one of the key metrics used by the investing community to measure the Company's ability to repay debt through ongoing operations. Net debt to segment profit does not have any standardized meaning prescribed by IFRS and is not necessarily comparable to similar measures presented by other companies.

(thousands of Canadian dollars)	<b>2018</b>	2017
Net debt (numerator)	<b>1,889,132</b>	1,997,879
Segment profit (denominator) <sup>(1)</sup>	<b>575,628</b>	578,083
<b>Net debt to segment profit</b>	<b>3.28</b>	3.46

<sup>(1)</sup> Reflects aggregate amounts for the most recent four quarters, as detailed in the table in the "Quarterly Consolidated Financial Information" section.

**ENTERPRISE RISK MANAGEMENT**

Corus' enterprise risks are largely derived from the Company's business environment and are fundamentally linked to Corus' strategies and business objectives. Corus strives to proactively mitigate its risk exposures through rigorous performance planning, and effective and efficient business operational management. Residual exposure for certain risks is mitigated through appropriate insurance coverage where this is judged to be efficient and commercially available.

Corus strives to avoid taking on undue risk exposures whenever possible and ensures any potential risks are aligned with business strategies, objectives, values and risk tolerance.

**RISK GOVERNANCE**

The Company's Board of Directors has overall responsibility for risk governance and ensures that there are processes in place to effectively identify, assess, monitor, and manage principal business risks to which the Company is exposed. This includes oversight of the implementation of enterprise risk management procedures and the development of entity level controls. The Board carries out its risk management mandate primarily through the support of Board Committees and senior management as follows:

- The Audit Committee, which is responsible for overseeing the Company's policies and processes designed to mitigate and manage applicable regulatory compliance risk, including the adequacy of internal control over financial reporting;
- The Human Resources and Compensation Committee, which is responsible for the Company's policies and processes designed to mitigate and manage risks associated with the Company's compensation plans;
- The Corporate Governance Committee, which is responsible for maintaining and monitoring the Company's governance processes, including its Code of Conduct;
- The Executive Leadership Team, which is responsible for the establishment of enterprise risk management processes (which is carried out by the Company's Risk Management Committee).

In addition, entity level controls, (including the Company's Code of Conduct which is required to be reviewed and signed to confirm compliance annually by directors, officers and certain other employees of the Company), financial controls and other governance processes are in place and monitored regularly by the Company's Risk and Compliance group, which functions independently from management and provides the Audit Committee and management with objective evaluations of the Company's risk and control environment.

## **ENTERPRISE RISK MANAGEMENT FRAMEWORK**

The Company has established an Enterprise Risk Management Framework ("ERM") which includes identifying, assessing, managing, monitoring and communicating the principal business risks that impact the Company.

A strategic risk assessment is conducted as part of the Company's strategic planning process to identify and assess the principal business risks facing the Company and their potential impact on the achievement of the Company's strategic objectives. Emerging risks are included in the assessment and risks are prioritized using standard risk assessment criteria.

The Risk Management Committee ("RMC"), which reports to the Executive Leadership Team, is mandated to maintain the Company's ERM for identifying, assessing, managing, monitoring, and reporting the principal risks that impact the Company. The RMC is comprised of various senior managers from across the organization, with all key operating segments and functions represented. The Committee meets on a quarterly basis to review financial, hazard, operational and strategic risks to the Company. The likelihood and impact of these risks are ranked on a high, medium and low basis. These risks are reviewed by the Company's Disclosure Committee, the Executive Leadership Team, and finally, with the Board as part of the quarterly risk review process.

## **RISKS AND UNCERTAINTIES**

This section provides a summary description of the principal risks and uncertainties that could have a material adverse effect on the business and financial results of the Company. This discussion is not exhaustive and any discussion about risks should be read in conjunction with the "Cautionary Statement Regarding Forward-Looking Information".

### **A. GENERAL RISKS**

#### ***ECONOMIC CONDITIONS***

The Company's operating performance is affected by general Canadian and worldwide economic conditions. Changes in economic conditions or economic uncertainty may affect discretionary consumer and business spending, resulting in increased or decreased demand for Corus' product offerings. These factors may negatively affect the Company through reduced advertising, lower demand for our products and services or decreased profitability. Current or future events caused by volatility in domestic or international economic conditions or a decline in economic growth may have a material adverse effect on Corus, its operations and/or its financial results.

#### ***COMPETITION AND TECHNOLOGICAL DEVELOPMENTS***

Corus operates in an open and highly competitive marketplace. The television production industry and television and radio broadcasting services have always involved a substantial degree of risk. There can be no assurance of the economic success of the Company's radio stations, music formats, talent, television programs or networks because the revenues derived from such services and products depend upon audience acceptance of these or other competing programs released into, or networks existing in, the marketplace at or near the same time, the availability of alternative forms of entertainment and leisure time activities, general economic conditions, public tastes generally and other intangible factors, all of which could rapidly change, and many of which are beyond Corus' control. The lack of audience acceptance for Corus' radio stations, television programs, specialty television networks and conventional television stations would have an adverse impact on Corus' businesses, results of operations, prospects and financial condition. Corus' failure to compete in these areas could materially adversely affect Corus' results of operations.

Corus also faces competition from both regulated and unregulated players using existing or new technologies and from illegal services. The rapid deployment of new technologies, services and products have reduced the traditional lines between internet and broadcast services and further expanded the competitive landscape. The Company may also be affected by changes in customer discretionary spending patterns, which in turn are dependent on consumer confidence, disposable consumer income and general economic conditions. New or alternative media technologies and business models, such as video-on-demand, subscription-video-on-demand, high-definition television, personal video recorders, mobile television, internet protocol television, over-the-top internet-based video entertainment services, digital radio services, satellite radio and direct-to-home satellite compete with, or may in the future compete with, Corus' services for programming and audiences. As well, mobile devices like smartphones and tablets allow consumers to access content anywhere, anytime and are creating consumer demand for mobile, portable or free content. These technologies and business models may increase audience fragmentation, reduce subscribers to Corus' services, reduce Corus' linear television and radio ratings or have an adverse effect on advertising revenues from local and national audiences. Technological developments may also disrupt traditional distribution platforms by enabling content



owners to provide content directly to consumers, thus bypassing traditional content aggregators. While Corus invests in infrastructure, technology and programming to maintain its competitive position, there can be no assurance that these investments will be sufficient to maintain Corus' market share or performance in the future.

### **Television – Broadcast Business**

The financial success of Corus' specialty television services depend on obtaining revenues from advertising and subscribers, while Corus' conventional television services depend on obtaining revenues from advertising. These services are also dependent on the effective management of programming costs. Any failure by Corus' discretionary and basic television services to compete effectively could materially adversely affect Corus' results of operations.

#### **i) Advertising and Subscriber Revenues**

The conventional and specialty television business and the advertising markets the Company operates in is highly competitive. Numerous broadcast and specialty television networks, alternative forms of entertainment, as well as online advertising platforms and websites, and "over-the-top" digital distribution services that are not regulated by the CRTC compete with Corus for advertising and subscriber revenues. The CRTC also no longer requires the licensing of new discretionary services. These services can be launched at any time using the CRTC's exemption order which further increases competition. Corus' services also compete with a number of foreign programming services which have been authorized for distribution in Canada by the CRTC, such as A&E and CNN. This competition is for both supply of programming and also for audiences and can affect both the costs and revenues of a network. In addition, competition among specialty television services in Canada is highly dependent upon the offering of prices, marketing and advertising support and other incentives to cable operators and other distributors for carriage so as to favourably position and package the services to subscribers to achieve high distribution levels.

Corus' ability to compete successfully depends on a number of factors, including its ability to secure popular television and other programming rights for all platforms, including traditional linear broadcast rights and non-linear rights, in order to achieve audience acceptance, high distribution levels and attract advertising. Corus' ability to continue to attract advertising customers also depends on its ability to meet the evolving expectations of its advertising customers. Accordingly, there can be no assurance that Corus' television services will be able to maintain or increase their current share of audience and advertising revenues as well as maintain or increase current levels of subscriber distribution and penetration.

#### **ii) Programming Expenditures / Audience Acceptance**

Programming costs are one of the most significant expenses in the Television segment. Although the Company has processes to effectively manage these costs, increased competition in the television broadcasting industry due to factors mentioned above, changes in viewer preferences and other developments could impact the availability of premium content and/or increase the cost of programming content which could have a material adverse effect on Corus' operations and/or financial results.

In addition, programming content may be purchased or commissioned for broadcast one or two years in advance, making it more difficult to predict how such content will perform in terms of audience acceptance. Audience acceptance cannot be accurately predicted. The success of a program also depends on the type and extent of promotional and marketing activities, the quality and acceptance of competing programs, general economic conditions and other intangible factors, all of which can rapidly change and many of which are beyond Corus' control. A failure to select and obtain content demanded by viewers or otherwise a lack of audience acceptance of Corus' television programming could have a material adverse effect on Corus' operations and/or financial results.

Commission of original television programs requires a significant amount of capital. Factors such as labour disputes, technology changes or other disruptions affecting aspects of production may affect Corus or its independent production partners and cause cost overruns and delay or hamper completion of a production (see *RELIANCE ON KEY SUPPLIERS AND CUSTOMERS*).

### **Television – Content Business**

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

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

### **Radio**

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

Radio broadcasting is also subject to competition from other media, such as television, outdoor advertising, print and internet as well as alternative media technologies, such as satellite, music streaming and music downloading services. Potential advertisers can substitute advertising through the broadcast television system (which can offer concurrent exposure on a number of networks to enlarge the potential audience) or through daily, weekly and free-distribution newspapers, outdoor billboard advertising, magazines, other print media, direct mail marketing, the Internet and mobile advertising. Competing media commonly target the customers of their competitors, and advertisers regularly shift dollars from radio to these competing media and vice versa. In markets near the U.S. border, such as Kingston, Ontario, Corus also competes with U.S. radio stations. Accordingly, there can be no assurance that Corus' radio stations will be able to maintain or increase their current audience share and advertising revenue share.

## **B. BUSINESS RISKS**

### **RELIANCE ON KEY SUPPLIERS AND CUSTOMERS**

Corus procures its content from a limited number of key third party suppliers, some of whom are global in scale and have significant negotiating leverage. While Corus may have alternate sources of content, there can be no assurance that Corus would be able to source alternate content desirable to the Company's viewers. The loss of a key supplier may adversely affect Corus' operations and/or its financial results. Suppliers may also experience business difficulties, privacy and/or security incidents, restructure their operations, be consolidated with other suppliers, discontinue products or sell their operations or products to other vendors, which could affect the future development and support of the Company's services.

Corus enters into long-term agreements with various Broadcasting Distribution Undertakings ("BDUs") for the distribution of its television services. Corus derives most of its subscriber revenue from its relationships with a small number of the largest BDUs. As these contracts expire, there could be negative effect on Corus' operations and/or its financial results if Corus is unable to renew them on acceptable terms or at all, including revenues per subscriber and packaging that affects the networks' subscriber reach. Similarly, the majority of Corus' advertising revenues are derived from a small number of large advertising agency "upfront commitments". Any significant change in volume, rates and/or other terms associated with these sales commitments may have a positive or negative effect on Corus' operations and/or financial results.

Corus relies on certain information technology providers, telecommunications carriers and certain utilities to conduct Corus' business. Any disruption to the services provided by these suppliers, including labour strikes and other work disruptions, bankruptcies, technical difficulties or other events affecting the business operations of these information technology providers, telecommunications carriers and utilities may affect Corus' ability to operate and therefore have a negative impact on its operations and/or its financial results.

## **INFORMATION SYSTEMS AND INTERNAL BUSINESS PROCESSES**

The day-to-day operations of Corus are highly dependent on information technology systems and internal business processes and the ability of Corus and its service providers to protect the Company's networks and information technology systems. An inability to operate or enhance information technology systems could have an adverse impact on Corus' ability to produce accurate and timely invoices, manage operating expenses and produce accurate and timely financial reports. Although Corus has taken steps to reduce these risks, there can be no assurance that potential failures of, or deficiencies in, these systems or processes will not have an adverse effect on the Corus operations and/or its financial results.

An inability to protect the Company's systems, applications and information repositories against cyber threats, which include cyber attacks such as, but not limited to, hacking, computer viruses, denial of service attacks, industrial espionage, unauthorized access to confidential, proprietary or sensitive information, unauthorized access to corporate or network information technology systems or other breaches of security could result in service disruptions to, or could have an adverse impact on, the Company's business operations and could harm the Company's brand, reputation and customer relationships. Although the Company has taken steps to reduce these risks, there can be no assurance that future cyber threats, if to occur, will not have an adverse effect on the Company's operating results. Establishing response strategies and business continuity protocols to maintain operations if any disruptive event materializes is critical to the Company. A failure to complete planned and sufficient testing maintenance or replacement of the Company's networks, equipment and facilities as appropriate, could disrupt the Company's operations or require significant resources.

## **INTELLECTUAL PROPERTY RIGHTS / PIRACY**

### **Television / Radio – Broadcast Business**

Corus pays significant licence fees to acquire rights to content and branding on an exclusive basis.

From time to time, various third parties may contest or infringe upon these owned or licensed rights. Any such infringement, including increasingly rampant online piracy and illegal distribution of copyrighted television content, may have a material adverse impact on Corus' operations and financial results. Corus takes commercially reasonable efforts to minimize these risks including negotiating and enforcing protective covenants in its content licensing agreements.

There are systems in place to track proper registration and renewal of Corus' owned trade mark portfolio, and to have notice of third-party applications that may potentially conflict with Corus' trade marks, all with a view to ensuring that Corus' registrable intellectual property is afforded the maximum protection under applicable law.

Upon notice of a potential infringement of its owned or licensed intellectual property, Corus reviews these matters to determine what, if any, steps may be required or should be taken to protect its rights, including legal action, negotiated settlement and/or seeking remedies from intellectual property licensors. There can be no assurance that the steps that Corus takes to establish and protect its intellectual property will be adequate to prevent or eliminate infringement of its intellectual property and protect Corus' ability to competitively market and brand its television and digital services and/or be the exclusive distribution source of key licensed content in Canada.

Corus' linear television and digital platforms and services broadcast, make available, distribute and may contain many forms of content including licensed audio-visual programming, text, news, graphics, databases, photographs, recipes, audio files (music or otherwise) and rich interactive content, blog content, and user-generated content including story comments, and internal and external links. Corus takes steps to ensure that procedures are in place to clear rights and to monitor user-generated content. There remains a risk, however, that some potentially defamatory or infringing content can be posted on a Corus website. Corus carries insurance coverage against this risk but there remains an exposure to liability for third-party claims.

### **Television – Content Business**

Corus must be able to protect its trade marks, copyrights and other proprietary rights to competitively produce, distribute and licence its television programs and published materials and market its merchandise. Accordingly, Corus devotes the Company's resources to the establishment and protection of trade marks, copyrights and other proprietary rights on a worldwide basis.

From time to time, various third parties may contest or infringe upon the Company's intellectual property rights. The Company reviews these matters to determine what, if any, actions may be required or should be taken, including legal action or negotiated settlement. There can be no assurance that the Company's actions to establish and protect trade marks, copyrights and other proprietary rights will be adequate to prevent imitation or unauthorized reproduction of the Company's products by others or prevent third parties from seeking to block

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

### **NEWS**

Global News' primary directive is to report accurate, balanced, timely and comprehensive news and information in the public interest. Independence is a fundamental Global News value and, accordingly, Global News will resist attempts at censorship or pressure to alter news content, real or apparent. Integrity, fairness and transparency are at the foundation of the Company's newsgathering process, and Global News is committed to reporting news without distortion or misrepresentation.

In support of this directive, the Company has promulgated and has in effect a comprehensive set of Journalistic Principles and Practices setting out guidelines and standards for all news staff in their dealings with frequently asked editorial, ethical and legal, and professional conduct questions. These Journalistic Principles and Practices adhere closely to, amongst other things, the Radio Television Digital News Association Canada's Code of Ethics and Professional Standards, the Canadian Association of Broadcasters' Code of Ethics and the Canadian Association of Journalists Ethics Guidelines.

Due to the unique nature of news-gathering and news-reporting, a number of risks may also arise in the ordinary course of Global News investigation and reporting on the activities of individuals, corporations and governments. These include legal and ethical risks such as claims in respect of defamation, invasion of privacy, misrepresentation, and infringement of other rights (for example, Intellectual Property Rights and Piracy). A significant part of news-gathering and reporting arises in the context of court proceedings. Certain mandatory publication bans apply to criminal proceedings and, in addition, a court may impose a discretionary publication ban or sealing order in respect of the proceedings or materials used or related to investigations leading to a criminal charge. Where Global News has not otherwise successfully overturned or reduced the scope of a publication ban or sealing order through proper legal process, its policy is to fully comply with court-ordered publication bans and sealing orders. However, because there is no formalized publication ban notice system in place in most provinces, and because publication bans can often be subject to different interpretations, there is no assurance that Global News will not inadvertently breach a publication ban or sealing order and if that happens, there is a risk that Global News may be held to be in contempt of court. Similarly, Global News' policy is to resist production orders, warrants and subpoenas for its footage and other materials through proper legal process but, where this is not successful, Global News will comply with production orders, warrants and subpoenas of proper scope and detail.

Due to Global News' strong commitment to editorial independence, certain news-reporting may pose a risk to the Company's advertising revenue streams if advertisers are displeased with their portrayal in news programming and, as a result, choose to reduce or withdraw entirely, their advertising business with the Company.

The deliberate deployment of journalists to dangerous and hostile environments may expose employees and the Company to risks related to kidnapping, injury and death, as well as costs related to medical care and emergency repatriation of employees.

The Journalistic Principles and Practices articulate appropriate ways to deal with the above risks and describes proper protocol when such risks arise. In addition, news staff are provided with regular training to mitigate these risks and the Company carries customary and appropriate insurance to further mitigate risks. However, there can be no assurances that the Journalistic Principles and Practices comprehensively mitigate such risks. Events out of the Company's control may affect the Company's ability to operate and therefore have a negative impact on its operations and/or its financial results.

### **PRODUCTION OF FILM AND TELEVISION PROGRAMS**

Each production is an individual artistic work and its commercial success is determined primarily by the size of the market and audience acceptance. The latter cannot be accurately predicted. The success of a program is also dependent on the type and extent of promotional and marketing activities, the quality and acceptance of other competing programs, general economic conditions and other ephemeral and intangible factors, all of which can rapidly change and many of which are beyond Corus' control.

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

Financial risks exist in productions relating to tax credits and co-production treaties. The aggregate amount of government tax credits a project may receive can constitute a material portion of a production budget and typically can be as much as 30% of total budgeted costs. There is no assurance that government tax credits and industry funding assistance programs will continue to be available at current levels or that Corus' production projects will continue to qualify for them. As well, a significant number of Corus' productions are co-productions involving international treaties that allow Corus to access foreign financing and reduce production risk as well as qualify for Canadian government tax credits. If an existing treaty between Canada and the government of one of the current co-production partners were to be abandoned, one or more co-productions currently underway may also need to be abandoned. Losing the ability to rely on co-productions would have a significant adverse effect on Corus' production capabilities and production financing.

Results of operations for the production and distribution business for any period are dependent on the number, timing and commercial success of television programs and feature films delivered or made available to various media, none of which can be predicted with certainty.

Consequently, revenues from production and distribution may fluctuate materially from period to period and the results of any one period are not necessarily indicative of results for future periods. Cash flows may also fluctuate and are not necessarily closely correlated with revenue recognition.

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

### **MERCHANDISING**

Success of merchandising brands depends on consumers' tastes and preferences that can change in unpredictable ways. The Company depends on the acceptance by consumers of its merchandising offerings, therefore, success depends on the ability to predict and take advantage of consumer tastes in Canada and around the world. In addition, the Company derives royalties from the sale of licensed merchandise by third parties. Corus is dependent on the success of those third parties. Factors that negatively impact those third parties could adversely affect the Company's operating results.

### **PEOPLE**

#### ***Employee Retention, Recruitment and Engagement***

Corus' operations depend on the expertise, efforts and engagement of its employees. The industry is competitive in attracting and retaining a skilled workforce. The loss of key employees, through attrition or retirement or any deterioration in overall employee morale and engagement resulting from organizational changes, unresolved collective agreements or other events could have an adverse impact on Corus' operations and/or financial results. As well, failure to establish an effective succession plan could impair operations until qualified replacements are found.

#### ***Unionized Labour***

As at August 31, 2018, 28% of the Company's employees were employed under one of six collective agreements represented by two unions. Renegotiating collective bargaining agreements could result in higher labour costs, project delays and work disruptions. If work disruptions occur, it is possible that large numbers of employees may be involved and that the Company's business may be disrupted, causing negative effect to the Company's operations and/or financial results.

### **ENVIRONMENTAL CONCERNS**

Several areas of our operations further raise environmental considerations such as fuel storage, greenhouse gas emissions, disposal of hazardous residual materials, and recovery and recycling of end-of-life electronic products. The Company also own or leases a variety of properties, including its transmitter sites. Some or all of these sites may contain fuel storage systems for backup power generation. Leaks or spills from any of these storage tanks may pose an environmental risk or result in adverse environmental conditions that could result in liability for the Company. Failure to recognize and adequately respond to changing governmental and public expectations on environmental matters could result in fines, remedial costs, missed opportunities, additional regulatory scrutiny or harm Corus' brand and reputation.

## **C. FINANCIAL RISKS**

### **LEVERAGE RISK**

The Company's stated long-term objectives are a leverage target (net debt to segment profit ratio) below 3.0 times and to maintain a dividend yield in excess of 2.5%. In the short-term, the Company may permit the long-term leverage range to be exceeded (for long-term investment opportunities), but endeavours to return the leverage target 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's maintenance of increased levels of debt could adversely affect its financial condition and results of operations. In addition, increased debt service payments could adversely impact cash flows from operating activities, thereby reducing the amount of cash flows available for working capital, capital expenditures, acquisitions, future business opportunities, and other general corporate purposes, as well as limiting the Company's ability to pay dividends at current levels.

### **DIVIDEND PAYMENTS**

Payment of dividends on the Company's Class A Voting Shares and Class B Non-Voting Shares is dependent on the cash flow of the Company and subject to change. In fiscal 2018, the Company paid monthly share dividends on both its Class A Voting Shares and Class B Non-Voting Shares in amounts approved quarterly by the Board of Directors. Effective September 1, 2018, the Company's annual dividend rate was adjusted to \$0.24 per Class B Non-Voting Share and \$0.235 per Class A Voting Share and dividend payments are expected to be quarterly commencing in December 2018 for the first quarter of fiscal 2019. Declarations and payments of dividends are subject to approval of the Board of Directors. While the Company expects to generate sufficient free cash flow in fiscal 2019 to fund the Company's annual dividend rate for fiscal 2019, actual results may differ from the Company's expectations and there can be no assurance that the Company will be able to continue dividend payments at the currently anticipated rate or at all in the future. A reduction or cessation of the payment of dividends could materially affect the trading price of the Class B Non-Voting Shares.

### **MARKET VOLATILITY**

The market price for the Class B Non-Voting Shares may be volatile and subject to fluctuations in response to numerous factors, many of which may be beyond Corus' control. Financial markets have experienced significant price and volume fluctuations that have been particularly affected by the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. The market price for the Company's Class B Non-Voting Shares may decline in the future, even if the Company's operating results, underlying asset values or prospects have not changed.

### **CAPITAL MARKETS**

The Company may require continuing access to capital markets to sustain its operations. Disruptions in the capital markets, including changes in market interest rates or lending practices or the availability of capital, could have a materially adverse effect on the Company's ability to raise or refinance debt. There can be no assurances that additional financing could be available to the Company when needed or on terms that are acceptable. The Company's inability to raise or refinance capital when required to fund on-going operations or capital expenditures could limit growth and may have a material adverse effect on Corus, its operations and/or its financial results.

### **TAXES**

Corus' business is subject to various tax laws, changes to tax laws and the adoption of new tax laws, regulations thereunder and interpretations thereof, which may have adverse tax consequences to the Company. While Corus believes it has adequately provided for all income and commodity taxes based on information that is currently available, the calculation and the applicability of taxes in many cases require significant judgment in interpreting tax rules and regulations. In addition, Corus' tax filings are subject to government audits which could result in material changes in the amount of current and deferred income tax assets and liabilities and other liabilities which may, in certain circumstances, result in the assessment of interest and penalties.

### **INTEREST RATE RISK**

The Company utilizes long-term financing extensively in its capital structure, which includes a banking facility, as more fully described in note 14 to the audited consolidated financial statements. Interest rates on the balance of the bank loans fluctuate with Canadian bankers' acceptances and/or LIBOR. As such, Corus is exposed to risk on the interest rate of the Company's debt.

The Company manages its exposure to floating interest rates through the maintenance of a balance of fixed rate and floating rate debt or through the use of interest rate swap contracts to fix the interest rate on its floating rate debt. As at August 31, 2018, 80% (2017 – 81%) of the Company's consolidated long-term debt was fixed with respect to interest rates. Increases in interest rates could materially increase the cost of its financing and have a material adverse affect on the Company's financial performance.

#### **CREDIT RISK**

In the normal course of business, the Company is exposed to credit risk from its accounts receivable from customers. The carrying amounts for accounts receivable are net of applicable allowances for doubtful accounts, which are estimated based on past experience, specific risks associated with the customer and other relevant information.

As at August 31, 2018, the Company's trade receivables and allowance for doubtful accounts balances were \$367.9 million and \$4.5 million, respectively.

#### **FOREIGN CURRENCY RISK**

A portion of the Company's revenues and expenses are in currencies other than Canadian dollars and, therefore, are subject to fluctuations in exchange rates. Approximately 4% of Corus' total revenues in fiscal 2018 (2017 – 3%) were in foreign currencies, the majority of which was U.S. dollars. Approximately \$162.4 million of Corus' total payables at August 31, 2018 (2017 – \$194.1 million) were denominated in foreign currencies and are comprised of predominantly U.S. dollars. Accordingly, fluctuations in the Canadian dollar - U.S. dollar exchange rate may adversely affect Corus' financial results.

The Company manages its exposure to foreign exchange risk on U.S. dollar payments through the use of foreign exchange forward contracts to fix the exchange rate on a portion of its U.S. denominated payables. As at August 31, 2018, \$88.4 million (2017 – nil) of the Company's U.S. denominated payables were fixed with respect to foreign exchange rates.

The impact of foreign exchange gains and losses are described in note 24 to the audited consolidated financial statements.

#### **ACQUISITIONS AND OTHER STRATEGIC TRANSACTIONS**

The Company may, from time to time, make strategic acquisitions which involve significant risks and uncertainties. As such, the Company may experience difficulties in realizing the anticipated benefits, incur unanticipated expenses and/or have difficulty incorporating or integrating the acquired business, the occurrence of which could have a material adverse effect on the Company.

#### **HOLDING COMPANY STRUCTURE**

Substantially all of Corus' business activities are operated by its subsidiaries. As a holding company, the Company's ability to meet its financial obligations is dependent primarily upon the receipt of interest and principal payments on intercompany advances, management fees, cash dividends and other payments from its subsidiaries together with proceeds raised by the Company through the issuance of equity and the incurrence of debt, and from proceeds received on the sale of assets. The payment of dividends and making of loans, advances and other payments to the Company by its subsidiaries may be subject to statutory or contractual restrictions, are contingent upon the earnings of those subsidiaries and are subject to various business and other considerations.

#### **D. OWNERSHIP RISK**

##### **CONTROL OF CORUS BY THE SHAW FAMILY**

A majority of the outstanding Class A Voting Shares are held by Shaw Family Living Trust ("SFLT") and its subsidiaries. As at August 31, 2018, SFLT and its subsidiaries held 2,885,530 Class A Voting Shares, representing approximately 84% of the outstanding Class A Voting Shares, for the benefit of descendants of JR and Carol Shaw. JR Shaw controls these shares and controls 4,500 additional Class A Voting Shares. The sole trustee of SFLT is a private company owned by JR Shaw and having a board comprised of seven directors, including as at August 31, 2018, JR Shaw as Chair, Heather Shaw, Julie Shaw, three other members of JR Shaw's family and one independent director. The Class A participating shares are the only shares entitled to vote in most circumstances. Accordingly, SFLT and its subsidiaries are able to elect a majority of the Board of Directors of Corus and to control the vote on matters submitted to a vote of Corus' Class A participating shareholders.

## **GOVERNANCE AND INVESTOR RIGHTS AGREEMENT**

On January 13, 2016, the Company entered into an acquisition agreement with Shaw Communications Inc. ("Shaw"), a related party to Corus subject to common voting control, to acquire 100% of its media subsidiary, Shaw Media (the "Shaw Media Acquisition"). The purchase price for the Shaw Media Acquisition was satisfied by Corus through a combination of cash consideration and the issuance by the Company to Shaw of 71,364,853 Class B Non-Voting Shares ("Consideration Shares"). Concurrent with the closing of the Shaw Media Acquisition and following the issuance of the Consideration Shares to Shaw, Corus and Shaw entered into the Governance and Investor Rights Agreement ("GIRA"), pursuant to which Corus granted certain rights to Shaw, giving it influence over the Company including the right to nominate individuals to be elected or appointed to the board of directors of the Company and nominees to the executive committee of the Company (subject to certain ownership thresholds set out in the GIRA) and registration rights and pre-emptive rights. As a result, Shaw may have the ability to influence the conduct of business and affairs of the Company in ways that may not be aligned with the interests of other shareholders. For further details on the GIRA, please refer to the 2017 Annual Information Form filed on SEDAR at [www.sedar.com](http://www.sedar.com).

## **MARKET OVERHANG**

Corus' dual class share structure could result in a lower trading price for, or greater fluctuations in, the trading price of the Class B Non-Voting Shares. Sales of a significant number of the Company's Class B Non-Voting Shares could harm the market price of the Class B Non-Voting Shares. As additional shares of Class B Non-Voting Shares become available for resale in the public market, the supply of the Class B Non-Voting Shares would increase, which could decrease the market price of the Class B Non-Voting Shares. In addition, if the Company's shareholders sell a substantial amount of Class B Non-Voting Shares in the public market, it could create a circumstance commonly referred to as "overhang" in anticipation of which the market price of the Class B Non-Voting Shares could fall. Under the GIRA, certain restrictions limited Shaw's ability to sell its Class B Non-Voting Shares. However, these restrictions have expired and Shaw may now or in the future seek to sell some or all of its Class B Non-Voting Shares. The existence of an overhang, whether or not sales have occurred or are occurring, could also make it more difficult for the Company to raise additional financing through the sale of equity or equity related securities in the future at a time or price that the Company deems appropriate.

## **E. REGULATORY RISKS**

### **IMPACT OF REGULATION**

Corus' Radio and Television business activities are regulated by the Canadian Radio-television and Telecommunications Commission ("CRTC" or the "Commission") under the *Broadcasting Act*. Accordingly, Corus' results of operations could be adversely affected by changes in regulations, policies and decisions by the CRTC. These changes may relate to, or may have an impact on, among other matters, licensing, license renewal, competition, the television programming services the Company must distribute, infrastructure access and the potential for new or increased fees or costs, described below. In addition, costs of providing services may be increased from time to time as a result of compliance with industry or legislative initiatives to address consumer protection concerns or Internet-related issues as copyright infringement, unsolicited commercial e-mail, cybercrime, and lawful access. There can be no assurance that future regulatory requirements will not be imposed on Corus. Any changes in the regulatory regime could have a material adverse effect on Corus and its reputation, as well as Corus' results of operations and future prospects.

The CRTC, among other things, issues licences to operate radio and television stations. The Company's CRTC licences must be renewed from time to time and cannot be transferred without regulatory approval. Corus' radio stations must also meet technical operating requirements under the *Radiocommunications Act* and regulations promulgated under the *Broadcasting Act*.

The CRTC imposes a range of obligations upon licensees, including exhibition (number of hours broadcast) requirements for Canadian content, Canadian content expenditure requirements and access obligations (i.e. closed captioning or descriptive video). Any failure by the Company to comply with conditions of a licence could result in a revocation or forfeiture of the licence or imposition of mandatory orders from the Federal Court that could lead to the imposition of fines.

Canadian content programming is also subject to certification by various agencies of the Canadian federal government. If programming fails to so qualify, the Company's television licensees would not be able to use the programs to meet its Canadian content programming obligations and Corus' Nelvana operations might not qualify for certain Canadian tax credits and industry incentives.

Corus' radio, conventional television and specialty television undertakings rely upon blanket licences held by rights-holding collectives in order to make use of the music component of the programming and other uses



of works used or distributed by these undertakings. Under these licences, Corus is required to pay a range of tariff royalties established by the Copyright Board pursuant to the requirements of the *Copyright Act* (Canada) ("the "Copyright Act") to collectives (which represent the copyright owners) and individual copyright owners. These royalties are paid by these undertakings in the normal course of their business. The levels of the tariff royalties payable by Corus are subject to change upon application by the collecting societies and approval by the Copyright Board. The Government of Canada may, from time to time, make amendments to the *Copyright Act* to implement Canada's international treaty obligations and for other purposes. Any such amendments could result in Corus' broadcasting undertakings being required to pay additional royalties for these licences.

Refer also to the *Canadian Communications Industry – Regulatory Environment* section of the Company's Annual Information Form for further information.

### **CRTC Policy Review**

A series of CRTC policy statements in 2015 and 2016 and substantive decisions under the overall mantle known as "Let's Talk TV" have introduced several changes to the regulatory framework governing BDUs and Broadcasting Undertakings. Corus recommends that readers review the CRTC source documents at [www.CRTC.gc.ca](http://www.CRTC.gc.ca) for a complete understanding of the proposed changes. Information contained on, or accessible through, third party websites is not deemed to form a part of, or be incorporated by reference into, this MD&A.

On May 15, 2017, the Canadian Radio-Television and Telecommunications Commission ("CRTC ") issued its license renewal decisions for TV licenses held by Corus. All Corus English-language and French-language television services were given new five-year license terms, which began on September 1, 2017 and will end on August 31, 2022. The Canadian Programming Expenditure ("CPE") requirement for Corus' English-language services were set at 30% and expenditures towards programs of national interest ("PNI") were set at 5%, while the CPE for Corus' French-language group of services were set at 26% and the PNI requirement was set at 15%. The CRTC also removed the vestiges of legacy conditions of license in accordance with the Commission's Let's Talk TV policy.

Following the Group Based License ("GBL") renewal decisions in May 2017, a number of parties in the creative community appealed the decisions to the Cabinet of the Canadian federal government. In particular, these parties focused on the level of expenditure obligations toward programming of public national interest and contributions to original French-language programming.

On August 30, 2017, the CRTC requested that the large media groups file information and/or amend their original applications. The Commission decided to forego an oral hearing and make a decision based on the written record. The CRTC clarified that for the 2017-2018 broadcast year, the May 2017 GBL decisions would apply without modification.

On August 30, 2018, the CRTC published its reassessed baseline spending requirements for PNI expenditures for English-language services. The CRTC increased the PNI expenditure requirements for the Company to 8.5% which will apply September 1, 2018 through the rest of the five year term to August 31, 2022. The CRTC also increased the minimum threshold for French-language services on CPE to 50% for the period September 1, 2018 through August 31, 2019 and to 75% for the remaining years of the license term (September 1, 2019 - August 31, 2022).

The Company is still assessing the potential impact of these recent amendments to its television broadcast licenses and no assurance can be made that compliance will not materially adversely impact Corus' business, results of operations, prospects and financial condition.

More information can be found at [www.crtc.gc.ca](http://www.crtc.gc.ca). Information contained on, or accessible through, third party websites is not deemed to form a part of, or be incorporated by reference into, this MD&A.

### **Telecommunications Act, Radiocommunications Act, and Broadcasting Act Review**

In September 2017, the Minister of Canadian Heritage directed the CRTC to prepare a report on the future of programming and distribution models. The CRTC launched a two-phase consultation process to gather input from the public. Phase I was completed in December 2017 and Phase II in February 2018. Following this consultation, the CRTC released its report titled, "Harnessing Change" on May 31, 2018. On June 5, 2018, the Government of Canada launched a review of the *Broadcasting Act*, the *Telecommunications Act* and the *Radiocommunications Act*. The review will be conducted by a panel of seven independent experts.

On September 25, 2018, the Broadcasting and Telecommunications Legislative Review Panel launched its consultation process with the release of "*Responding to the New Environment: A Call for Comments*". The deadline for written submissions from stakeholders and other interested parties is November 30, 2018. The Panel has identified four broad themes for its consultation process which are:

- Reducing barriers to access by all Canadians to advanced telecommunications networks;
- Supporting creation, production and discoverability of Canadian content;
- Improving the rights of the digital consumer; and
- Renewing the institutional framework for the communications sector.

The potential outcome of this process is difficult to predict and as such, the impact is not determinable at this time but could adversely affect the Company's results of operations and financial performance.

More information can be found at [www.canada.ca](http://www.canada.ca).

#### **PROPOSED PROHIBITIONS ON FOOD ADVERTISING TO CHILDREN**

On October 6, 2017, Bill S-228 (the "Bill"), an Act to Amend the *Food and Drugs Act* (proposed federal legislation that limits unhealthy food and beverage advertising directed at children), was tabled for First Reading in Parliament and has since moved forward. On September 19, 2018, the Bill passed Third Reading in the House of Commons, and now awaits Royal Assent. Upon receipt of Royal Assent, the Bill will become law, but will not come into force until two years after the date of Royal Assent, which means that new restrictions will not come into force until October 2020, at the earliest. As Parliament has been considering the Bill, Health Canada has been conducting the process of drafting the regulations that will accompany the law. During the summer of 2018, Health Canada conducted a public consultation on its proposed regulatory approach. Corus participated in providing an industry response from the Canadian Association of Broadcasters on July 18, 2018. Draft regulations are expected to be proposed later this year and Health Canada will be holding an information session on November 5, 2018 in which further detail will be provided. Absent further detail regarding the regulations, the impact is not determinable at this time.

#### **DIGITAL TRANSITION AND REPURPOSING OF SPECTRUM**

In July 2009, the CRTC identified the major markets where it expected conventional television broadcasters to convert their full-power over-the-air ("OTA") analog transmitters to digital transmitters by August 31, 2011. The conversion from analog to digital liberated spectrum for government auction to mobile providers. Shaw Media completed the digital transition in all mandatory markets with a view to completion in 2016, which was a condition of the CRTC's approval of Shaw's acquisition of Canwest Global. On December 18, 2014, Industry Canada (now known as Innovation, Science and Economic Development Canada ("ISED")) launched a consultation to consider repurposing some of the 600 MHz spectrum band currently used by the Company's conventional television stations and other broadcasters for OTA transmission. At the same time, Industry Canada introduced a moratorium on applications to modify existing television broadcasting certificates and on any new licensing in the spectrum band pending the consultations and related processes. In March 2016, the CRTC approved the request from the Company to extend the timeline to complete the full slate of analog to digital conversions to August 31, 2019.

On August 14, 2015, the Government of Canada confirmed its intent to proceed with repurposing some of the 600 MHz spectrum band and to jointly establish a new allotment plan in collaboration with the United States. ISED has aligned with the US Federal Communications Commission to participate in a spectrum redistribution plan that will require broadcasters to vacate spectrum in TV channels 37-51 (608-692 MHz), as that will be consumed by mobile use. Accommodating this change will require Corus to install new equipment or reconfigure existing equipment at affected sites and may have an impact on signal quality and coverage. ISED has not yet committed to reimbursing broadcasters for the costs of facilitating this transition. Corus is working with the Canadian Association of Broadcasters on getting funding from the proceeds of the spectrum auction to pay for costs related to repurposing the 600MHz spectrum. Corus' first round of impacted transmitters, located in Ontario, is expected to transition out of the 600MHz frequency by June 2019.

The potential outcome of this process is difficult to predict and as such, Corus is unable to quantify the potential impacts at the present time. These could be materially adverse to the Company's financial results.

#### **ANTI-SPAM / PRIVACY PROTECTION LEGISLATION**

Canada's anti-spam legislation (together with the related regulations, "CASL") sets out a comprehensive regulatory regime regarding online commerce, including requirements to obtain consent prior to sending commercial electronic messages and installing computer programs. CASL is administered primarily by the CRTC, and non-compliance may result in fines of up to \$10 million. Corus has in place a compliance program with respect to CASL including electronic communications guidelines to minimize risk of non-compliance.

The *Personal Information Protection and Electronic Documents Act* ("PIPEDA") sets out the standard for obtaining consent for the collection, use and retention of personal information. Privacy protection of personal information is an area of law that is fast evolving in order to keep pace with technological and business model changes. Corus believes it takes reasonable and prudent steps to comply with PIPEDA and other privacy legislation, including having appointed a Privacy Officer to manage all privacy issues relating to Corus' business activities.

There can be no assurance that the Company's compliance procedures will prevent a non-compliance event, which could materially adversely impact Corus' results of operations.

#### **RESTRICTIONS ON NON-CANADIAN OWNERSHIP AND CONTROL**

The Company is subject to Canadian ownership and control restrictions, including restrictions on the ownership of the Class A Voting Shares and Class B Non-Voting Shares under the *Broadcasting Act*. Although the Company believes it to be in compliance with the relevant legislation, there can be no assurance that a future CRTC determination, or events beyond the Company's control, will not result in Corus ceasing to be in compliance with the relevant legislation. If such a development were to occur, the ability of Corus' subsidiaries to operate as Canadian carriers under the *Broadcasting Act* could be jeopardized and the Company's business could be materially adversely affected.

#### **D. CONTINGENCIES**

The Company and its subsidiaries are involved in litigation arising in the ordinary course and conduct of its business from time to time. The Company recognizes liabilities for contingencies when a loss is probable and capable of being estimated. As at August 31, 2018, there were no actions, suits or proceedings pending or against the Company or its subsidiaries which would, in management's estimation, likely be determined in such a manner as to have a material adverse effect on the business of the Company. Should any litigation in which the Company becomes involved be determined against the Company, such a decision could adversely affect the Company's ability to continue operating as well as the trading price of the Class B Non-Voting Shares.

#### **TRANSACTION WITH RELATED PARTIES**

Related party transactions are reviewed by Corus' Corporate Governance Committee, the majority of whom are independent directors. The following sets forth the certain transactions in which the Company is involved.

#### **CONTROL OF THE COMPANY BY THE SHAW FAMILY**

As at September 30, 2018, Shaw Family Living Trust ("SFLT") and its subsidiaries hold approximately 84% of the outstanding Class A Voting Shares of the Company, for the benefit of descendants of JR and Carol Shaw. The sole trustee of SFLT is a private company owned by JR Shaw and having a board comprised of seven directors, including, as at September 30, 2018, JR Shaw as Chair, Heather Shaw, Julie Shaw, three other members of JR Shaw's family and one independent director. JR Shaw controls the Class A Voting shares held by SFLT and its subsidiaries. The Class A Voting Shares are the only shares entitled to vote in all shareholder matters except in limited circumstances as described in the Company's Annual Information Form. Accordingly, SFLT is, and as long as it holds a majority of the Class A Voting Shares will continue to be, able to elect a majority of the Board of Directors of the Company and to control the vote on matters submitted to a vote of the Company's Class A shareholders.

SFLT is also the controlling shareholder of Shaw, and as a result, both Shaw and Corus are subject to common voting control.

#### **SHAW**

The Company and Shaw are subject to common voting control. During fiscal 2016, the Company entered into the following transactions with Shaw:

#### **ACQUISITION OF SHAW MEDIA**

On April 1, 2016, the Company acquired the shares of Shaw Media from Shaw for approximately \$2.65 billion, subject to certain post-closing adjustments, satisfied by the Company through a combination of: a) \$1.85 billion of cash consideration; and b) the issuance by the Company to Shaw of 71,364,853 Class B Non-Voting Shares (the "Consideration Shares") at a value per share of \$11.21 per share for an aggregate value of \$800.0 million. These shares, were valued for accounting purposes at \$833.5 million, which reflects the opening price of the Company's stock on April 1, 2016 of \$11.68 per share.

The Acquisition was a business combination between entities under common control and was accounted for by the Company using the acquisition method. The purchase price allocation was finalized as at February 28, 2017.

### **GOVERNANCE AND INVESTOR RIGHTS AGREEMENT**

Concurrent with the closing of the Acquisition and following the issuance of the Consideration Shares to Shaw, Corus and Shaw entered into the Governance and Investor Rights Agreement ("GIRA"), pursuant to which Corus granted certain rights to Shaw. For further details on the GIRA, please refer to the 2017 Annual Information Form filed on SEDAR at [www.sedar.com](http://www.sedar.com).

### **NORMAL COURSE TRANSACTIONS**

The Company has transacted business in the normal course with Shaw. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties, and have normal trade terms.

During the year, the Company received cable subscriber, programming and advertising fees of \$144.0 million (2017 – \$131.4 million), and production and distribution revenues of \$2.0 million (2017 – \$1.1 million) from Shaw. In addition, the Company paid cable and satellite system distribution access fees of \$12.3 million (2017 – \$13.1 million) and administrative and other fees of \$2.0 million (2017 – \$2.3 million) to Shaw. As at August 31, 2018, the Company had \$24.8 million (2017 – \$34.6 million) receivable and \$0.1 million (2017 – \$0.4 million) payable to Shaw.

Shaw holds a 38% interest in the Company. As a result, dividends of \$91.9 million (2017 – \$88.0 million) were paid to Shaw for the year ended August 31, 2018.

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

### **OUTSTANDING SHARE DATA**

As at October 18, 2018, 3,419,192 Class A Voting Shares and 208,577,866 Class B Non-Voting Shares were issued and outstanding. Class A Voting Shares are convertible at any time into an equivalent number of Class B Non-Voting Shares. The Class B Non-Voting Shares are convertible into an equivalent number of Class A Voting Shares in limited circumstances as described in the Company's most recent Annual Information Form.

### **IMPACT OF NEW ACCOUNTING POLICIES**

#### **CHANGES IN ACCOUNTING POLICIES**

There have been no standards issued by the IASB that took effect in the current year.

#### **PENDING ACCOUNTING CHANGES**

#### **IFRS 9 — FINANCIAL INSTRUMENTS: CLASSIFICATION AND MEASUREMENT**

In July 2014, the IASB issued the final version of IFRS 9 – *Financial Instruments*, which reflects all phases of the financial instrument project and replaces IAS 39 – *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss ("FVTPL") and amortized cost. Financial liabilities held-for-trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless the fair value option is applied. The treatment of embedded derivatives under the new standard is consistent with IAS 39 and only applied to financial liabilities. IFRS 9 uses a new expected loss impairment model and also uses a new model for hedge accounting aligning the accounting treatment with risk management activities. The measurement of impairment of financial assets is based on an expected credit loss model. It is no longer necessary for a triggering event to have occurred before credit losses are recognized. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The new classification and measurement requirements will be applied by adjusting the Company's consolidated financial statements on September 1, 2018, the date of initial application, with no restatement of comparative period financial information. The Company has assessed the impact of IFRS 9 on the consolidated financial statements and has determined that the adoption of IFRS 9 will enhance disclosure requirements, but will not have a material impact on the expected lifetime credit losses for the Company's trade and other receivables. The classification investments in venture funds is still under review. These investments must be classified as FVTPL or fair value through other comprehensive income ("FVOCI") with no recycling of gains and losses upon derecognition. The Company will continue to revise, refine and validate the impact of this standard leading up to first quarter reporting date of November 30, 2018.

### **IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS**

In May 2014, the IASB issued IFRS 15 – *Revenue from Contracts with Customers*, which outlined a single comprehensive model to account for revenue arising from contracts with customers and will replace the majority of existing IFRS requirements on revenue recognition including IAS 18 – *Revenue*. The core principles of IFRS 15 is to recognize revenue to depict the transfer of goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The standard provides a single, principles-based five-step model that will apply to revenue earned from a contract with a customer, regardless of the type of revenue transaction or industry. The standard will also provide guidance on the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities. The standard also specifies that direct incremental costs of obtaining and fulfilling a contract that are expected to be recovered should be capitalized and amortized over the expected obligations, changes in contract asset and liability account balances between periods and key judgments and estimates made. The Company will be implementing IFRS 15, using the modified retrospective approach where IFRS 15 will be applied to 2019 results, beginning September 1, 2018 without restating comparative periods.

The standard specifies that an entity recognizes revenue when it transfers promised goods or services to customer in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. Depending on whether certain criteria are met, revenue is recognized either over time, in a manner that depicts the entity's performance, or at a point in time, when control is transferred to the customer. The company has assessed its revenue streams and underlying contracts with customers. The majority of revenues within the scope of IFRS 15 are earned through the sale of advertising time and from subscriber fees. The Company has not identified any significant differences in the timing or amount of recognition of revenue as a result of IFRS 15, and therefore the changes to revenue earned on customer contracts is not expected to be significant. The Company continues to assess the impact of required disclosures around revenue recognition in the notes to the consolidated financial statements and any necessary policy and process changes, in preparation for adoption. Transition adjustments, if any, will be disclosed in the Q1 2019 interim condensed consolidated financial statements.

### **AMENDMENTS TO IFRS 2 – SHARE-BASED PAYMENTS**

IFRS 2 – Share-based Payments stipulates new conditions on the accounting for three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement feature for withholding tax obligations; and the accounting of a modification to the terms and conditions of a share-based payment that changes the transaction from cash-settled to equity-settled. IFRS 2 is applied prospectively; retroactive application is only permitted if the application can be performed without using hindsight. Requirements to apply IFRS 2 are effective for annual periods beginning on or after January 1, 2018. The Company has determined there is no impact to adoption of the standard on the Company's consolidated financial statements.

### **IFRS 16 – LEASES**

On January 13, 2016, the IASB published a new standard, IFRS 16 – *Leases*. The new standard will eliminate the distinction between operating and finance leases and will bring most leases onto the balance sheet for lessees. Lessees must recognize a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly, and the liability accrues interest. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease. Lessees are permitted to make an accounting policy election, by class of underlying asset, to apply a method like IAS 17's operating lease accounting and not recognize lease assets and lease liabilities for leases with a lease term of 12 months or less, and on a lease-by-lease basis, to apply a method similar to current operating lease accounting to leases for which the underlying asset is of low value. IFRS 16 supersedes IAS 17 – *Leases* and its related Interpretations, and is effective for period beginning on or after January 1, 2019, which will be September 1, 2019 for Corus and is to be applied retrospectively. The Company has not yet determined the impact on its consolidated financial statements.

### **IFRIC 23 – UNCERTAINTY OVER INCOME TAX TREATMENTS**

IFRIC 23 – *Uncertainty over Income Tax Treatments*, provides guidance when there is uncertainty over income tax treatments including (but not limited to) whether uncertain tax treatments should be considered separately; assumptions made about the examination of tax treatments by tax authorities; the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates; and, the impact of changes in facts and circumstances.

The new interpretation is effective for annual periods beginning on or after January 1, 2019 and will be adopted by the Company effective September 1, 2019. The company is currently assessing the impact of the new interpretation on its consolidated financial statements.

## **CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The Company's significant accounting policies are described in note 3 to the fiscal 2018 audited consolidated financial statements and notes thereto, which have been prepared in accordance with IFRS. The preparation of these fiscal 2018 consolidated financial statements requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities, and related disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods.

Management uses estimates when accounting for certain items such as revenues, allowance for doubtful accounts, amortization of film investments, useful lives of capital assets, asset impairments, provisions, share-based compensation plans, employee benefit plans, deferred income taxes and impairment of goodwill and intangible assets. Estimates are also made by management when recording the fair value of assets acquired and liabilities assumed in a business combination.

Estimates are based on a number of factors, including historical experience, current events and other assumptions that management believes are reasonable under the circumstances. By their nature, these estimates are subject to measurement uncertainty and actual results could differ. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Actual results could differ from those estimates. Critical accounting estimates and significant judgments are generally discussed with the Audit Committee each quarter.

The most significant estimates and judgments made by management are described below.

### **IMPAIRMENT OF LONG-LIVED ASSETS**

At each reporting date, the Company assesses its long-lived assets, including property, plant and equipment, program rights, film investments, goodwill and intangible assets, for potential indicators of impairment, such as an adverse change in business climate that may indicate that these assets may be impaired. If any impairment indicator exists, the Company estimates the asset's recoverable amount. 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, in which case the asset is assessed as part of the cash generating unit ("CGU") to which it belongs. An asset's or CGU's recoverable amount is the higher of its fair value less costs to sell and its value in use. The determination of the recoverable amount in the impairment assessment requires estimates based on quoted market prices, prices of comparable businesses, present value or other valuation techniques, or a combination thereof, necessitating management to make subjective judgments and assumptions.

Goodwill is allocated to a CGU or group of CGUs for the purposes of impairment testing based on the level at which management monitors it, which is not larger than an operating segment. The Company records an impairment loss if the recoverable amount of the CGU or the group of CGUs is less than the carrying amount. Goodwill and indefinite-life assets, such as broadcast licenses, are not amortized but are tested for impairment at least annually or more frequently if events or changes in circumstances indicate that an impairment may have occurred.

The Company completes its annual impairment testing process for broadcast licenses and goodwill during the fourth quarter each year.

The test for impairment of either an intangible asset or goodwill is to compare the recoverable amount of the asset or CGU (or group of CGUs in the case of goodwill) to the carrying value. The recoverable amount is the higher of an asset's or CGU's (or group of CGUs in the case of goodwill) fair value less costs to sell and its value in use. 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 calculating the recoverable amount, management is required to make several assumptions including, but not limited to, segment profit growth rates, future levels of capital expenditures, expected future cash flows and discount rates. The Company's assumptions are influenced by current market conditions and general outlook for the industry, both of which may affect expected segment profit growth rates and expected cash flows. The

Company has made certain assumptions for the discount and terminal growth rates to reflect possible variations in the cash flows; however, the risk premiums expected by market participants related to uncertainties about the industry, specific CGU or groups of CGUs may differ or change quickly depending on economic conditions and other events. Changes in any of these assumptions could have a significant impact on the recoverable amount of the CGU or groups of CGUs and the results of the related impairment testing.

In the third quarter of fiscal 2018, the Company recorded a non-cash impairment charge of \$13.7 million related to broadcast license impairment charges related to certain CGUs in the Radio segment and \$1,000.0 million related to goodwill impairment in the Television segment. 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 broadcast license and Television goodwill impairment tests, would not have resulted in a material change in the broadcast license impairment in the Radio segment, however would have resulted in an additional incremental goodwill impairment charge in the Television operating segment of between \$10.0 million and \$190.0 million.

A significant portion of the Company's total assets are long-lived intangible assets and goodwill. As at August 31, 2018, 70% of the Company's total assets were long-lived intangible assets. The Company records impairment losses on its long-lived assets when it believes that their carrying value may not be recoverable. Recoverability is highly dependent on the projected operating results of the Company. There can be no assurance that the Company will not record impairment charges in the future that could materially adversely impact Corus' financial results.

The Company has completed its annual impairment testing of goodwill and indefinite lived intangible assets in the fourth quarter of fiscal 2018 and concluded that there were no additional impairment charges required. The Company also assessed for indicators that previous impairment losses had decreased. There were no previously recorded impairment charges reversed.

## **INCOME TAXES**

The Company is subject to income taxes in Canada and foreign jurisdictions. The calculation of income taxes in many cases, however, requires significant judgment in interpreting tax rules and regulations. The Company's tax filings are subject to audits which could materially change the amount of current and deferred income tax assets and liabilities and could, in certain circumstances, result in the assessment of interest and penalties.

Additionally, estimation of the income tax provision includes evaluating the recoverability of deferred tax assets based on the assessment of the Company's ability to use the underlying future tax deductions before they expire against future taxable income. The assessment is based upon existing tax laws, estimates of future profitability and tax planning strategies. If the future taxable results of the Company differ significantly from those expected, the Company would be required to increase or decrease the carrying value of the deferred tax assets with a potentially material impact on the Company's consolidated statements of financial position and consolidated statements of comprehensive income. The carrying amount of deferred tax assets is reassessed at each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to utilize all or part of the deferred tax assets. Unrecognized deferred tax assets are recognized to the extent that it is more likely than not that taxable profit will be available against which deferred tax assets can be utilized.

## **POST-EMPLOYMENT BENEFIT PLANS**

The Company has various registered defined benefit plans for certain unionized and non-unionized employees and two supplementary executive non-registered retirement plans which provide pension benefits to certain of its key senior executives. The amounts reported in the financial statements relating to the defined benefit plans are determined using actuarial valuations that are based on several assumptions including the discount rate, rate of compensation increase, trend in healthcare costs, and expected average remaining years of service of employees. While the Company believes these assumptions are reasonable, differences in actual results or changes in assumptions could affect employee benefit obligations and the related income and comprehensive income statement impact. The differences between actual and assumed results are immediately recognized in other comprehensive income (loss). The most significant assumption used to determine the present value of the future cash flows that is expected will be needed to settle employee benefit obligations and is also used to calculate the interest income on plan assets. It is based on the yield of long-term, high-quality corporate fixed income investments closely matching the term of the estimated future cash flows and is reviewed and adjusted as changes are required. The following table illustrates the incremental increase on the accrued benefit obligation and pension expense of a 1% decrease in the discount rate:

(thousands of Canadian dollars)	<b>Accrued benefit obligation at August 31, 2018</b>	<b>Pension expense for the year ended August 31, 2018</b>
Weighted average discount rate – registered plans	3.70%	3.60%
Weighted average discount rate – non-registered plans	3.70%	3.57%
Impact of: 1% decrease – registered plans	\$36,388	\$2,902
Impact of: 1% decrease – non-registered plans	\$4,808	(\$46)

The significant assumptions used on the benefit obligation are disclosed in note 29 of the audited consolidated financial statements.

### **SHARE-BASED COMPENSATION**

In the evaluation of the fair value of stock options, Deferred Share Units ("DSUs"), Performance Share Units ("PSUs"), and Restricted Share Units ("RSUs") granted to eligible officers, directors and employees, the Company makes estimates and assumptions. Critical estimates and assumptions related to stock options include their expected life, the risk-free interest rate and the expected volatility of the market price of the shares. Critical estimates and assumptions related to DSUs, PSUs and RSUs include number of units expected to vest, the estimated dividend equivalents, and the achievement of specific vesting conditions. The Company believes that the assumptions used are reasonable based on information currently available, but changes to these assumptions could impact the fair value of stock options, DSUs, PSUs and RSUs and therefore, the share-based compensation costs recorded in direct cost of sales, general and administrative expenses.

## **CONTROLS AND PROCEDURES**

### **EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES**

Management, under the supervision of the President and Chief Executive Officer ("CEO") and Executive Vice President and Chief Financial Officer ("CFO"), is responsible for establishing and maintaining disclosure controls and procedures, as defined in National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*, and have designed such disclosure controls and procedures (or have caused it to be designed under their supervision) to provide reasonable assurance that material information with respect to Corus, including its consolidated subsidiaries, is made known to them. Disclosure controls and procedures ensure that information required to be disclosed by Corus in the reports that it files or submits under the provincial securities legislation is recorded, processed, summarized and reported within the time periods required. Corus has adopted or formalized such disclosure controls and procedures as it believes are necessary and consistent with its business and internal management and supervisory practices.

Management evaluated, under the supervision of and with the participation of the CEO and CFO, the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by these annual filings, and have concluded that, as of August 31, 2018, the Company's disclosure controls and procedures were effective.

### **MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management, under the supervision of the CEO and CFO, is responsible for establishing and maintaining adequate internal control over financial reporting, as defined by National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*, and have designed such internal control over financial reporting (or have caused it to be designed under their supervision) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements in accordance with IFRS.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Also, projections of any of the effectiveness of internal control are subject to the risk that the controls or that the degree of compliance with the policies and procedures may deteriorate. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to the financial statement preparation and presentation.

Management evaluated, under the supervision of and with the participation of the CEO and CFO, the effectiveness of the Company's internal control over financial reporting, as of August 31, 2018, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on its evaluation under this framework, management concluded that the Company's internal control over financial reporting was effective as at August 31, 2018



### **CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

There were no changes in the Company's internal control over financial reporting that occurred during fiscal 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of certain events. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

### **ADDITIONAL INFORMATION**

Additional information relating to the Company, including the Annual Information Form, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Corus Entertainment Inc. ("Corus" or the "Company") and all of the information in this Annual Report are the responsibility of management and have been approved by the Board of Directors (the "Board").

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly in all material respects. Management has prepared the financial information presented elsewhere in this Annual Report and has ensured that it is consistent with the consolidated financial statements.

Corus maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate, and that the Company's assets are appropriately accounted for and adequately safeguarded. During the past year, management has maintained the operating effectiveness of internal control over external financial reporting. As at August 31, 2018, the Company's Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation of, under their direct supervision, the design and operation of the Company's internal controls over financial reporting (as defined in National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings*) and, based on that assessment, determined that the Company's internal controls over financial reporting were appropriately designed and operating effectively.

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

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

The consolidated financial statements have been audited by Ernst & Young LLP, the external auditors on behalf of the shareholders. Ernst & Young LLP has full and free access to the Committee.



**Douglas D. Murphy**  
*President and  
Chief Executive Officer*



**John R. Gossling, FCPA, FCA**  
*Executive Vice President  
and Chief Financial Officer*

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of **Corus Entertainment Inc.**

We have audited the accompanying consolidated financial statements of **Corus Entertainment Inc.**, which comprise the consolidated statements of financial position as at August 31, 2018 and 2017, and the consolidated statements of income (loss) and comprehensive income (loss), changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

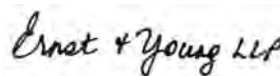
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Corus Entertainment Inc.** as at August 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Toronto, Canada  
October 18, 2018



Chartered Professional Accountants  
Licensed Public Accountants

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)	As at August 31, 2018	As at August 31, 2017
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	94,801	93,701
Accounts receivable (note 4)	388,751	408,443
Income taxes recoverable	3,305	1,388
Prepaid expenses and other	20,723	21,870
<b>Total current assets</b>	<b>507,580</b>	<b>525,402</b>
Tax credits receivable	18,047	18,172
Investments and other assets (note 5)	82,213	64,559
Property, plant and equipment (note 6)	231,192	260,068
Program rights (note 7)	538,357	648,346
Film investments (note 8)	43,424	40,728
Intangibles (notes 9 and 11)	2,012,086	2,045,813
Goodwill (notes 10 and 11)	1,387,652	2,387,652
Deferred income tax assets (note 21)	62,403	77,104
	<b>4,882,954</b>	<b>6,067,844</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (note 12)	405,762	415,661
Provisions (note 13)	11,175	15,791
Current portion of long-term debt (note 14)	106,375	172,500
<b>Total current liabilities</b>	<b>523,312</b>	<b>603,952</b>
Long-term debt (note 14)	1,877,558	1,919,080
Other long-term liabilities (note 15)	295,206	442,349
Provisions (note 13)	7,801	11,707
Deferred income tax liabilities (note 21)	502,274	491,235
<b>Total liabilities</b>	<b>3,206,151</b>	<b>3,468,323</b>
Share capital (note 16)	2,330,477	2,291,814
Contributed surplus	12,119	11,449
Retained earnings (deficit)	(856,668)	114,492
Accumulated other comprehensive income (note 17)	36,460	22,938
Total equity attributable to shareholders	1,522,388	2,440,693
Equity attributable to non-controlling interest	154,415	158,828
<b>Total shareholders' equity</b>	<b>1,676,803</b>	<b>2,599,521</b>
	<b>4,882,954</b>	<b>6,067,844</b>

Commitments, contingencies and guarantees (notes 14 and 28)

See accompanying notes

## CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

For the years ended August 31,

(in thousands of Canadian dollars except per share amounts)

	2018	2017
Revenues	1,647,347	1,679,008
Direct cost of sales, general and administrative expenses (note 18)	1,071,719	1,100,925
Depreciation and amortization (notes 6 and 9)	81,861	91,750
Interest expense (note 19)	127,346	156,716
Broadcast license and goodwill impairment (notes 9 and 10)	1,013,692	—
Business acquisition, integration and restructuring costs (note 13)	17,071	31,983
Other expense (income), net (note 20)	5,692	(8,953)
Income (loss) before income taxes	(670,034)	306,587
Income tax expense (note 21)	88,129	82,498
<b>Net income (loss) for the year</b>	<b>(758,163)</b>	<b>224,089</b>
<b>Net income (loss) attributable to:</b>		
Shareholders	(784,509)	191,665
Non-controlling interest	26,346	32,424
	<b>(758,163)</b>	<b>224,089</b>
<b>Earnings (loss) per share attributable to shareholders:</b>		
Basic	(\$3.77)	\$0.95
Diluted	(\$3.77)	\$0.95
<b>Net income (loss) for the year</b>	<b>(758,163)</b>	<b>224,089</b>
<b>Other comprehensive income (loss), net of income taxes (note 17):</b>		
<b>Items that may be subsequently reclassified to income:</b>		
Unrealized change in fair value of cash flow hedges	12,916	27,448
Unrealized change in fair value of available-for-sale investments	(118)	(298)
Unrealized foreign currency translation adjustment	724	(643)
	<b>13,522</b>	<b>26,507</b>
<b>Items that will not be reclassified to income:</b>		
Actuarial gain on post-employment benefit plans	11,550	6,874
	<b>25,072</b>	<b>33,381</b>
<b>Comprehensive income (loss) for the year</b>	<b>(733,091)</b>	<b>257,470</b>
<b>Comprehensive income (loss) attributable to:</b>		
Shareholders	(759,437)	225,046
Non-controlling interest	26,346	32,424
	<b>(733,091)</b>	<b>257,470</b>

See accompanying notes

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands of Canadian dollars)	Share capital (note 16)	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income (loss) (note 17)	Total equity attributable to shareholders	Non-controlling interest	Total equity
As at August 31, 2017	2,291,814	11,449	114,492	22,938	2,440,693	158,828	2,599,521
Comprehensive income (loss)	—	—	(784,509)	25,072	(759,437)	26,346	(733,091)
Dividends declared	—	—	(198,201)	—	(198,201)	(30,809)	(229,010)
Issuance of shares under dividend reinvestment plan	38,578	—	—	—	38,578	—	38,578
Issuance of shares under stock option plan	85	—	—	—	85	—	85
Actuarial gain on post-retirement benefit plans	—	—	11,550	(11,550)	—	—	—
Share-based compensation expense	—	670	—	—	670	—	670
Funding of equity interest	—	—	—	—	—	50	50
<b>As at August 31, 2018</b>	<b>2,330,477</b>	<b>12,119</b>	<b>(856,668)</b>	<b>36,460</b>	<b>1,522,388</b>	<b>154,415</b>	<b>1,676,803</b>
As at August 31, 2016	2,168,543	10,444	142,499	(3,569)	2,317,917	158,430	2,476,347
Comprehensive income (loss)	—	—	191,665	33,381	225,046	32,424	257,470
Dividends declared	—	—	(231,046)	—	(231,046)	(35,026)	(266,072)
Issuance of shares under dividend reinvestment plan	123,117	—	—	—	123,117	—	123,117
Issuance of shares under stock option plan	154	—	—	—	154	—	154
Actuarial gain on post-retirement benefit plans	—	—	6,874	(6,874)	—	—	—
Share-based compensation expense	—	1,005	—	—	1,005	—	1,005
Reallocation of equity interest (note 27)	—	—	4,500	—	4,500	3,000	7,500
As at August 31, 2017	2,291,814	11,449	114,492	22,938	2,440,693	158,828	2,599,521

See accompanying notes

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended August 31,

(in thousands of Canadian dollars)

	2018	2017
<b>OPERATING ACTIVITIES</b>		
Net income (loss) for the year	<b>(758,163)</b>	224,089
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Amortization of program rights (notes 7 and 18)	<b>516,300</b>	510,716
Amortization of film investments (notes 8 and 18)	<b>16,197</b>	23,958
Depreciation and amortization (notes 6 and 9)	<b>81,861</b>	91,750
Broadcast license and goodwill impairment (note 11)	<b>1,013,692</b>	—
Deferred income taxes (note 21)	<b>16,869</b>	17,109
Intangible and other assets impairment (note 5)	—	5,250
Share-based compensation expense (note 16)	<b>670</b>	1,005
Imputed interest (note 19)	<b>43,240</b>	51,519
Proceeds from termination of interest rate swap (note 14)	<b>24,644</b>	—
Payment of program rights	<b>(513,186)</b>	(509,979)
Net spend on film investments	<b>(33,722)</b>	(24,579)
CRTC benefit payments	<b>(2,332)</b>	(29,740)
Other	<b>(6,665)</b>	2,969
Cash flow from operations	<b>399,405</b>	364,067
Net change in non-cash working capital balances related to operations (note 25)	<b>(28,498)</b>	(65,934)
<b>Cash provided by operating activities</b>	<b>370,907</b>	298,133
<b>INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment	<b>(16,117)</b>	(26,989)
Proceeds from sale of property	<b>845</b>	—
Business combinations, net of acquired cash	—	3,000
Proceeds from disposition of non-controlling interest	—	5,250
Proceeds from disposition of investment	—	4,122
Net cash flows for intangibles, investments and other assets	<b>(10,308)</b>	(6,291)
<b>Cash used in investing activities</b>	<b>(25,580)</b>	(20,908)
<b>FINANCING ACTIVITIES</b>		
Decrease in bank loans	<b>(108,639)</b>	(110,706)
Deferred financing costs	<b>(4,088)</b>	—
Issuance of shares under stock option plan	<b>85</b>	154
Dividends paid	<b>(198,808)</b>	(106,062)
Dividends paid to non-controlling interest	<b>(28,809)</b>	(35,026)
Other	<b>(3,968)</b>	(3,247)
<b>Cash used in financing activities</b>	<b>(344,227)</b>	(254,887)
Net change in cash and cash equivalents during the year	<b>1,100</b>	22,338
Cash and cash equivalents, beginning of the year	<b>93,701</b>	71,363
<b>Cash and cash equivalents, end of the year</b>	<b>94,801</b>	93,701
Supplemental cash flow disclosures (note 25)		
See accompanying notes		

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 1. CORPORATE INFORMATION

Corus Entertainment Inc. (the "Company" or "Corus") is a diversified Canadian-based integrated media and content 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 – 2<sup>nd</sup> Street SW, Calgary, Alberta, T2P 0R8. The Company's executive office is at Corus Quay, 25 Dockside Drive, Toronto, Ontario, M5A 0B5.

These 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 specialty television networks, conventional television stations, the operation of radio stations; and the Corus content business, which consists of the production and distribution of films and television programs, merchandise licensing, book publishing and the production and distribution of animation software, media and technology services.

### 2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements have been prepared using the accounting policies in note 3.

These consolidated financial statements have been authorized for issue in accordance with a resolution from the Board of Directors on October 18, 2018.

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### BASIS OF PRESENTATION

The consolidated financial statements have been prepared on a cost basis, except for derivative financial instruments and certain available-for-sale financial assets, which have been measured at fair value. The 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.

#### BASIS OF CONSOLIDATION

##### *Subsidiaries*

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries, which are the entities over which the Company has control. Control exists when the entity is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The non-controlling interest component of the Company's subsidiaries is included as a separate component in equity.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases.

The financial statements of the Company's subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intra-company balances, transactions, unrealized gains and losses resulting from intra-company transactions and dividends are eliminated in full.

##### *Associates and joint arrangements*

Associates are entities over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the associate but is not control or joint control over those policies.

A joint venture is a type of joint arrangement in which the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining joint control or significant influence are similar to those necessary to determine control over subsidiaries. The Company accounts for investments in associates and joint ventures using the equity method.

Investments in associates and joint ventures accounted for using the equity method are originally recognized at cost. Under the equity method, the investment in the associate or joint venture is carried on the consolidated



statements of financial position at cost plus post-acquisition changes in the Company's share of income and other comprehensive income (loss) ("OCI"), less distributions of the associate. Goodwill on the acquisition of the associates and joint ventures is included in the cost of the investments and is neither amortized nor assessed for impairment separately.

The financial statements of the Company's equity-accounted investments are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company. All intra-company unrealized gains resulting from intra-company transactions and dividends are eliminated against the investment to the extent of the Company's interest in the associate. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

After the application of the equity method, the Company determines at each reporting date whether there is any objective evidence that the investment in the associate or joint venture is impaired and consequently, whether it is necessary to recognize an additional impairment loss on the Company's investment in its associate or joint venture. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the consolidated statements of income (loss) and comprehensive income (loss).

### **BUSINESS COMBINATIONS**

Business combinations are accounted for using the acquisition method of accounting, which requires the Company to identify and attribute values and estimated lives to the identifiable intangible assets acquired based on their estimated fair value. These determinations involve significant estimates and assumptions regarding cash flow projections, economic risk and weighted average cost of capital. The purchase consideration of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition-date fair value and the amount of any non-controlling interest in the acquiree.

For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in business acquisition, integration and restructuring costs.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date in the consolidated statements of income (loss) and comprehensive income (loss).

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be a financial asset or liability will be recognized in accordance with International Accounting Standard ("IAS") 39 – *Financial Instruments: Recognition and Measurement* either in profit or loss or as a change to OCI. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

### **REVENUE RECOGNITION**

Advertising revenues, net of agency commissions, are recognized in the period in which the advertising is aired on the Company's television and radio stations or posted on various websites and when collection is reasonably assured.

Subscriber fee revenues are recognized monthly based on estimated subscriber levels for the period-end, which are based on the preceding month's actual subscribers as submitted by the broadcast distribution undertakings.

The Company's revenues related to production and distribution revenues from the distribution and licensing of film rights; royalties from merchandise licensing, publishing and music contracts; sale of licenses, customer support, training and consulting related to the animation software business; revenues from customer support; and sale of books are recognized when the significant risks and rewards of ownership have transferred to the buyer; the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the entity; the stage of completion of the transaction at the end of the reporting period can be measured reliably; the costs incurred for the transaction and the costs to complete the transaction can be measured reliably; and the Company does not retain either continuing managerial involvement or effective control.

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

Non-refundable advances, whether recoupable or non-recoupable, on royalties are recognized when the license period has commenced and collection is reasonably assured, unless there are future performance obligations associated with the royalty advance for which, in that case, revenue recognition is deferred and recognized when the performance obligations are discharged. Refundable advances are deferred and recognized as revenue as the performance obligations are discharged.

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and short-term deposits with maturities of less than three months at the date of purchase. Cash that is held in escrow, or otherwise restricted from use, is reported separately from cash and cash equivalents.

### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment, and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Repair and maintenance costs are recognized in the consolidated statements of income (loss) and comprehensive income (loss) as incurred.

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Land and assets not available for use	Not depreciated
Equipment	
Broadcasting	5 – 10 years
Computer	3 – 5 years
Leasehold improvements	Lease term
Buildings	
Structure	20 – 30 years
Components	10 – 20 years
Furniture and fixtures	7 years
Other	4 – 10 years

An item of property, plant and equipment and any significant part initially recognized are derecognized upon disposal or when no future economic benefits are expected from their use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statements of income (loss) and comprehensive income (loss) when the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at least annually and the depreciation charge is adjusted prospectively, if appropriate.

### BORROWING COSTS

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period they are incurred.

### PROGRAM RIGHTS

Program rights represent contract rights acquired from third parties to broadcast television programs, feature films and radio programs. The assets and liabilities related to these rights are recorded when the Company controls the asset, the expected future economic benefits are probable and the cost is reliably measurable. The Company generally considers these criteria to be met and records the assets and liabilities when the license period has begun, the program material is accepted by the Company and the material is available for airing. Long-term liabilities related to these rights are recorded at the net present value of future cash flows, using an appropriate discount rate. These costs are amortized over the contracted exhibition period as the programs or feature films are aired. Program and film rights are carried at cost less accumulated amortization.

The amortization period and the amortization method for program rights are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the assets are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. Amortization of program rights is included in direct cost of sales, general and administrative expenses and has been disclosed separately in the consolidated statements of cash flows.

### **FILM INVESTMENTS**

Film investments represent the costs of projects in development, projects in process, the unamortized costs of proprietary films and television programs that have been produced by the Company or for which the Company has acquired distribution rights, and third-party-produced equity film investments. Such costs include development and production expenditures and attributed studio and other costs that are expected to benefit future periods. Costs are capitalized upon project greenlight for produced and acquired films and television programs. The Company has segregated its film investments into two categories: current productions and library or acquired productions. Current productions are considered library productions immediately subsequent to their initial availability for licensing as they are considered completed.

Current productions have been amortized using a declining balance method at rates ranging from 50 – 75% at the time of initial episodic delivery and at annual rates ranging from 15 – 25% thereafter. Library content is amortized using a declining balance method at rates ranging from 10 – 25% annually. Acquired rights have been amortized using a straight-line method.

The amortization period and the amortization method for film investments are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the assets are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

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

Third-party-produced equity film investments are carried at fair value. Cash received from an investment is recorded as a reduction of such investment on the consolidated statements of financial position and the Company records income on the consolidated statements of income (loss) and comprehensive income (loss) only when the investment is fully recouped.

Amortization of film investments is included in direct cost of sales, general and administrative expenses and has been disclosed separately in the consolidated statements of cash flows.

### **GOODWILL AND INTANGIBLE ASSETS**

Intangible assets acquired separately are measured on initial recognition at cost. Intangible assets acquired in a business combination are measured at fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment charges, if any. Internally generated intangible assets such as goodwill, brands and customer lists, excluding capitalized program and film development costs, are not capitalized and expenditures are reflected in the consolidated statements of income (loss) and comprehensive income (loss) in the year in which the expenditure is incurred.

Intangible assets are recognized separately from goodwill when they are separable or arise from contractual or other legal rights and their fair value can be measured reliably. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over their useful economic lives and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for intangible assets with finite useful lives are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the assets are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statements of income (loss) and comprehensive income (loss) in the expense category, consistent with the function of the intangible assets.

Amortization is recorded on a straight-line basis over the estimated useful life of the asset as follows:

Brand names, trade marks and digital rights	Agreement term
Software, patents and customer lists	3 – 5 years

Intangible assets with indefinite useful lives are not amortized. Broadcast licenses are considered to have an indefinite life based on management's intent and ability to renew the licenses without significant cost and without material modification of the existing terms and conditions of the license. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Goodwill is initially measured at the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognized in the consolidated statements of income (loss) and comprehensive income (loss).

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to a cash generating unit ("CGU") or group of CGUs that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. The group of CGUs is not larger than the level at which management monitors goodwill or the Company's operating segments.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair value of the operation disposed of and the portion of the CGU retained.

Broadcast licenses, indefinite life intangible assets and goodwill are tested for impairment annually or more frequently if events or circumstances indicate that they may be impaired. The Company completes its annual testing during the fourth quarter each year.

Broadcast licenses and indefinite life intangible assets by themselves do not generate cash inflows and therefore, when assessing these assets for impairment, the Company looks to the CGU to which the asset belongs. The identification of CGUs involves judgment and is based on how senior management monitors operations; however, the lowest aggregations of assets that generate largely independent cash inflows represent CGUs for broadcast license and indefinite life intangible asset impairment testing.

#### ***CGUs for broadcast license and indefinite life intangible asset impairment testing***

For the Television segment, the Company has determined that there are two CGUs: (1) Managed Brands consisting of conventional television stations, and specialty television networks that are operated and managed directly by the Company; and (2) Other, as these are the levels at which independent cash inflows have been identified.

For the Radio segment, the Company has determined that the CGU is a radio cluster whereby a cluster represents a geographic area, generally a city, where radio stations are combined for the purpose of managing performance. These clusters are managed as a single asset and overhead costs are allocated amongst the cluster and have independent cash inflows at the cluster level.

#### ***Groups of CGUs for goodwill impairment testing***

For purposes of impairment testing of goodwill, the Company has grouped the CGUs within the Television and Radio operating segments and performs the test at the operating segment level. This is the lowest level at which management monitors goodwill for internal management purposes.

#### ***Other intangible assets***

Gains or losses on an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statements of income (loss) and comprehensive income (loss) when the asset is derecognized.

### **GOVERNMENT FINANCING AND ASSISTANCE**

The Company has access to several government programs that are designed to assist film and television production in Canada. Funding from certain programs provides a supplement to a series' Canadian license fee and is recorded as revenue when cash has been received. Government assistance with respect to federal and provincial production tax credits is recorded as a reduction of film investments when eligible expenditures

are made and there is reasonable assurance of realization. Assistance in connection with internally produced film investments is recorded as a reduction in film investments. The accrual of production tax credits on a contemporaneous basis with production expenditures are based on a five-year historical trending of the ratio of actual production tax credits received to total production tax credits applied for.

Government assistance with respect to digital activities is recorded as a reduction in the related expenses when management has reasonable assurance that the conditions of the government programs are met.

Government grants approved for specific publishing projects are recorded as revenue when the related expenses are incurred and there is reasonable assurance of realization.

#### **FOREIGN CURRENCY TRANSLATION**

Assets and liabilities of operations having a functional currency other than Canadian dollars are translated at the rate of exchange at the consolidated statements of financial position date. Revenues and expenses are translated at average exchange rates for the year. The resulting foreign currency translation adjustments are recognized in OCI.

Foreign currency transactions are translated into the functional currency at the rate of exchange at the transaction date. Foreign currency denominated monetary assets and liabilities are translated into the functional currency at the rate of exchange at the consolidated statements of financial position date. Gains and losses on translation of monetary items are recognized in the consolidated statements of income (loss) and comprehensive income (loss).

#### **INCOME TAXES**

Income tax expense is comprised of current and deferred income taxes. Income tax expense is recognized in the consolidated statements of income (loss), unless it relates to items recognized outside the consolidated statements of income (loss). Income tax expense relating to items recognized outside of the consolidated statements of income (loss) is recognized in correlation to the underlying transaction in either OCI or equity.

##### ***Current income tax***

The Company records current income tax expense or recovery based on taxable income earned or loss incurred for the period in each tax jurisdiction where it operates, and for any adjustment to taxes payable in respect of previous years, using tax laws that are enacted or substantively enacted at the consolidated statements of financial position date.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation. The Company establishes provisions related to tax uncertainties, where appropriate, based on its best estimate of the amount that will ultimately be paid to or received from taxation authorities.

##### ***Deferred income tax***

The Company uses the liability method of accounting for deferred income taxes. Under this method, the Company recognizes deferred income tax assets and liabilities for future income tax consequences attributable to temporary differences between the financial statement carrying amounts of assets and liabilities and their respective income tax bases, and on unused tax losses and tax credit carryforwards. The deferred income tax assets and liabilities related to intangible assets with indefinite useful lives have been measured based on the Company's expectation that these assets will be recovered through use. The Company measures deferred income taxes using tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

The Company recognizes deferred income tax assets only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences as well as unused tax losses and tax credit carryforwards can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred income tax asset to be recovered. The Company recognizes the effect of a change in income tax rates in the period of enactment or substantive enactment.

Deferred income taxes are not recognized if they arise from the initial recognition of goodwill, nor are they recognized on temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and that affects neither accounting nor taxable profit nor loss. Deferred

income taxes are also not recognized on temporary differences relating to investments in subsidiaries to the extent that it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

To determine the provision for income taxes, certain assumptions are made, including filing positions on certain items and the ability to realize deferred income tax assets. In the event the outcome differs from management's assumptions and estimates, the effective tax rate in future periods could be affected.

### **CRTC BENEFIT OBLIGATIONS**

The fair value of CRTC benefit obligations committed as part of business acquisitions are initially recorded at the present value of amounts to be paid net of any expected incremental cash inflows. The obligation is subsequently adjusted for the incurrence of related expenditures, the passage of time and for revisions to the timing of the cash flows. Changes in the obligation due to the passage of time are recorded as accretion of long-term liabilities and interest expense.

### **PROVISIONS**

Provisions are recognized if the Company has a present legal or constructive obligation as a result of past events, if it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation as of the date of the consolidated statements of financial position, taking into account the risks and uncertainties surrounding the obligation. In some situations, external advice may be obtained to assist with the estimates.

Provisions are discounted and measured at the present value of the expenditure expected to be required to settle the obligation, using an after-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense. Future information could change the estimates and thus impact the Company's financial position and results of operations.

### **FINANCIAL INSTRUMENTS**

Financial assets within the scope of IAS 39 - *Financial Instruments: Recognition and Measurement* are classified as financial assets at fair value through profit or loss, loans and receivables or available-for-sale ("AFS"), as appropriate. The Company determines the classification of its financial assets at initial recognition.

Financial instruments classified at fair value through profit or loss and financial assets classified as AFS are recognized on the trade date, which is the date that the Company commits to purchase or sell the asset.

The Company has classified its financial instruments as follows:

<b>Fair value through profit or loss</b>	<b>Loans and receivables</b>	<b>Available-for-sale</b>	<b>Other financial liabilities</b>	<b>Derivatives</b>
<ul style="list-style-type: none"> <li>• Cash and cash equivalents.</li> </ul>	<ul style="list-style-type: none"> <li>• Accounts receivable;</li> <li>• Loans and other receivables included in "investments and other assets".</li> </ul>	<ul style="list-style-type: none"> <li>• Other portfolio investments included in "investments and other assets";</li> <li>• Third-party-produced equity film investments.</li> </ul>	<ul style="list-style-type: none"> <li>• Accounts payable, accrued liabilities and provisions;</li> <li>• Long-term debt;</li> <li>• Other long-term financial liabilities included in "Other long-term liabilities".</li> </ul>	<ul style="list-style-type: none"> <li>• Derivatives that are part of a cash flow hedging relationship.</li> </ul>

Financial assets at fair value through profit or loss are carried at fair value. Changes in fair value are recognized in other income (expense) in the consolidated statements of income (loss) and comprehensive income (loss).

#### **Loans and receivables**

Loans and receivables are initially recognized at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest rate method less any impairment. Receivables are reduced by provisions for estimated bad debts, which are determined by reference to past experience and expectations.

**Financial assets classified as AFS**

Financial assets that are not classified at fair value through profit or loss or as loans and receivables are classified as AFS. A financial asset classified as AFS is initially recognized at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. AFS financial instruments are subsequently measured at fair value, with unrealized gains and losses recognized in OCI and accumulated in accumulated other comprehensive income ("AOCI") until the investment is derecognized or determined to be impaired, at which time the cumulative gain or loss is reclassified to the consolidated statements of income (loss) and comprehensive income (loss) and removed from AOCI. AFS equity instruments not quoted in an active market where fair value is not reliably determinable are recorded at cost less impairment, if any, determined based on the present values of expected future cash flows.

**Other financial liabilities**

Financial liabilities within the scope of IAS 39 are classified as other financial liabilities. The Company determines the classification of its financial liabilities at initial recognition.

Other financial liabilities are measured at amortized cost using the effective interest rate method. Long-term debt instruments are initially measured at fair value, which is the consideration received, net of transaction costs incurred. Transaction costs related to the long-term debt instruments are included in the value of the instruments and amortized using the effective interest rate method.

**Derivatives**

Derivatives that are part of an established and documented cash flow hedging relationship, such as interest rate swap agreements and foreign exchange forward contracts, are initially presented at their fair value on the date the derivative contract is entered into and are subsequently remeasured at fair value. Gains or losses arising from the revaluation are included in OCI to the extent of hedge effectiveness.

Instruments that have been entered into by the Company to hedge exposure to interest rate risk or foreign currency risk are reviewed on a regular basis to ensure the hedges are still effective and that hedge accounting continues to be appropriate.

**Derecognition**

A financial asset is derecognized when the rights to receive cash flows from the asset have expired, or when the Company transfers its rights to receive cash flows from the asset and the associated risks and rewards to a third party. The unrealized gains and losses recorded in AOCI are transferred to the consolidated statements of income (loss) and comprehensive income (loss) on disposal of an AFS asset.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

**Determination of fair value**

Fair value is defined as the price at which an asset or liability could be exchanged in a current transaction between knowledgeable, willing parties, other than in a forced or liquidation sale. The fair value of instruments that are quoted in active markets is determined using the quoted prices where they represent those at which regularly and recently occurring transactions take place. The Company uses valuation techniques to establish the fair value of instruments where prices quoted in active markets are not available. Therefore, where possible, parameter inputs to the valuation techniques are based on observable data derived from prices of relevant instruments traded in an active market. These valuation techniques involve some level of management estimation and judgment, the degree of which will depend on the price transparency for the instrument or market and the instrument's complexity.

The Company categorizes its fair value measurements according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined as follows:

Level 1 – Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets.

Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The fair values of cash and cash equivalents are classified within Level 1 because they are based on quoted prices for identical assets in active markets.

The fair value of portfolio investments measured at fair value are classified within Level 2 because even though the security is listed, it is not actively traded. The Company determines the fair value for interest rate swaps as the net discounted future cash flows using the implied zero-coupon forward swap yield curve. The change in the difference between the discounted cash flow streams for the hedged item and the hedging item is deemed to be hedge ineffectiveness and is recorded in the consolidated statements of income (loss) and comprehensive income (loss). The fair value of the interest rate swap is based on forward yield curves, which are observable inputs provided by banks and available in other public data sources, and are classified within Level 2. The fair value of foreign exchange forward contracts is based on net discounted future cash flows using projected market rates, which are observable inputs provided by banks and available in other public data sources and are classified within Level 2.

The fair value of third-party-produced equity film investments and the related forward purchase obligations are classified within Level 3, as there is little to no market activity and the amounts recorded are based on a discounted cash flow model and expected future cash flows.

The fair value of investments in venture funds are not reliably measured because their fair value is neither evidenced by a quoted price in an active market for an identical asset nor based on a valuation technique that uses only data from unobservable markets. Given the early stage nature of the underlying investments of the venture funds, they are measured at cost.

Both bank credit facilities and interest rate swap agreements are classified within Level 2, as their fair value is determined by observable market data. The carrying value of bank credit facilities approximates fair value as the debt bears interest at rates that fluctuate with market rates. The fair value of interest rate swap agreements is calculated by way of discounted cash flows, using market interest rates and applicable credit spreads.

## HEDGES

Hedge accounting is applied to interest rate swap agreements to fix the interest rate on the term facility. In order to apply hedge accounting, a high correlation (which indicates effectiveness) is required in the offsetting changes in the values of the financial instruments (the hedging items) used to establish the designated hedging relationships at inception and actual effectiveness for each reporting period thereafter. A designated hedging relationship is assessed at inception for its anticipated effectiveness and actual effectiveness for each reporting period thereafter. Any ineffectiveness is reflected in the consolidated statements of income (loss) and comprehensive income (loss) as financing costs within other expense (income), net.

In the application of hedge accounting, an amount (the hedge value) is recorded on the consolidated statements of financial position in respect of the fair value of the hedging item. The net difference, if any, between the amount recognized in the determination of net income and the amounts necessary to reflect the fair value of the designated cash flow hedging items on the consolidated statements of financial position is recognized as a component of OCI.

## SHARE-BASED COMPENSATION

The Company has a stock option plan, two Deferred Share Units ("DSUs") plans, a Performance Share Units ("PSUs") plan and a Restricted Share Units ("RSUs") plan, with certain units under such plans awarded to certain employees and directors.

The fair value of the stock options granted which represent equity awards are measured using the Black-Scholes option pricing model. For stock options, the model considers each tranche with graded vesting features as a separate share option grant. Forfeitures for the stock options are estimated on the grant date and revised if the actual forfeitures differ from previous estimates.

This fair value is recognized as share-based compensation expense over the vesting periods, with a related credit to contributed surplus. The contributed surplus balance is reduced as options are exercised through a credit to share capital. The consideration paid by option holders is credited to share capital when the options are exercised.

Eligible executives and non-employee directors may elect to receive DSUs equivalent in value to Class B Non-Voting Shares of the Company in lieu of certain cash payments. Share-based compensation expense is recorded in the year of receipt of the DSUs and changes in the fair value of outstanding DSUs, including deemed dividend equivalents, are recorded as an expense in the period that they occur with a corresponding charge to liability. These DSUs can only be redeemed once the executive or director is no longer employed with the Company.



Eligible executives may be granted awards of DSUs, PSUs and RSUs equivalent in value to Class B Non-Voting Shares of the Company. DSUs, PSUs and RSUs vest after three to five years and are settled in cash at the end of the restriction period or in the case of DSUs when the executive is no longer employed with the Company. DSUs, PSUs and RSUs are accrued over the three to five-year vesting period as share-based compensation expense and a related liability.

Forfeitures are estimated on the grant date and revised if the actual forfeitures differ from the estimates. The liability is recorded at fair value, which includes deemed dividend equivalents at each reporting date. Accrued DSUs, PSUs and RSUs are recorded as long-term liabilities, except for the portion that will vest within 12 months, which is recorded as a current liability.

Each DSU, PSU and RSU entitles the participant to receive a cash payment in an amount equal to the 20-day volume weighted average price ("VWAP") of the Company's Class B Non-Voting Shares traded on the TSX at the end of the restriction period, multiplied by the number of vested units determined by achievement of vesting conditions. The cost of share-based compensation is included in direct cost of sales, general and administrative expenses.

### **EMPLOYEE BENEFIT PLANS**

The Company maintains capital accumulation (defined contribution), post-retirement benefit plans and defined benefit employee benefit plans. Company contributions to capital accumulation plans and post-retirement benefit plans are expensed as incurred.

The defined benefit plans are unfunded plans for certain members of senior management and funded plans for certain other employees. The costs of providing benefits under the defined benefit plans are calculated by independent actuaries separately for each plan using the projected unit credit method prorated on service and management's best estimate of assumptions of salary increases and retirement ages of employees. On an interim basis, management estimates the changes in the actuarial gains and losses based on changes in discount rates. These estimates are adjusted when the annual valuation or estimate is completed by the independent actuaries. The present value of the defined benefit obligations are determined by discounting estimated future cash flows using a discount rate based on high-quality corporate bonds with maturities that match the expected maturity of the obligations. A lower discount rate would result in a higher employee benefit obligation.

Current service, interest and past service costs and gains or losses on settlement are recognized in the consolidated statements of income (loss) and comprehensive income (loss). Actuarial gains and losses for the plans are recognized in full in the period in which they occur in OCI. Such actuarial gains and losses are also immediately recognized in retained earnings and are not reclassified to profit or loss in subsequent periods. The asset or liability that is recognized on the consolidated statements of financial position is the present value of the defined benefit obligation at the reporting date less the fair value of the plans' assets. For the funded plans, the value of any additional minimum funding requirements (as determined by the applicable pension legislation) is recognized to the extent that the amounts are not considered recoverable. Recoverability is primarily based on the extent to which the Company can reduce the future contributions to the plans.

Past service costs are recognized immediately upon the introduction of, or changes to, the defined benefit plans.

### **IMPAIRMENT OF LONG-LIVED ASSETS**

At each reporting date, the Company assesses its long-lived assets, including property, plant and equipment, program and film rights, film investments, goodwill and intangible assets, for potential indicators of impairment, such as an adverse change in business climate that may indicate that these assets may be impaired. If any impairment indicator exists, the Company estimates the asset's recoverable amount. 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, in which case the asset is assessed as part of the CGU to which it belongs. An asset's or CGU's recoverable amount is the higher of its fair value less costs to sell ("FVLCS") and its value in use ("VIU"). The determination of the recoverable amount in the impairment assessment requires estimates based on quoted market prices, prices of comparable businesses, present value or other valuation techniques, or a combination thereof, necessitating management to make subjective judgments and assumptions.

The Company records impairment losses on its long-lived assets when the Company believes that their carrying value may not be recoverable. For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If the reasons for impairment no longer apply, impairment losses may be reversed up to a maximum of the carrying amount of the respective asset if the impairment loss had not been recognized.

### **Goodwill**

Goodwill is reviewed for impairment annually or more frequently if there are indications that impairment may have occurred.

Goodwill is allocated to a CGU or group of CGUs for the purposes of impairment testing based on the level at which management monitors it, which is not larger than an operating segment. The Company records an impairment loss if the recoverable amount of the CGU or group of CGUs is less than the carrying amount.

Refer to note 11 for further details on the Company's annual impairment testing for goodwill.

### **Broadcast licenses and indefinite life intangible assets**

Broadcast licenses and indefinite life intangible assets are reviewed for impairment annually or more frequently if there are indications that impairment may have occurred.

Broadcast licenses and indefinite life intangible assets are allocated to a CGU for the purposes of impairment testing. The Company records an impairment loss if the recoverable amount of the CGU is less than the carrying amount.

Refer to note 11 for further details on the Company's annual impairment testing for broadcast licenses and indefinite life intangible assets.

### **Intangible assets and property, plant and equipment**

The useful lives of the intangible assets with definite lives (which are amortized) and property, plant and equipment are assessed at least annually and only tested for impairment if events or changes in circumstances indicate that an impairment may have occurred.

## **LEASES**

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date: whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. Where the Company is the lessee, asset values recorded under finance leases are amortized on a straight-line basis over the period of expected use. Obligations recorded under finance leases are reduced by lease payments net of imputed interest. Operating lease commitments, for which lease payments are recognized as an expense in the consolidated statements of income (loss) and comprehensive income (loss), are recognized on a straight-line basis over the lease term.

## **EARNINGS (LOSS) PER SHARE**

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

## **USE OF ESTIMATES AND JUDGMENTS**

The preparation of financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results.

The most significant estimates made by management in the preparation of the Company's consolidated financial statements include estimates related to:

- the recoverability of long-lived assets including property, plant and equipment, program rights, film investments, goodwill, broadcast licenses and intangible assets; fair value assessments on acquired identifiable assets and obligations;
- certain actuarial and economic assumptions used in determining defined benefit pension costs, accrued pension benefit obligations, pension plan assets, and accrued supplemental post-employment benefit plan obligations;
- determining fair value of share-based compensation;
- the estimated useful lives of assets; and
- income tax provisions and uncertain income tax positions in each of the jurisdictions in which the Company operates.

The most significant judgments made by management in the preparation of the Company's consolidated financial statements include judgments related to:

- assessments about whether line items are sufficiently material to warrant separate presentation in the primary financial statements and, if not, whether they are sufficiently material to warrant separate presentation in the consolidated financial statement notes;
- identifying CGUs;
- the allocation of net assets, including shared corporate and administrative assets, to the Company's CGUs when determining their carrying amounts;
- determining that broadcast licenses have indefinite lives;
- determining control for purposes of consolidation of an investment; and
- determining income tax rates for recognition of deferred income tax on broadcast licenses.

The significant assumptions that affect these estimates and judgments in the application of accounting policies are noted throughout these consolidated financial statements.

### **CHANGES IN ACCOUNTING POLICIES**

There have been no standards issued by the IASB that took effect in the current year.

### **PENDING ACCOUNTING CHANGES**

#### **IFRS 9 – *Financial Instruments: Classification and Measurement***

In July 2014, the IASB issued the final version of IFRS 9 – *Financial Instruments*, which reflects all phases of the financial instrument project and replaces IAS 39 – *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss ("FVTPL") and amortized cost. Financial liabilities held-for-trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless the fair value option is applied. The treatment of embedded derivatives under the new standard is consistent with IAS 39 and only applied to financial liabilities. IFRS 9 uses a new expected loss impairment model and also uses a new model for hedge accounting aligning the accounting treatment with risk management activities. The measurement of impairment of financial assets is based on an expected credit loss model. It is no longer necessary for a triggering event to have occurred before credit losses are recognized. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The new classification and measurement requirements will be applied by adjusting the Company's consolidated financial statements on September 1, 2018, the date of initial application, with no restatement of comparative period financial information. The Company has assessed the impact of IFRS 9 on the consolidated financial statements and has determined that the adoption of IFRS 9 will enhance disclosure requirements, but will not have a material impact on the expected lifetime credit losses for the Company's trade and other receivables. The classification investments in venture funds is still under review. These investments must be classified as FVTPL or fair value through other comprehensive income ("FVOCI") with no recycling of gains and losses upon derecognition. The Company will continue to revise, refine and validate the impact of this standard leading up to first quarter reporting date of November 30, 2018.

#### **IFRS 15 – *Revenue from Contracts with Customers***

In May 2014, the IASB issued IFRS 15 – *Revenue from Contracts with Customers*, which outlined a single comprehensive model to account for revenue arising from contracts with customers and will replace the majority of existing IFRS requirements on revenue recognition including IAS 18 – *Revenue*. The core principle of IFRS 15 is to recognize revenue to depict the transfer of goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The standard provides a single, principles-based five-step model that will apply to revenue earned from a contract with a customer, regardless of the type of revenue transaction or industry. The standard will also provide guidance on the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities. The standard also specifies that direct incremental costs of obtaining and fulfilling a contract that are expected to be recovered should be capitalized and amortized over the contract term. Disclosure requirements will increase, including disaggregation of total revenues, information about performance obligations, changes in contract asset and liability account balances between periods and key judgments and estimates made. The Company will be implementing IFRS 15, using the modified retrospective approach where IFRS 15 will be applied to 2019 results, beginning September 1, 2018 without restating comparative periods.

The standard specifies that an entity recognizes revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. Depending on whether certain criteria are met, revenue is recognized either over time, in a manner that depicts the entity's performance, or at a point in time, when control is transferred to the customer. The Company has assessed its revenue streams and underlying contracts with customers. The majority of revenues within the scope of IFRS 15 are earned through the sale of advertising time and from subscriber fees. The Company has not identified any significant differences in the timing or amount of recognition of revenue as a result of IFRS 15, and therefore the changes to revenue earned on customer contracts is not expected to be significant. The Company continues to assess the impact of required disclosures around revenue recognition in the notes to the consolidated financial statements and any necessary policy and process changes in preparation for adoption. The Company has determined that the application of this standard will have no significant impact on its consolidated financial statements.

#### **Amendments to IFRS 2 – Share-based Payments**

IFRS 2 – *Share-based Payments* ("IFRS 2") stipulates new conditions on the accounting for three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with a net settlement feature for withholding tax obligations; and the accounting of a modification to the terms and conditions of a share-based payment that changes the transaction from cash-settled to equity-settled. IFRS 2 is applied prospectively; retroactive application is only permitted if the application can be performed without using hindsight. Requirement to apply IFRS 2 is effective for annual periods beginning on or after January 1, 2018. The Company has determined that the application of this standard will have no significant impact on its consolidated financial statements.

#### **IFRS 16 – Leases**

On January 13, 2016, the IASB published a new standard, IFRS 16 – *Leases* ("IFRS 16"). The new standard will eliminate the distinction between operating and finance leases and will bring most leases onto the balance sheet for lessees. Lessees must recognize a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly, and the liability accrues interest. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease. Lessees are permitted to make an accounting policy election, by class of underlying asset, to apply a method like IAS 17's operating lease accounting and not recognize lease assets and lease liabilities for leases with a lease term of 12 months or less, and on a lease-by-lease basis, to apply a method similar to current operating lease accounting to leases for which the underlying asset is of low value. IFRS 16 supersedes IAS 17 – *Leases* and its related interpretations, and is effective for the period beginning on or after January 1, 2019, which will be September 1, 2019 for Corus and is to be applied retrospectively. The Company has not yet determined the impact on its consolidated financial statements.

#### **IFRIC 23 – Uncertainty over Income Tax Treatments**

IFRIC 23 – *Uncertainty over Income Tax Treatments* provides guidance when there is uncertainty over income tax treatments including (but not limited to) whether uncertain tax treatments should be considered separately; assumptions made about the examination of tax treatments by tax authorities; the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates; and the impact of changes in facts and circumstances.

The new interpretation is effective for annual periods beginning on or after January 1, 2019 and will be adopted by the Company effective September 1, 2019. The Company is currently assessing the impact of the new interpretation on its consolidated financial statements.

## **4. ACCOUNTS RECEIVABLE**

	<b>2018</b>	2017
Trade	<b>367,885</b>	387,581
Other	<b>25,337</b>	25,533
	<b>393,222</b>	413,114
Less allowance for doubtful accounts	<b>4,471</b>	4,671
	<b>388,751</b>	408,443

## 5. INVESTMENTS AND OTHER ASSETS

	Investments in associates	Other assets	Total
Balance - August 31, 2016	15,483	31,276	46,759
Increase in investment	—	3,982	3,982
Equity loss in associates (note 20)	(2,675)	—	(2,675)
Return of capital from venture funds (note 20)	—	(1,218)	(1,218)
Investment impairment	(2,250)	(3,000)	(5,250)
Derivative fair value (note 14)	—	22,961	22,961
Balance - August 31, 2017	10,558	54,001	64,559
Increase in investments	—	5,222	5,222
Equity loss in associates (note 20)	(1,558)	—	(1,558)
Post-retirement plan asset (note 29)	—	9,987	9,987
Derivative fair value (note 14)	—	4,003	4,003
<b>Balance - August 31, 2018</b>	<b>9,000</b>	<b>73,213</b>	<b>82,213</b>

### INVESTMENTS IN ASSOCIATES

In assessing the level of control or influence that the Company has over an investment, management considers ownership percentages, board representation, as well as other relevant provisions in shareholder agreements. The associates that the Company exercises significant influence over have been accounted for using the equity method.

## 6. PROPERTY, PLANT AND EQUIPMENT

	Land	Broadcasting and computer equipment	Buildings and leasehold improvements	Furniture and fixtures	Other	Total
<b>Cost</b>						
Balance - August 31, 2016	35,415	215,339	162,398	22,385	10,862	446,399
Additions	—	12,179	1,798	2,011	10,883	26,871
Disposals and retirements	—	(1,002)	(144)	(664)	(65)	(1,875)
Balance - August 31, 2017	35,415	226,516	164,052	23,732	21,680	471,395
Additions	—	18,540	3,239	2,223	(9,199)	14,803
Disposals and retirements	(860)	(5,333)	(46)	(10,582)	(894)	(17,715)
<b>Balance - August 31, 2018</b>	<b>34,555</b>	<b>239,723</b>	<b>167,245</b>	<b>15,373</b>	<b>11,587</b>	<b>468,483</b>
<b>Accumulated depreciation</b>						
Balance - August 31, 2016	—	104,629	43,596	14,353	1,716	164,294
Depreciation	—	32,353	11,593	3,232	1,709	48,887
Disposals and retirements	—	(414)	(5)	(627)	(808)	(1,854)
Balance - August 31, 2017	—	136,568	55,184	16,958	2,617	211,327
Depreciation	—	27,051	10,330	1,656	1,180	40,217
Disposals and retirements	—	(5,291)	(18)	(8,081)	(863)	(14,253)
<b>Balance - August 31, 2018</b>	<b>—</b>	<b>158,328</b>	<b>65,496</b>	<b>10,533</b>	<b>2,934</b>	<b>237,291</b>
<b>Net book value</b>						
Balance - August 31, 2017	35,415	89,948	108,868	6,774	19,063	260,068
<b>Balance - August 31, 2018</b>	<b>34,555</b>	<b>81,395</b>	<b>101,749</b>	<b>4,840</b>	<b>8,653</b>	<b>231,192</b>

Included in property, plant and equipment are assets under finance lease with a cost of \$26,542 as at August 31, 2018 (2017 – \$26,060) and accumulated depreciation of \$23,180 (2017 – \$23,108).

## 7. PROGRAM RIGHTS

Balance - August 31, 2016	682,268
Additions	470,078
Transfers from film investments (note 8)	6,716
Amortization	(510,716)
Balance - August 31, 2017	648,346
Additions	400,503
Transfers from film investments (note 8)	7,934
Impairment charges	(2,126)
Amortization	(516,300)
<b>Balance - August 31, 2018</b>	<b>538,357</b>

	2018	2017
Cost	772,501	1,044,532
Accumulated amortization	234,144	396,186
<b>Net book value</b>	<b>538,357</b>	648,346

The Company expects that approximately 44% of the net book value of program rights will be amortized during the year ending August 31, 2019. The Company expects the net book value of program rights to be fully amortized by November 2024.

## 8. FILM INVESTMENTS

Balance - August 31, 2016	45,164
Additions	40,921
Tax credit accrual	(14,683)
Transfer to program rights (note 7)	(6,716)
Amortization	(23,958)
Balance - August 31, 2017	40,728
Additions	42,617
Tax credit accrual	(15,790)
Transfer to program rights (note 7)	(7,934)
Amortization	(16,197)
<b>Balance - August 31, 2018</b>	<b>43,424</b>

	2018	2017
Cost	1,036,910	1,011,336
Accumulated amortization	993,486	970,608
<b>Net book value</b>	<b>43,424</b>	40,728

The Company expects that approximately 17% of the net book value of film investments will be amortized during the year ending August 31, 2019. The Company expects the net book value of film investments to be fully amortized by August 2022.

## 9. INTANGIBLES

	Broadcast licenses <sup>(1)</sup>	Other <sup>(2)</sup>	Total
Balance - August 31, 2016	984,889	1,091,348	2,076,237
Additions	—	12,439	12,439
Amortization	—	(42,863)	(42,863)
Balance - August 31, 2017	984,889	1,060,924	2,045,813
Additions	—	21,609	21,609
Impairments (note 11)	(13,692)	—	(13,692)
Amortization	—	(41,644)	(41,644)
<b>Balance - August 31, 2018</b>	<b>971,197</b>	<b>1,040,889</b>	<b>2,012,086</b>

<sup>(1)</sup> Broadcast licenses are located in Canada.

<sup>(2)</sup> Other intangibles are comprised of brands, trade marks and software.

At August 31, 2018, other intangibles with a finite life consisted of:

	2018	2017
Cost	277,820	258,246
Accumulated amortization	163,730	124,125
<b>Net book value</b>	<b>114,090</b>	<b>134,121</b>

The Company expects that approximately 41% of the net book value of intangible assets with a finite life will be amortized during the year ending August 31, 2019. The Company expects the net book value of intangible assets with a finite life to be fully amortized by August 2023.

Indefinite life intangibles, such as broadcast licenses, are tested for impairment annually as at August 31 or more frequently if events or changes in circumstances indicate that they may be impaired. At August 31, 2018, the Company performed its annual impairment test for fiscal 2018 and determined that there were no further impairments for the year then ended on indefinite life intangibles.

## 10. GOODWILL

	Total
Balance - August 31, 2016	2,390,652
Adjustment	(3,000)
Balance - August 31, 2017	2,387,652
Impairments (note 11)	(1,000,000)
<b>Balance - August 31, 2018</b>	<b>1,387,652</b>

Goodwill is located primarily in Canada.

Goodwill is tested for impairment annually as at August 31, or more frequently if events or changes in circumstances indicate that it may be impaired. As at August 31, 2018, the Company performed its annual impairment test for fiscal 2018 and determined that there were no further impairments for the year then ended.

## 11. 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 estimates the recoverable amount of the asset or CGU or groups of CGUs and compares it to the carrying value. In addition, irrespective of whether there is any indication of impairment, the Company is required to test intangible assets with an indefinite useful life and goodwill for impairment at least annually.

For long-lived assets other than goodwill, the Company is also required to assess, at each reporting date, whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased.

The Company completes its annual testing during the fourth quarter of each fiscal year.

The test for impairment of either an intangible asset or goodwill is to compare the recoverable amount of the asset or CGU or groups of CGUs to the carrying value. The recoverable amount is the higher of an asset's or CGU's or groups of CGUs FVLCS and its 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, goodwill, program rights, trade marks and brands) and the asset's VIU cannot be determined to equal its FVLCS. If this is the case, the recoverable amount is determined for the CGU or groups of CGUs to which the asset belongs.

The Company has determined the VIU calculation is higher than FVLCS and, therefore, the recoverable amount for all CGUs or groups of CGUs is based on VIU.

In determining FVLCS, 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 VIU 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 or groups of CGUs operations beyond the projected period using a perpetual growth rate. The key assumptions in the VIU 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 or groups of CGUs operates. The projections are prepared separately for each of the Company's CGUs or groups of 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.

The discount rate applied to each asset, CGU or group of CGUs to determine VIU 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 or CGU's or groups of CGUs cash flow projections.

In calculating the VIU, the Company uses an appropriate range of discount rates in order to establish a ranges of values for each CGU or group of CGUs.

The pre-tax discount and growth rates used by the Company for the purpose of its VIU calculations of the TV group of CGUs generally range from 10% to 12% (2017 – 11% to 13%) and nil to 1% (2017 – 1% to 2%), respectively. The pre-tax discount and growth rates included in the VIU calculation of the Radio groups of CGUs generally range from 13% to 16% and 1% to 3%, respectively. The rates used for Radio are generally consistent with those used in the prior year.

If the recoverable amount of the CGU or group of CGUs is less than its carrying amount, an impairment loss is recognized. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU or group of CGUs and then to the other assets in the CGU or group of CGUs pro rata on the basis of the carrying amount for each asset in the CGU or group of CGUs. The individual assets in the CGU cannot be written down below their FVLCS, if determinable.

Except for goodwill, a previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statements of income (loss) and comprehensive income (loss).

As a result of the broadcast license impairment testing in the third quarter of fiscal 2018, the Company determined that there were broadcast license impairments in certain Radio CGUs. For each of the three Radio CGUs, the Company used VIU to determine the recoverable amount, which resulted in an impairment charge of \$13.7 million, that reduced the carrying value of broadcast licenses within these CGUs to their recoverable amount.

As a result of the goodwill impairment testing in the third quarter of fiscal 2018, the Company recorded a goodwill impairment charge of \$1,000.0 million in the Television segment. No goodwill impairment was identified on the Radio groups of CGUs.



In the fourth quarter, the Company completed its annual impairment testing of goodwill and intangible assets for fiscal 2018 and there were no further impairment losses to be recorded as a result of the testing. The Company also assessed for any indicators of whether previous impairment losses had decreased. No previously recorded impairment losses on broadcast licenses were reversed.

### **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 broadcast license and goodwill impairment tests, would not have resulted in a material change in the broadcast license impairment in the Radio segment, however, would have resulted in an additional incremental goodwill impairment charge in the Television operating segment between nil and \$20.0 million.

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

	2018	2017
<b>Broadcast licenses</b>		
Television		
Managed brands	852,905	852,905
Other	7,424	7,424
Radio		
Calgary	31,341	31,341
Edmonton	21,851	21,851
Toronto	21,775	21,775
Vancouver	21,303	21,303
Other <sup>(1)</sup>	14,598	28,290
	<b>971,197</b>	<b>984,889</b>
	2018	2017
<b>Goodwill</b>		
Television	1,320,553	2,320,553
Radio	67,099	67,099
	<b>1,387,652</b>	<b>2,387,652</b>

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

## **12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	2018	2017
Program rights payable	233,838	184,612
Trade accounts payable and accrued liabilities	136,952	162,384
Dividends payable	2,000	39,183
Trade marks and distribution rights	28,937	24,097
Film investment accruals	881	2,859
Financing leases	3,154	2,526
	<b>405,762</b>	<b>415,661</b>

### 13. PROVISIONS

The Company recorded business acquisition, integration and restructuring charges of \$17,071 (2017 – \$31,983) primarily related to severance and employee related costs as a result of changes to the management structure and business operations. The Company anticipates that the portion of the balance related to restructuring at August 31, 2018 will be substantially paid in the year ending August 31, 2019.

	Restructuring	Onerous lease obligation	Asset retirement obligation	Other	Total
Balance - August 31, 2016	21,695	—	8,015	585	30,295
Additions	24,255	7,336	392	—	31,983
Payments	(30,336)	(4,444)	—	—	(34,780)
Balance - August 31, 2017	15,614	2,892	8,407	585	27,498
Additions (reductions)	16,133	(1,188)	—	—	14,945
Interest	—	148	407	—	555
Payments	(20,087)	(1,852)	(2,083)	—	(24,022)
<b>Balance - August 31, 2018</b>	<b>11,660</b>	<b>—</b>	<b>6,731</b>	<b>585</b>	<b>18,976</b>
Current	9,723	—	867	585	11,175
Long-term	1,937	—	5,864	—	7,801
<b>Balance - August 31, 2018</b>	<b>11,660</b>	<b>—</b>	<b>6,731</b>	<b>585</b>	<b>18,976</b>

### 14. LONG-TERM DEBT

	2018	2017
Bank loans	<b>1,998,684</b>	2,107,299
Unamortized financing fees	<b>(14,751)</b>	(15,719)
Total bank loans	<b>1,983,933</b>	2,091,580
Less current portion of bank loans	<b>(106,375)</b>	(172,500)
	<b>1,877,558</b>	1,919,080

Interest rates on the balance of the bank loans fluctuate with Canadian bankers' acceptances and/or LIBOR. As at August 31, 2018, the weighted average interest rate on the outstanding bank loans was 4.5% (2017 – 3.8%). The effective interest on the bank loans averaged 4.3% for fiscal 2018 (2017 – 4.7%).

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 Amended and Restated Credit Agreement dated April 1, 2016 (the "Facility"). 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 August 31, 2018.

#### CREDIT FACILITIES

In connection with the closing of the acquisition of Shaw Media (the "Acquisition"), Corus established syndicated senior secured credit facilities in the aggregate amount of \$2.6 billion consisting of \$2.3 billion in term loans (the "Term Facility"), all of which was fully drawn at closing, and a \$300.0 million revolving facility (the "Revolving Facility"), which was not drawn on as part of closing.

Effective November 30, 2017, the Company's credit agreement with a syndicate of banks was amended. The principal amendments effected were the extension of the maturity for the Revolving Facility and Term Facility Tranche 2 to November 30, 2021, for the Term Facility Tranche 1 to November 30, 2022, and fixing the mandatory repayment on the Term Facility to 1.25% per quarter effective November 30, 2017.

#### Term Facility

The Term Facility consists of two tranches, with the first tranche being in the amount of \$700.3 million and having a maturity of November 30, 2022, and the second tranche being in the amount of \$1,400.6 million and having a maturity of November 30, 2021.

Advances under the Term Facility may be outstanding in the form of either prime loans or bankers' acceptances and bear interest at the applicable reference rate plus an applicable margin depending on the type of advance and Corus' total debt to cash flow ratio.

Voluntary prepayments on the amount outstanding under the Term Facility are permitted at any time without penalty, subject to payment of customary breakage costs, if applicable, and provided that advances in the form of bankers' acceptances may only be paid on their maturity. Each tranche of the Term Facility will be subject to mandatory repayment equal to 1.25% per quarter at the end of each fiscal quarter of Corus.

### **Revolving Facility**

The \$300.0 million Revolving Facility matures on November 30, 2021. The Revolving Facility is available on a revolving basis to finance permitted acquisitions and capital expenditures and for general corporate purposes. Amounts owing under the Revolving Facility will be payable in full at maturity. The Revolving Facility permits full or partial cancellation of the facility and, if applicable, concurrent prepayment of the amounts drawn thereunder at any time without penalty, subject to payment of customary breakage costs, if applicable, and provided that advances in the form of bankers' acceptances may only be paid on their maturity.

Advances under the Revolving Facility may be drawn in Canadian dollars as either a prime rate loan, bankers' acceptance or Canadian dollar denominated letters of credit (to a sub-limit of \$50.0 million total), or in U.S. dollars as either a base rate loan, U.S. LIBOR loan or U.S. dollar denominated letters of credit (to a sub-limit of \$50.0 million total). Amounts drawn under the Revolving Facility will bear interest at the applicable reference rate plus an applicable margin depending on the type of advance and Corus' total debt to cash flow ratio. A standby fee will also be payable on the unutilized amount of the Revolving Facility. As at August 31, 2018, all of the Revolving Facility was available and could be drawn.

### **SWAP AGREEMENTS**

On November 28, 2017, the Company terminated the Canadian interest rate swap agreements that fixed the interest rate on \$457.0 million and \$1,414.0 million of its outstanding term loan facilities at 1.076% and 1.195%, respectively, plus applicable margins to February 28, 2019 and February 26, 2021. As a result, the Company received a cash payment, net of accrued interest, of \$24.6 million in settlement of these interest rate swaps, which was the fair value upon termination. The fair value of \$24.6 million was recorded in OCI and is being amortized over the life of the original swap agreements as non-cash interest income in the consolidated statements of income (loss) and comprehensive income (loss) (note 19).

On November 28, 2017, the Company entered into Canadian interest rate swap agreements to fix the interest rate on \$1,101.0 million and \$600.0 million of its outstanding term loan facilities at 1.947% and 2.004%, respectively, plus applicable margins to August 31, 2021 and August 31, 2022. The notional value of these swaps reduces concurrently with the mandatory repayments of the Term Facility. The counterparties of the swap agreements are highly rated financial institutions and the Company does not anticipate any non-performance. 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. The Company has assessed that there is no ineffectiveness in the hedge of its interest rate exposure. As an effective hedge, unrealized gains or losses on the interest rate swap agreements are recognized in OCI. The estimated fair value of these agreements as at August 31, 2018 is \$23.2 million, which has been recorded in the consolidated statements of financial position as a long-term asset (note 5). The effectiveness of the hedging relationship is reviewed on a quarterly basis.

### **FORWARD CONTRACTS**

On January 5, 2018, the Company entered into a series of foreign exchange forward contracts totalling \$98.0 million USD, to fix the foreign exchange rate and cash flows related to a portion of the Company's USD denominated long-term liabilities. The forward contracts are not designated as hedges for accounting purposes; they are measured at fair value at each reporting date. The counterparty of the forward contracts is a highly rated financial institution and the Company does not anticipate any non-performance. The estimated fair value of future cash flows of the USD forward contract derivatives change with fluctuations in the foreign exchange rate of USD to Canadian dollars. The estimated fair value of these agreements as at August 31, 2018 was \$3.8 million, which has been recorded in the consolidated statements of financial position as a long-term asset (note 5) and within other expense (income), net in the consolidated statements of income (loss) and comprehensive income (loss) (note 20). The Company has the following undiscounted contractual obligations related to foreign exchange forward contracts:

(thousands of Canadian dollars)	<b>Total</b>	<b>Within 1 year</b>	<b>2 - 3 years</b>	<b>4 - 5 years</b>	<b>More than 5 years</b>
Contractual CDN cash outflows	109,616	24,552	51,212	33,852	—
Contractual USD cash inflows	88,400	19,800	41,300	27,300	—

**15. OTHER LONG-TERM LIABILITIES**

	2018	2017
Program rights payable	134,908	252,504
Trade mark liabilities	58,833	72,921
Long-term employee obligations	21,847	31,226
Post employment benefit plans	15,597	25,030
Deferred leasehold inducements	20,168	19,151
Merchandising and intangibles liability	18,238	14,728
Unearned revenues	14,055	13,116
Long-term portion of tangible benefits	9,249	11,385
Financing lease accrual	2,311	2,288
	<b>295,206</b>	<b>442,349</b>

**16. 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.

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

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

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

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

No Class A Preferred Shares, Class 1 Preferred Shares or Class 2 Preferred Shares are outstanding at August 31, 2018.

**ISSUED AND OUTSTANDING**

	Class A Voting Shares		Class B Non-Voting Shares		Total
	#	\$	#	\$	\$
Balance - August 31, 2016	3,425,792	26,529	192,997,999	2,142,014	2,168,543
Conversion of Class A Voting Shares to Class B Non-Voting Shares	(4,000)	(31)	4,000	31	—
Issuance of shares under stock option plan	—	—	14,850	154	154
Issuance of shares under dividend reinvestment plan	—	—	9,818,652	123,117	123,117
Balance - August 31, 2017	3,421,792	26,498	202,835,501	2,265,316	2,291,814
Conversion of Class A Voting Shares to Class B Non-Voting Shares	(2,400)	(19)	2,400	19	—
Issuance of shares under stock option plan	—	—	7,975	85	85
Issuance of shares under dividend reinvestment plan	—	—	5,731,790	38,578	38,578
<b>Balance - August 31, 2018</b>	<b>3,419,392</b>	<b>26,479</b>	<b>208,577,666</b>	<b>2,303,998</b>	<b>2,330,477</b>

**EARNINGS (LOSS) PER SHARE**

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

	2018	2017
<b>Net income (loss) attributable to shareholders (numerator)</b>	<b>(784,509)</b>	191,665
<b>Weighted average number of shares outstanding (denominator)</b>		
Weighted average number of shares outstanding - basic	208,257	201,065
Effect of dilutive securities	—	304
<b>Weighted average number of shares outstanding - diluted</b>	<b>208,257</b>	201,369

The calculation of diluted earnings (loss) per share for fiscal 2018 excluded 6,057 (2017 – 2,487) weighted average Class B Non-Voting Shares issuable under the Company's Stock Option Plan because these options were anti-dilutive.

**STOCK OPTION PLAN**

Under the Company's Stock Option Plan (the "Plan"), the Company may grant options to purchase Class B Non-Voting Shares to eligible officers, directors and employees of or consultants to the Company. The number of Class B Non-Voting Shares which the Company is authorized to issue under the Plan is 10% of the issued and outstanding Class B Non-Voting Shares. All options granted are for terms not to exceed 10 years from the grant date. The exercise price of each option equals the closing market price on the TSX of the Company's stock on the trading date immediately preceding the date of the grant. Options vest 25% on each of the first, second, third and fourth anniversary dates of the date of grant.

A summary of the changes to the stock options outstanding is presented as follows:

	Number of options (#)	Weighted average exercise price per share (\$)
Outstanding - August 31, 2016	3,753,873	18.24
Granted	1,613,000	11.60
Exercised	(14,850)	10.38
Forfeited or expired	(95,173)	17.55
Outstanding - August 31, 2017	5,256,850	16.24
Granted	1,070,400	12.43
Exercised	(7,975)	10.38
Forfeited or expired	(261,900)	22.31
<b>Outstanding - August 31, 2018</b>	<b>6,057,375</b>	<b>15.31</b>

As at August 31, 2018, the options outstanding and exercisable consist of the following:

Range of exercise price (\$)	Options outstanding			Options exercisable	
	Number outstanding (#)	Weighted average remaining contractual life (years)	Weighted average exercise price (\$)	Number outstanding (#)	Weighted average exercise price (\$)
10.38 – 10.99	1,094,475	4.2	10.38	535,825	10.38
11.00 – 12.02	1,613,000	5.3	11.60	403,250	11.60
12.03 – 12.52	1,070,400	6.7	12.43	—	—
12.53 – 22.64	1,170,400	1.7	19.87	1,084,950	20.38
22.65 – 25.40	1,109,100	2.4	23.54	997,525	23.57
	<b>6,057,375</b>	<b>4.1</b>	<b>15.31</b>	<b>3,021,550</b>	<b>18.49</b>

The fair value of each option granted has been estimated on the date of the grant using the Black-Scholes option pricing model. The estimated fair value of the options is amortized to income over the options' vesting period on a straight-line basis. In fiscal 2018, the Company recorded share-based compensation expense of \$670 (2017 – \$1,005). This charge has been credited to contributed surplus. Unrecognized share-based compensation expense at August 31, 2018 related to the Plan was \$508 (2017 – \$609).

The fair value of each option granted in fiscals 2018 and 2017 was estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

Granted in the first quarter of fiscal 2018 and vesting in fiscal:	2019	2020	2021	2022
Fair value	\$0.52	\$0.52	\$0.52	\$0.52
Risk-free interest rate	1.8%	1.8%	1.8%	1.8%
Expected dividend yield	9.3%	9.3%	9.3%	9.3%
Expected share price volatility	21.8%	21.8%	21.8%	21.8%
Expected time until exercise (years)	6	6	6	6

Granted in the first quarter of fiscal 2017 and vesting in fiscal:	2018	2019	2020	2021
Fair value	\$0.64	\$0.59	\$0.56	\$0.51
Risk-free interest rate	0.7%	0.7%	0.8%	0.8%
Expected dividend yield	10.1%	10.1%	10.1%	10.1%
Expected share price volatility	27.2%	26.7%	26.2%	26.1%
Expected time until exercise (years)	5	6	6	7

The expected life of the options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

On October 20, 2018, the Company granted a further 1,243,200 options for Class B Non-Voting Shares to eligible officers and employees of the Company. These options are exercisable at \$4.88 per share.

### SHARE-BASED COMPENSATION

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

	PSUs #	DSUs #	RSUs #
Balance - August 31, 2016	1,025,934	1,002,367	237,483
Additions	484,625	221,940	205,324
Deemed dividend equivalents	100,687	82,521	25,052
Forfeitures	(15,930)	(134,697)	(17,719)
Payments	(358,485)	(30,390)	(43,440)
Balance - August 31, 2017	1,236,831	1,141,741	406,700
Additions	399,800	227,978	163,776
Deemed dividend equivalents	208,833	184,600	72,164
Forfeitures	(117,230)	(34,300)	(84,754)
Payments	(303,830)	(313,210)	(40,494)
<b>Balance - August 31, 2018</b>	<b>1,424,404</b>	<b>1,206,809</b>	<b>517,392</b>

Share-based compensation expense (recovery) recorded for the fiscal year in respect of these plans was \$(7,818) (2017 – \$8,266). As at August 31, 2018, the carrying value of the liability for PSU, DSU and RSU units was \$4,912 (2017 – \$22,068).

### DIVIDENDS

The holders of Class A Voting Shares and Class B Non-Voting Shares are entitled to receive such dividends as the Board of Directors determines to declare on a share-for-share basis, as and when any such dividends are declared or paid. The holders of Class B Non-Voting Shares are entitled to receive, during each dividend period, in priority to the payment of dividends on the Class A Voting Shares, a dividend which is \$0.005 per share per annum higher than that received on the Class A Voting Shares. This higher dividend rate is subject to proportionate adjustment in the event of future consolidations or subdivisions of shares and in the event of any issue of shares by way of stock dividend. After payment or setting aside for payment of the additional non-cumulative dividends on the Class B Non-Voting Shares, holders of Class A Voting Shares and Class B Non-Voting Shares participate equally, on a share-for-share basis, on all subsequent dividends declared.

Date of record	Date paid	Class A	Class B
		Amount paid	Amount paid
September 15, 2017	September 29, 2017	\$0.094583	\$0.095000
October 16, 2017	October 31, 2017	\$0.094583	\$0.095000
November 15, 2017	November 30, 2017	\$0.094583	\$0.095000
December 14, 2017	December 28, 2017	\$0.094583	\$0.095000
January 15, 2018	January 31, 2018	\$0.094583	\$0.095000
February 14, 2018	February 28, 2018	\$0.094583	\$0.095000
March 15, 2018	March 29, 2018	\$0.094583	\$0.095000
April 16, 2018	April 30, 2018	\$0.094583	\$0.095000
May 15, 2018	May 31, 2018	\$0.094583	\$0.095000
June 15, 2018	June 29, 2018	\$0.094583	\$0.095000
July 16, 2018	July 31, 2018	\$0.094583	\$0.095000
August 15, 2018	August 31, 2018	\$0.094583	\$0.095000
		<b>\$1.134996</b>	<b>\$1.140000</b>
<b>Dividend yield based on closing share price of Class B shares</b>			<b>30.81%</b>

Date of record	Date paid	Class A	Class B
		Amount paid	Amount paid
September 15, 2016	September 30, 2016	\$0.094583	\$0.095000
October 17, 2016	October 31, 2016	\$0.094583	\$0.095000
November 15, 2016	November 30, 2016	\$0.094583	\$0.095000
December 15, 2016	December 30, 2016	\$0.094583	\$0.095000
January 16, 2017	January 31, 2017	\$0.094583	\$0.095000
February 14, 2017	February 28, 2017	\$0.094583	\$0.095000
March 15, 2017	March 31, 2017	\$0.094583	\$0.095000
April 14, 2017	April 28, 2017	\$0.094583	\$0.095000
May 15, 2017	May 31, 2017	\$0.094583	\$0.095000
June 15, 2017	June 30, 2017	\$0.094583	\$0.095000
July 17, 2017	July 31, 2017	\$0.094583	\$0.095000
August 15, 2017	August 31, 2017	\$0.094583	\$0.095000
		<b>\$1.134996</b>	<b>\$1.140000</b>
<b>Dividend yield based on closing share price of Class B shares</b>			<b>8.27%</b>

The total amount of dividends declared in fiscal 2018 was \$198,201 (2017 – \$231,046).

On October 19, 2018, the Company declared dividends of \$0.05875 per Class A Voting Share and \$0.06 per Class B Non-Voting Share payable on December 28, 2018 to the shareholders of record at the close of business on December 14, 2018.

#### **DIVIDEND REINVESTMENT PLAN ("DRIP")**

The Company's Board of Directors had approved a discount of 2% for Class B Non-Voting Shares issued from treasury pursuant to the terms of its DRIP to August 31, 2018. In fiscal 2018, the Company issued Class B Non-Voting Shares from treasury to satisfy its share delivery obligations under the DRIP, resulting in an increase in share capital of \$38,578 (2017 – \$123,117).

On June 26, 2018, the Company's Board of Directors approved removing the discount for the Class B Non-Voting Shares and moving to open market purchases to satisfy its share delivery obligations pursuant to the terms of its DRIP effective September 1, 2018.



**17. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

	Unrealized foreign currency translation adjustment	Unrealized change in fair value of available-for-sale investments	Unrealized change in fair value of cash flow hedges	Actuarial gains (losses) on defined benefit plans	Total
Balance - August 31, 2016	7,096	(94)	(10,571)	—	(3,569)
Items that may be subsequently reclassified to income:					
Amount	(643)	—	37,344	—	36,701
Income tax	—	(298)	(9,896)	—	(10,194)
	6,453	(392)	16,877	—	22,938
Items that will not be reclassified to income:					
Amount	—	—	—	9,352	9,352
Income tax	—	—	—	(2,478)	(2,478)
	—	—	—	6,874	6,874
Transfer to retained earnings	—	—	—	(6,874)	(6,874)
Balance - August 31, 2017	6,453	(392)	16,877	—	22,938
Items that may be subsequently reclassified to income:					
Amount	724	—	24,895	—	25,619
Income tax	—	(118)	(6,597)	—	(6,715)
	7,177	(510)	35,175	—	41,842
Transfer to net income	—	—	(5,382)	—	(5,382)
Items that will not be reclassified to income:					
Amount	—	—	—	15,714	15,714
Income tax	—	—	—	(4,164)	(4,164)
	—	—	—	11,550	11,550
Transfer to retained earnings	—	—	—	(11,550)	(11,550)
<b>Balance - August 31, 2018</b>	<b>7,177</b>	<b>(510)</b>	<b>29,793</b>	<b>—</b>	<b>36,460</b>

**18. DIRECT COST OF SALES, GENERAL AND ADMINISTRATIVE EXPENSES**

	2018	2017
<b>Direct cost of sales</b>		
Amortization of program rights	516,300	510,716
Amortization of film investments	16,197	23,958
Other cost of sales	27,349	27,614
<b>General and administrative expenses</b>		
Employee costs	303,847	324,898
Other general and administrative	208,026	213,739
	<b>1,071,719</b>	<b>1,100,925</b>

**19. INTEREST EXPENSE**

	2018	2017
Interest on long-term debt	89,026	103,054
Imputed interest on long-term liabilities	43,240	51,519
Amortization of deferred gain on settled interest rate swap (note 14)	(7,323)	—
Other expense (income)	2,403	2,143
	<b>127,346</b>	<b>156,716</b>

**20. OTHER EXPENSE (INCOME), NET**

	2018	2017
Foreign exchange loss (gain)	5,382	(12,157)
Equity loss of associates	1,558	2,675
Asset impairment (note 5)	—	5,250
Venture fund distribution	—	(2,904)
Other	(1,248)	(1,817)
	<b>5,692</b>	<b>(8,953)</b>

During the year ended August 31, 2017, the Company received cash proceeds of \$4,122 relating to the disposal of an investment, of which \$1,218 relates to a return on capital, resulting in a gain of \$2,904.

**21. INCOME TAXES**

The significant components of income tax expense are as follows:

	2018	2017
Current income tax expense	71,260	65,390
Deferred income tax expense (recovery)		
Resulting from temporary differences	7,009	24,467
Resulting from the utilization of tax losses	9,399	(6,585)
Resulting from tax rate changes	87	(526)
Resulting from the creation of various future tax reserves	(141)	899
Other	515	(1,147)
<b>Income tax expense reported in the consolidated statements of income (loss) and comprehensive income (loss)</b>	<b>88,129</b>	<b>82,498</b>

A reconciliation of income tax computed at the statutory tax rates to income tax expense is as follows:

	2018		2017	
	\$	%	\$	%
Income tax at combined federal and provincial rates	(177,650)	26.5%	81,259	26.5%
Differences from statutory rates relating to:				
(Income) loss subject to tax at less than statutory rates	(191)	—%	(27)	—%
Non-taxable portion of capital gains	(88)	—%	843	0.3%
Goodwill impairment	265,136	(39.6%)	—	—%
Transaction costs	(29)	—%	(440)	(0.1%)
Increase of various tax reserves	450	—%	953	0.3%
Miscellaneous differences	501	(0.1%)	(90)	—%
	<b>88,129</b>	<b>(13.2%)</b>	<b>82,498</b>	<b>26.9%</b>

The movement in the net deferred income tax asset (liability) was as follows:

	Broadcast licenses and other intangibles	Accrued compen- sation	Fixed assets and film assets	Program rights	Non-capital loss carry forwards	Invest- ments	Financing and debt retirement	Other	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance - August 31, 2016	(508,996)	22,718	15,594	33,343	18,698	(638)	16,512	18,443	(384,326)
Recognized in profit or loss	(558)	1,159	1,804	(16,312)	6,585	170	4,697	(14,654)	(17,109)
Recognized in OCI	—	(2,478)	—	—	—	(298)	(9,896)	—	(12,672)
Recognized in equity	—	—	—	—	—	—	—	(24)	(24)
Balance - August 31, 2017	(509,554)	21,399	17,398	17,031	25,283	(766)	11,313	3,765	(414,131)
Recognized in profit or loss	1,102	(6,382)	561	(2,212)	(9,399)	1,192	(6,307)	4,576	(16,869)
Recognized in OCI	—	(4,164)	—	—	—	(118)	(4,589)	—	(8,871)
<b>Balance - August 31, 2018</b>	<b>(508,452)</b>	<b>10,853</b>	<b>17,959</b>	<b>14,819</b>	<b>15,884</b>	<b>308</b>	<b>417</b>	<b>8,341</b>	<b>(439,871)</b>

At August 31, 2018, the Company had approximately \$70,444 (2017 – \$109,941) of non-capital loss carryforwards available which expire between the years 2026 and 2038. A deferred income tax asset of \$15,884 (2017 – \$25,283) has been recognized in respect of these losses and an income tax benefit of \$1,280 (2017 – \$2,568) has not been recognized.

At August 31, 2018, the Company had approximately \$37,430 (2017 – \$36,748) of capital loss carryforwards available which have no expiry date. No income tax benefit has been recognized in respect of these losses.

The Company has taxable temporary differences associated with its investments in its subsidiaries. No deferred income tax liabilities have been provided with respect to such temporary differences as the Company is able to control the timing of the reversal and such reversal is not probable in the foreseeable future.

There are no income tax consequences attached to the payment of dividends, in either 2018 or 2017, by the Company to its shareholders.

## 22. BUSINESS SEGMENT INFORMATION

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

### TELEVISION

The Television segment is comprised of 44 specialty television networks (2017 — 45), 15 conventional television stations, and the Corus content business, which includes the production and distribution of films and television programs, merchandise licensing, book publishing, animation software, media and technology services. Revenues are generated from advertising, subscribers fees and the licensing of proprietary films and television programs, merchandise licensing, publishing, animation software, media and technology service sales.

### RADIO

The Radio segment is comprised of 39 radio stations across Canada, 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 and amortization, interest expense, debt refinancing costs, business acquisition, integration and restructuring costs, impairments and certain other income and expenses.

**REVENUES AND SEGMENT PROFIT**

<b>Year ended August 31, 2018</b>	<b>Television</b>	<b>Radio</b>	<b>Corporate</b>	<b>Consolidated</b>
Revenues	<b>1,499,322</b>	<b>148,025</b>	—	<b>1,647,347</b>
Direct cost of sales, general and administrative expenses	<b>957,533</b>	<b>107,717</b>	<b>6,469</b>	<b>1,071,719</b>
<b>Segment profit (loss)</b>	<b>541,789</b>	<b>40,308</b>	<b>(6,469)</b>	<b>575,628</b>
Depreciation and amortization				<b>81,861</b>
Interest expense				<b>127,346</b>
Broadcast license and goodwill impairment				<b>1,013,692</b>
Business acquisition, integration and restructuring costs				<b>17,071</b>
Other expense, net				<b>5,692</b>
<b>Loss before income taxes</b>				<b>(670,034)</b>

<b>Year ended August 31, 2017</b>	<b>Television</b>	<b>Radio</b>	<b>Corporate</b>	<b>Consolidated</b>
Revenues	1,529,792	149,216	—	1,679,008
Direct cost of sales, general and administrative expenses	965,425	109,689	25,811	1,100,925
<b>Segment profit (loss)</b>	<b>564,367</b>	<b>39,527</b>	<b>(25,811)</b>	<b>578,083</b>
Depreciation and amortization				91,750
Interest expense				156,716
Business acquisition, integration and restructuring costs				31,983
Other income, net				(8,953)
<b>Income before income taxes</b>				<b>306,587</b>

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

Revenues are derived from the following areas:

	<b>2018</b>	2017
Advertising	<b>1,043,810</b>	1,080,929
Subscriber fees	<b>507,756</b>	506,666
Merchandising, distribution and other	<b>95,781</b>	91,413
	<b>1,647,347</b>	1,679,008

Revenues are derived from the following geographical sources, by location of customer:

	<b>2018</b>	2017
Canada	<b>1,583,879</b>	1,633,466
International	<b>63,468</b>	45,542
	<b>1,647,347</b>	1,679,008

International revenues pertain to customers in the Television segment only.

**SEGMENT ASSETS AND LIABILITIES**

	2018	2017
<b>Assets</b>		
Television	<b>4,373,037</b>	5,462,897
Radio	<b>242,701</b>	260,573
Corporate	<b>267,216</b>	344,374
	<b>4,882,954</b>	6,067,844
<b>Liabilities</b>		
Television	<b>1,105,882</b>	1,184,239
Radio	<b>44,991</b>	50,989
Corporate	<b>2,055,278</b>	2,233,095
	<b>3,206,151</b>	3,468,323

**CAPITAL EXPENDITURES BY SEGMENT**

	2018	2017
Television	<b>10,498</b>	14,449
Radio	<b>3,660</b>	2,135
Corporate	<b>1,959</b>	10,405
	<b>16,117</b>	26,989

Property, plant and equipment are located primarily within Canada.

**23. CAPITAL MANAGEMENT**

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 to 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. Total managed capital is as follows:

	2018	2017
Total bank debt	<b>1,983,933</b>	2,091,580
Cash and cash equivalents	<b>(94,801)</b>	(93,701)
Net debt	<b>1,889,132</b>	1,997,879
Shareholders' equity	<b>1,676,803</b>	2,599,521
	<b>3,565,935</b>	4,597,400

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 a leverage target (net debt to segment profit ratio) of below 3.0 times and to maintain a dividend yield in excess of 2.5%. In the short-term, the Company may permit the long-term range to be exceeded (for long-term investment opportunities), but endeavours to return to the leverage target 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 above these internally imposed objectives and is focused on deleveraging towards 3.0 times net debt to segment profit.

## 24. FINANCIAL INSTRUMENTS

The following tables set out the classification of financial and non-financial assets and liabilities.

As at August 31, 2018	Fair value through profit or loss	Loans and receivables	Available-for-sale	Other financial liabilities	Derivatives	Non-financial	Total carrying amount
Cash and cash equivalents	94,801	—	—	—	—	—	94,801
Accounts receivable	—	388,751	—	—	—	—	388,751
Investments	—	—	45,964	—	26,964	9,285	82,213
Intangibles	—	—	—	—	—	2,012,086	2,012,086
Other assets	—	—	—	—	—	2,305,103	2,305,103
<b>Total assets</b>	<b>94,801</b>	<b>388,751</b>	<b>45,964</b>	<b>—</b>	<b>26,964</b>	<b>4,326,474</b>	<b>4,882,954</b>
Accounts payable, accrued liabilities and provisions	—	—	—	416,937	—	—	416,937
Bank debt	—	—	—	1,983,933	—	—	1,983,933
Other long-term liabilities and provisions	—	—	—	288,952	—	14,055	303,007
Other liabilities	—	—	—	—	—	502,274	502,274
<b>Total liabilities</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>2,689,822</b>	<b>—</b>	<b>516,329</b>	<b>3,206,151</b>

As at August 31, 2017	Fair value through profit or loss	Loans and receivables	Available-for-sale	Other financial liabilities	Derivatives	Non-financial	Total carrying amount
Cash and cash equivalents	93,701	—	—	—	—	—	93,701
Accounts receivable	—	408,443	—	—	—	—	408,443
Investments	—	—	30,289	—	22,961	11,309	64,559
Intangibles	—	—	—	—	—	2,045,813	2,045,813
Other assets	—	—	—	—	—	3,455,328	3,455,328
<b>Total assets</b>	<b>93,701</b>	<b>408,443</b>	<b>30,289</b>	<b>—</b>	<b>22,961</b>	<b>5,512,450</b>	<b>6,067,844</b>
Accounts payable, accrued liabilities and provisions	—	—	—	431,452	—	—	431,452
Bank debt	—	—	—	2,091,580	—	—	2,091,580
Other long-term liabilities and provisions	—	—	—	440,940	—	13,116	454,056
Other liabilities	—	—	—	—	—	491,235	491,235
<b>Total liabilities</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>2,963,972</b>	<b>—</b>	<b>504,351</b>	<b>3,468,323</b>

### FAIR VALUES

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

The fair value of publicly-traded shares included in investments and intangibles is determined by quoted share prices in active markets. The fair value of other financial instruments included in this category is determined using other valuation techniques.

The fair value of bank loans is estimated based on discounted cash flows using year-end market yields, adjusted to take into account the Company's own credit risk. The long-term debt is regularly repriced to floating market interest rates and as such, the carrying value of the Company's bank loans approximate their fair value.

Periodically, the Company enters into Canadian dollar interest rate swap agreements. The fair value of the interest rate swap agreements is calculated by way of discounted cash flows, using market interest rates and applicable credit spreads.

In fiscal 2018, the Company entered into U.S. dollar foreign currency forward contracts. The fair value of the foreign currency forward contracts is calculated by way of discounted cash flows, using market foreign exchange rates and applicable discount factors.

The fair values of financial instruments in other long-term liabilities approximate their carrying values as they are recorded at the net present values of their future cash flows, using an appropriate discount rate.

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

The following tables present information related to the Company's financial assets measured at fair value on a recurring basis and the level within the guidance hierarchy in which the fair value measurements fall as at August 31 as follows:

<b>As at August 31, 2018</b>	<b>Quoted prices in active markets for identical assets or liabilities (Level 1)</b>	<b>Significant other observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>
<b>Assets</b>			
Cash and cash equivalents	94,801	—	—
Interest rate swap	—	23,213	—
Foreign exchange forward contracts	—	3,751	—
<b>Assets carried at fair value</b>	<b>94,801</b>	<b>26,964</b>	<b>—</b>

<b>As at August 31, 2017</b>	<b>Quoted prices in active markets for identical assets or liabilities (Level 1)</b>	<b>Significant other observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>
<b>Assets</b>			
Cash and cash equivalents	93,701	—	—
Interest rate swap	—	22,961	—
<b>Assets carried at fair value</b>	<b>93,701</b>	<b>22,961</b>	<b>—</b>

Excluded from the above tables are the Company's investments that are measured at cost, as fair value is not reliably measured.

## **RISK MANAGEMENT**

The Company is exposed to various risks related to its financial assets and liabilities. These risk exposures are managed on an ongoing basis.

### **Credit risk**

In the normal course of business, the Company is exposed to credit risk from its accounts receivable from customers. The carrying amounts for accounts receivable are net of applicable allowances for doubtful accounts, which are estimated based on past experience, specific risks associated with the customer and other relevant information.

The maximum exposure to credit risk is the carrying amount of the financial assets.

The following tables set out the details of the aging for accounts receivable and allowance for doubtful accounts as at August 31 as follows:

	2018	2017
Trade		
Current	164,284	173,937
One to three months past due	139,127	135,418
Over three months past due	64,474	78,226
	<b>367,885</b>	387,581
Other	25,337	25,533
	<b>393,222</b>	413,114
Less allowance for doubtful accounts	4,471	4,671
	<b>388,751</b>	408,443

	2018	2017
Balance, beginning of year	4,671	3,376
Provision for doubtful accounts	1,648	4,340
Write-off of bad debts	(1,848)	(3,045)
<b>Balance, end of year</b>	<b>4,471</b>	4,671

The Company earned 9% of its revenues from one related party (2017 – 8%). This related party comprises 6% of the accounts receivable balance as at August 31, 2018 (2017 – 6%) (note 30).

### Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial obligations. The Company manages liquidity risk primarily by maintaining sufficient unused capacity within its long-term debt facility, and by continuously monitoring forecast and actual cash flows. The unused capacity at August 31, 2018 was \$300,000 (2017 – \$300,000). Further information with respect to the Company's long-term debt facility is provided in note 14.

The following table sets out the undiscounted contractual obligations as at August 31, 2018:

	Total	Less than one year	One to three years	Beyond three years
Total debt <sup>(1)</sup>	2,021,125	106,375	212,750	1,702,000
Accounts payable	405,762	405,762	—	—
Other obligations <sup>(2)</sup>	158,701	49,296	74,522	34,883

<sup>(1)</sup> Principal repayments and interest payments

<sup>(2)</sup> Other obligations included financial liabilities, trade marks, other intangibles and CRTC commitments.

In fiscal 2018, the Company incurred interest on bank loans and swaps on credit facilities of \$89,026 (2017 – \$103,054).

### Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuers or factors affecting all instruments traded in the market.

The Company is exposed to foreign exchange risk through its international content distribution operations and U.S. dollar denominated programming purchasing. The most significant foreign currency exposure is to movements in the U.S. dollar to Canadian dollar exchange rate and the U.S. dollar to euro exchange rate. The impact of foreign exchange on income before income taxes and non-controlling interest is detailed in the table below:

	2018	2017
Direct cost of sales, general and administrative expenses	(82)	88
Other expense (income), net	5,382	(12,157)
	<b>5,300</b>	(12,069)



An assumed 10% increase or decrease in exchange rates as at August 31, 2018 would have an impact of approximately \$18,000 on net income or OCI for the year. As a result of the Company's exposure to this risk, it has entered into a series of foreign exchange forward contracts, as described in note 14, to fix the foreign exchange rate and therefore cash flows related to a portion of the Company's U.S. dollar denominated liabilities.

The Company is exposed to interest rate risk on the bankers' acceptances issued at floating rates under its bank loan facility. An assumed 1% increase or decrease in short-term interest rates during the year ended August 31, 2018 would have had a material impact on net income for the year. As a result of the Company's exposure to this risk, it has entered into interest rate swap agreements, as described in note 14, to minimize its exposure to changes in floating rates on bankers' acceptances.

#### **Other considerations**

The Company does not engage in trading or other speculative activities with respect to derivative financial instruments.

## **25. CONSOLIDATED STATEMENTS OF CASH FLOWS**

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

	2018	2017
Accounts receivable	20,402	(26,488)
Prepaid expenses and other	1,147	(3,040)
Accounts payable and accrued liabilities	(11,374)	(22,027)
Provisions	(8,929)	(5,599)
Income taxes recoverable	(1,917)	(3,370)
Other long-term liabilities	(22,918)	3,395
Other	(4,909)	(8,805)
	<b>(28,498)</b>	(65,934)

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

	2018	2017
Interest paid	91,611	105,694
Interest received	1,244	1,045
Income taxes paid	66,431	66,249

## **26. GOVERNMENT FINANCING AND ASSISTANCE**

Revenues include \$3,584 (2017 – \$8,993) of production financing obtained from government programs. This financing provides a supplement to a production series' Canadian license fees and is not repayable.

As well, revenues include \$1,059 (2017 – \$951) of government grants relating to the marketing of books in both Canada and international markets. The majority of the grants are repayable if the average profit margin for the three-year period following receipt of the funds equals or is greater than 15%.

## **27. BUSINESS COMBINATIONS AND DIVESTITURES**

### **DISPOSITION OF 29% INTEREST IN THE COOKING CHANNEL (CANADA)**

On December 12, 2016, the Company sold a 29% interest in 7202377 Canada Inc. (the "Cooking Channel"), a subsidiary, to Scripps Network LLC for \$7,500, the fair value at the date of the sale. Cash proceeds of \$5,250 were received upon closing. A further \$2,176 was received in fiscal 2018. Control of this subsidiary did not change, therefore a business combination did not occur. As such, the Company continues to consolidate the Cooking Channel, but the transaction did give rise to a non-controlling interest in the Cooking Channel. In accordance with IFRS 10 – *Consolidated Financial Statements*, an adjustment has been made to the carrying amounts of the non-controlling interests in these consolidated financial statements related to the reallocation of equity interest to reflect the underlying carrying value of the net assets of the Cooking Channel.

## 28. COMMITMENTS, CONTINGENCIES AND GUARANTEES

### LEASES

The Company enters into operating leases for the use of facilities and equipment. During fiscal 2018, rental expenses in direct cost of sales, general and administrative expenses totalled approximately \$31,731 (2017 – \$31,861). Future minimum rentals payable under non-cancellable operating leases at August 31, are as follows:

	2018	2017
Within one year	30,480	38,786
After one year but not more than five years	115,508	115,599
More than five years	261,809	277,773
	<b>407,797</b>	432,158

The Company has entered into finance leases for the use of computer equipment and software, telephones, furniture and broadcast equipment. The leases range between three and five years and bear interest at rates varying from 2.1% to 8.0%. Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	2018		2017	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within one year	4,110	3,794	2,709	2,526
After one year but not more than five years	1,712	1,670	2,407	2,289
More than five years	—	—	—	—
Total minimum lease payments	5,822	5,464	5,116	4,815
Less amounts representing finance charges	358	—	301	—
<b>Present value of minimum lease payments</b>	<b>5,464</b>	<b>5,464</b>	4,815	4,815

### PURCHASE COMMITMENTS

The Company has entered into various purchase commitments at August 31, 2018 as detailed in the following table:

	Total	Within 1 year	2 - 3 years	4 - 5 years	More than 5 years
Purchase obligations <sup>(1)</sup>	907,699	525,236	289,554	91,731	1,178
Other obligations <sup>(2)</sup>	158,701	49,296	74,522	33,975	908
<b>Total contractual obligations</b>	<b>1,066,400</b>	<b>574,532</b>	<b>364,076</b>	<b>125,706</b>	<b>2,086</b>

<sup>(1)</sup> Purchase obligations are contractual obligations under contracts relating to program rights, satellite and signal transport costs, and various other operating expenditures that the Company has committed to, for periods ranging from one to 10 years.

<sup>(2)</sup> Other obligations included financial liabilities, trade marks, other intangibles and CRTC commitments.

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

### LITIGATION

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

### OTHER MATTERS

Many of the Company's agreements, specifically those related to acquisitions and dispositions of business assets, include indemnification provisions where the Company may be required to make payments to a vendor or purchaser for breach of fundamental representation and warranty terms in the agreements with respect to matters such as corporate status, title of assets, environmental issues, consents to transfer, employment matters, litigation, taxes payable and other potential material liabilities. The maximum potential amount of future payments that the Company could be required to make under these indemnification provisions is not

reasonably quantifiable, as certain indemnifications are not subject to a monetary limitation. As at August 31, 2018, management believed there was only a remote possibility that the indemnification provisions would require any material cash payment.

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

## 29. EMPLOYEE BENEFIT PLANS

### DEFINED CONTRIBUTION PENSION PLANS

The Company has various defined contribution plans for qualifying full-time employees. Under these plans, the Company contributes up to 6% (2017 – 6%) of an employee's earnings, not exceeding the limits set by the *Income Tax Act* (Canada). The amount contributed in fiscal 2018 related to the defined contribution plans was \$8,313 (2017 – \$7,532). The amount contributed is approximately the same as the expense included in the consolidated statements of income (loss) and comprehensive income (loss).

### NON-REGISTERED DEFINED BENEFIT PENSION PLANS

The Company provides supplemental executive retirement plans ("SERP" and "CEO SERP", which relates to the former CEO), which are non-contributory, unfunded defined benefit pension plans for certain of its senior executives that are included in long-term employee obligations (note 15). Benefits under these plans are generally based on the employee's length of service and their highest three-year average rate of pay during their most recent 10 years of service, accrued starting from the date of the implementation of the plan, and currently includes a benefit for past service for certain senior executives, as applicable under the terms of the plan.

The table below shows the change in the benefit obligation for these plans.

	2018	2017
Accrued benefit obligation and plan deficit, beginning of year	18,575	17,662
Current service costs	1,343	1,405
Interest cost	686	609
Payment of benefits	(484)	(484)
Remeasurements:		
Effect of changes in financial assumptions	(427)	(339)
Effect of experience adjustments	(563)	(278)
<b>Accrued benefit obligation and liability, end of year</b>	<b>19,130</b>	18,575

The weighted average duration of the defined benefit obligation of the supplemental executive retirement plans at August 31, 2018 is 16.2 years.

The tables below show the significant weighted-average assumptions used to measure the pension obligation and costs for this plan.

<b>Accrued benefit obligation</b>	2018	2017
Discount rate	3.70%	3.50%
Rate of compensation increase	2.50%	2.50%
<b>Benefit cost for the year</b>	2018	2017
Discount rate	3.50%	3.60%
Rate of compensation increase	2.50%	3.00%

The following table illustrates the incremental impact on the defined benefit obligation at August 31, 2018 and the pension expense for the fiscal year then ended, with respect to the three key factors in determining the benefit obligation:

<b>Sensitivity analysis</b>	<b>Benefit obligation at August 31, 2018</b>	<b>Pension expense for fiscal 2018</b>
Discount rate - 1% decrease	3,088	196
Salary increase - 1% increase	(6,692)	108
Mortality - one-year increase in the expected future lifetime	569	68

When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the present value of the defined benefit obligation has been calculated using the projected benefit method which is the same method that is applied in calculating the defined benefit liability recognized in the consolidated statements of financial position. The sensitivity analysis presented above may not be representative of the actual change in the accrued benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some assumptions may be correlated.

The net pension benefit plan expense, which is included in employee costs, is comprised of the following components:

	<b>2018</b>	2017
Current service cost	1,343	1,405
Past service cost	—	—
Interest cost	686	609
<b>Pension expense</b>	<b>2,029</b>	2,014

## REGISTERED PENSION PLANS

The Company has a number of funded defined benefit pension plans which provide pension benefits to certain unionized and non-unionized employees in its conventional television operations. Benefits under these plans are based on the employee's length of service and final average salary. These plans are regulated by the Office of the Superintendent of Financial Institutions, Canada in accordance with the provisions of the *Pension Benefits Standards Act* and Regulations. The regulations set out minimum standards for funding the plans.

The following table shows the change in the benefit obligations, change in fair value of plan assets and the funded status of these defined benefit plans.

	2018	2017
Accrued benefit obligation, beginning of year	208,702	208,297
Current service cost	6,104	6,138
Interest cost	7,552	7,408
Employee contributions	964	825
Payment of benefits	(10,993)	(9,164)
Effect of changes in demographic assumptions	(590)	2,387
Effect of changes in financial assumptions	(5,903)	(5,610)
Effect of experience adjustments	(1,141)	(1,579)
Accrued benefit obligation, end of year	204,695	208,702
Fair value of plan assets, beginning of year	202,435	200,134
Employer contributions	8,596	7,532
Employee contributions	964	825
Interest income	7,204	7,024
Payment of benefits	(10,993)	(9,164)
Administrative expenses paid from plan assets	(789)	(1,024)
Return on plan assets, excluding interest income	8,231	(2,892)
Fair value of plan assets, end of year	215,648	202,435
Effect of asset ceiling limit	(966)	(1,496)
Fair value of plan assets, end of year, net of asset ceiling limit	214,682	200,939
<b>Accrued benefit liability (asset) and plan deficit (surplus), end of year</b>	<b>(9,987)</b>	7,763

The weighted average duration of the defined benefit obligation at August 31, 2018 is 17.8 years.

The plan assets at August 31, are comprised of investments in pooled funds as follows:

	2018	2017
Equity - Canadian	52,644	51,800
Equity - Foreign	33,227	33,889
Fixed income - Canadian	129,777	116,746
	<b>215,648</b>	202,435

The underlying securities in the pooled funds have quoted prices in an active market.

The significant weighted average assumptions used to measure the pension obligation and cost for these plans are as follows:

<b>Accrued benefit obligation</b>	<b>2018</b>	2017
Discount rate	3.70%	3.60%
Rate of compensation increase	2.50%	2.50%
<b>Benefit cost for the year</b>	<b>2018</b>	2017
Discount rate	3.60%	3.60%
Rate of compensation increase	2.50%	3.00%

The following table illustrates the incremental impact on the defined benefit obligation at August 31, 2018 and the pension expense for the fiscal year then ended, with respect to the three key factors in determining the benefit obligation:

<b>Sensitivity analysis</b>	<b>As at August 31, 2018 benefit obligation</b>	<b>Fiscal 2018 benefit cost</b>
Discount rate - 1% decrease	<b>36,388</b>	<b>2,902</b>
Salary - 1% increase	<b>(2,189)</b>	<b>877</b>
Weighted average duration of defined benefit obligation in years		
Effective discount rate 1% decrease	<b>17.8</b>	<b>n/a</b>

When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the present value of the defined benefit obligation has been calculated using the projected benefit method, which is the same method that is applied in calculating the defined benefit liability recognized in the consolidated statements of financial position. The sensitivity analysis presented above may not be representative of the actual change in the accrued benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some assumptions may be correlated.

The net pension benefit plan expense, which is included in employee costs, is comprised of the following components:

	<b>2018</b>	2017
Current service cost	<b>4,926</b>	6,138
Interest cost	<b>—</b>	429
<b>Pension expense</b>	<b>4,926</b>	6,567

#### **OTHER BENEFIT PLANS**

The Company provides supplemental post-retirement non-pension benefit plans that provide post-retirement health and life insurance coverage to certain employees and are funded on a pay-as-you-go basis. The table below shows the change in the accrued post-retirement obligation, which is recognized in the consolidated statements of financial position.

The change in the benefit obligation for these plans is as follows:

	<b>2018</b>	2017
Accrued benefit obligation and plan deficit, beginning of year	<b>17,267</b>	16,829
Current service costs	<b>622</b>	607
Past service cost	<b>(2,939)</b>	—
Interest cost	<b>575</b>	590
Payment of benefits	<b>(547)</b>	(568)
Remeasurements:		
Effect of changes in financial assumptions	<b>(40)</b>	(281)
Effect of experience adjustments	<b>140</b>	90
<b>Accrued benefit obligation and liability, end of year</b>	<b>15,078</b>	17,267

The weighted average duration of the defined benefit obligation of the post-retirement plans at August 31, 2018 is 13.7 years.

The significant weighted-average assumptions used to measure the pension obligation and costs for this plan are as follows:

<b>Accrued benefit obligation</b>	<b>2018</b>	2017
Discount rate	<b>3.69%</b>	3.65%
Salary increase	<b>0.00%</b>	0.00%

<b>Benefit cost for the year</b>	<b>2018</b>	2017
Discount rate	<b>3.67%</b>	3.65%
Salary increase	<b>3.00%</b>	3.00%

The following table illustrates the incremental impact on the defined benefit obligation at August 31, 2018 and the pension expense for the fiscal year then ended, with respect to the two key factors in determining the benefit obligation:

<b>Sensitivity analysis</b>	<b>Benefit obligation at August 31, 2018</b>	<b>Service and interest costs fiscal 2018</b>
Discount rate - 1% decrease	<b>1,720</b>	<b>(242)</b>
Trend rate - 1% increase	<b>1,606</b>	<b>(87)</b>

When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the present value of the defined benefit obligation has been calculated using the projected benefit method which is the same method that is applied in calculating the defined benefit liability recognized in the consolidated statements of financial position. The sensitivity analysis presented above may not be representative of the actual change in the accrued benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some assumptions may be correlated.

The net pension benefit plan expense, which is included in employee costs, is comprised of the following components:

	<b>2018</b>	2017
Current service cost	<b>622</b>	607
Past service cost	<b>(2,939)</b>	—
Interest cost	<b>575</b>	590
<b>Pension expense</b>	<b>(1,742)</b>	1,197

### **30. RELATED PARTY TRANSACTIONS**

#### **CONTROLLING SHAREHOLDER**

A majority of the outstanding Class A Voting Shares of the Company are held by entities owned by the Shaw Family Living Trust ("SFLT") and its subsidiaries for the benefit of descendants of JR Shaw and Carol Shaw. The sole trustee of SFLT is a private company owned by JR Shaw and having a board comprised of seven directors, including as at August 31, 2018, JR Shaw as Chair, Heather Shaw, Julie Shaw, three other members of JR Shaw's family and one independent director. The Class A Voting Shares are the only shares entitled to vote in all shareholder matters, except in limited circumstances as described in the Company's Annual Information Form. Accordingly, SFLT is, and as long as it holds a majority of the Class A Voting Shares, will continue to be, able to elect a majority of the Board of Directors of Corus and to control the vote on matters submitted to a vote of Corus' Class A shareholders.

SFLT is the controlling shareholder of Shaw Communications Inc. ("Shaw"), and as a result, Shaw and Corus are subject to common voting control.

#### **NORMAL COURSE TRANSACTIONS**

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

#### **Shaw Communications Inc.**

During the year, the Company received subscriber, programming, licensing and advertising revenues of \$143,971 (2017 – \$131,381), and \$1,979 (2017 – \$1,081) of production and distribution revenues from Shaw. In addition, the Company paid cable and satellite system distribution access fees of \$12,286 (2017 – \$13,097),

administrative and other fees of \$2,036 (2017 – \$2,301), and issued dividends of \$91.9 million (2017 – \$88.0 million) to Shaw. At August 31, 2018, the Company had \$24,774 (2017 – \$34,571) receivable from and \$34 (2017 – \$429) payable to Shaw.

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

### SIGNIFICANT SUBSIDIARIES

The following table includes the significant subsidiaries of the Company:

Name	Jurisdiction	Equity interest	
		2018	2017
Corus Limited Television Partnership	Canada	100%	100%
Corus Media Holdings Inc.	Alberta	100%	100%
Corus Radio Inc.	Canada	100%	100%
Corus Radio Sales Inc.	Canada	100%	—
Corus Sales Inc.	Canada	100%	100%
Food Network Canada Inc.	Canada	71%	71%
HGTV Canada Inc.	Canada	67%	67%
History Television Inc.	Canada	100%	100%
Nelvana Limited	Ontario	100%	100%
Showcase Television Inc.	Canada	100%	100%
TELETOON Canada Inc.	Canada	100%	100%
W Network Inc.	Canada	100%	100%
YTV Canada, Inc.	Canada	100%	100%

### KEY MANAGEMENT PERSONNEL

Key management personnel consists of the Board of Directors and the Executive Leadership Team who have the authority and responsibility for planning, directing and controlling the activities of the Company. Several members of the Executive Leadership Team are also officers of the Company.

Key management personnel compensation, including the Executive Leadership Team, officers and directors of the Company, is as follows:

	2018	2017
Salaries and benefits	9,755	15,609
Post-employment benefits	2,029	1,757
Share-based compensation (note 16)	(7,501)	5,292
	4,283	22,658

Except for the President and Chief Executive Officer, the Executive Vice President and Chief Financial Officer, and the Executive Vice President and Chief Operating Officer, no member of the Executive Leadership Team has an employment agreement or any other contractual arrangement in place with the Company in connection with any termination or change of control event, other than the conditions provided in the compensation plans of the Company. Generally, severance entitlements, including short-term incentives payable to the Executive Leadership Team and officers of the Company, other than the President and Chief Executive Officer, the Executive Vice President and Chief Financial Officer, and the Executive Vice President and Chief Operating Officer, due to their employment agreements with the Company, would be determined in accordance with applicable common law requirements. Long-term incentive plans, such as stock options, are exercisable if vested, while DSUs, PSUs, RSUs and SERP, would be payable if vested pursuant to the terms of the plans.

### 31. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2018 consolidated financial statements.



# CORUS ENTERTAINMENT INC.

## **Stock Exchange Listing and Trading Symbol**

Toronto Stock Exchange  
TSX: CJR.B

## **Registered Office**

1500, 850-2<sup>nd</sup> Street SW  
Calgary, Alberta T2P 0R8

## **Executive Office**

Corus Quay  
25 Docksider Drive  
Toronto, Ontario M5A 0B5  
Telephone: 416.479.7000  
Facsimile: 416.479.7007

## **Website**

[www.corusent.com](http://www.corusent.com)

## **Auditors**

Ernst & Young LLP

## **Shareholder Services**

For assistance with the following:

- Change of address
- Transfer or loss of share certificates
- Dividend payments or direct deposit of dividends
- Dividend Reinvestment Plan

please contact our **Transfer Agent and Registrar:**

AST Trust Company (Canada)  
PO Box 700, Station B  
Montreal, Quebec H3B 3K3  
Telephone: 1.800.387.0825  
Facsimile:  
1.888.249.6189 (in North America)  
514.985.8843 (outside North America)  
[www.astfinancial.com/ca-en/](http://www.astfinancial.com/ca-en/)

## **Annual General Meeting**

January 16, 2019  
2 p.m. MT/4 p.m. ET  
The Westin Calgary  
Bow Valley Room  
320 4 Avenue S.W.  
Calgary, Alberta T2P 2S6

## **Dividend Information**

Corus Entertainment now pays its dividend on a quarterly basis, subject to Board approval, and all dividends are "eligible" dividends for Canadian tax purposes unless indicated otherwise.

For further information, including the latest approved dividends and historical dividend information, please visit the Investor Relations - Dividends section of Corus Entertainment's website ([www.corusent.com](http://www.corusent.com)).

## **Dividend Reinvestment Plan ("DRIP")**

AST Trust Company (Canada) acts as administrator of Corus Entertainment's Dividend Reinvestment Plan, which is available to the Company's registered Class A and Class B Shareholders residing in Canada.

To review the full text of the Plan and obtain an enrollment form, please visit the Plan Administrator's website at [www.astfinancial.com/ca-en/](http://www.astfinancial.com/ca-en/) or contact them at 1.800.387.0825.

## **Corporate Social Responsibility ("CSR")**

Since the Company's launch in 1999, Corus Entertainment ("Corus") has had a long and successful track record of corporate social responsibility (CSR) that encompasses community, employees, industry engagement and environmental initiatives. Corus and its employees have embraced the philosophy of giving back to the community by supporting worthwhile causes company-wide as well as individually. Under the "Corus Cares" banner, our mission is to strengthen the communities where we live with a focus on supporting the health and well-being of families and children.

For more information, please visit the Corporate Social Responsibility section of Corus Entertainment's website ([www.corusent.com](http://www.corusent.com)).

## **Corporate Governance**

The Board of Directors of the Company endorses the principles that sound corporate governance practices are important to the proper functioning of the Company and the enhancement of the interests of its shareholders. For further information, please visit the Investor Relations - Corporate Governance section of Corus Entertainment's website ([www.corusent.com](http://www.corusent.com)).

## **Further Information**

Financial analysts, portfolio managers, other investors and interested parties may contact Corus Entertainment at 416.479.7000 or visit the Company's website ([www.corusent.com](http://www.corusent.com)).

Corus Entertainment's Annual Reports, Annual Information Forms, Management Information Circulars, quarterly financial reports, press releases, investor presentations and other relevant materials are available in the Investor Relations section of Corus Entertainment's website ([www.corusent.com](http://www.corusent.com)).

To receive additional copies of Corus Entertainment's Annual Report, please email your request to [investor.relations@corusent.com](mailto:investor.relations@corusent.com).

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