

**CANWEST GLOBAL COMMUNICATIONS CORP.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED AUGUST 31, 2001 AND 2000**

November 14, 2001

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**Auditors' Report**

To the Shareholders of  
CanWest Global Communications Corp.

We have audited the consolidated balance sheets of CanWest Global Communications Corp. as at August 31, 2001 and August 31, 2000 and the consolidated statements of earnings, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian and United States generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2001 and August 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

Chartered Accountants

**CANWEST GLOBAL COMMUNICATIONS CORP.  
CONSOLIDATED BALANCE SHEETS  
AS AT AUGUST 31**

	<b>2001</b>	<b>2000</b>
<b>ASSETS</b>	<b>\$000</b>	<b>\$000</b>
<b>Current Assets</b>		
Cash and short term investments	19,489	76,298
Accounts receivable	475,618	237,845
Inventory	30,817	-
Investment in film and television program rights	96,385	48,949
Future income taxes	33,243	20,433
Other	<u>17,840</u>	<u>4,508</u>
	673,392	388,033
Investment in Network TEN	107,210	133,947
Other investments	415,413	398,171
Investment in film and television program rights	355,994	251,114
Property and equipment	687,811	185,224
Other assets	130,966	101,284
Intangibles and goodwill	<u>3,928,434</u>	<u>1,484,838</u>
	<u><u>6,299,220</u></u>	<u><u>2,942,611</u></u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Bank loans and advances	28,999	16,255
Accounts payable and accrued liabilities	400,433	195,302
Income taxes payable	1,175	42,759
Film and program accounts payable	45,084	18,030
Deferred revenue	75,970	41,022
Current portion of long term debt	<u>116,500</u>	<u>-</u>
	668,161	313,368
Long term debt	3,795,262	1,172,532
Film and program accounts payable	3,581	22,260
Other accrued liabilities	85,228	92,571
Future income taxes	440,992	460,031
Minority interests	-	<u>21,722</u>
	<u>4,993,224</u>	<u>2,082,484</u>
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock	896,313	420,260
Contributed surplus	3,647	3,647
Retained earnings	475,053	523,948
Cumulative foreign currency translation adjustments	<u>(69,017)</u>	<u>(87,728)</u>
	<u>1,305,996</u>	<u>860,127</u>

6,299,220

2,942,611

The notes constitute an integral part of the consolidated financial statements.  
Signed on behalf of the board



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Director



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Director

**CANWEST GLOBAL COMMUNICATIONS CORP.  
CONSOLIDATED STATEMENTS OF EARNINGS  
FOR THE YEARS ENDED AUGUST 31**

	<b>2001</b>	<b>2000</b>
	<b>\$000</b>	<b>\$000</b>
Revenue	1,944,775	731,848
Operating expenses	1,118,356	465,818
Selling general and administrative expenses	382,312	108,921
Non-recurring expenses and write-down of program inventory	<u>3,036</u>	<u>12,566</u>
Operating profit before amortization	441,071	144,543
Amortization of intangibles and goodwill	90,159	20,917
Amortization of capital assets	60,565	16,418
Other amortization	<u>5,240</u>	<u>6,937</u>
	285,107	100,271
Financing expenses	(356,755)	(53,764)
Investment income and gains	28,630	101,213
Dividend income	<u>2,952</u>	<u>2,688</u>
	(40,066)	150,408
Provision for (recovery of) income taxes	<u>(59,019)</u>	<u>48,124</u>
Earnings before the following	18,953	102,284
Minority interests	(3,196)	2,174
Interest in earnings of Network TEN	52,567	72,194
Interest in earnings (loss) of other equity accounted affiliates	(14,491)	2,286
Realized translation adjustments	<u>(7,200)</u>	<u>(1,300)</u>
Net earnings for the year	<u><u>46,633</u></u>	<u><u>177,638</u></u>
Net earnings per share:		
Basic	\$0.27	\$1.17
Diluted	\$0.27	\$1.16

The notes constitute an integral part of the consolidated financial statements.

**CANWEST GLOBAL COMMUNICATIONS CORP.  
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS  
FOR THE YEARS ENDED AUGUST 31**

	<b>2001</b>	<b>2000</b>
	<b>\$000</b>	<b>\$000</b>
Retained earnings - beginning of year, as previously reported	529,112	412,833
Adjustment for adoption of new income tax accounting pronouncement	<u>(5,164)</u>	<u>(20,122)</u>
Retained earnings – beginning of year, as restated	523,948	392,711
Net earnings for the year	46,633	177,638
Dividends		
Cash	(49,003)	(44,933)
Stock	(46,525)	-
Excess of redemption amount over stated amount of shares redeemed	<u>-</u>	<u>(1,468)</u>
Retained earnings - end of year	<u><u>475,053</u></u>	<u><u>523,948</u></u>

The notes constitute an integral part of the consolidated financial statements.

**CANWEST GLOBAL COMMUNICATIONS CORP.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED AUGUST 31**

	<b>2001</b>	<b>2000</b>
	<b>\$000</b>	<b>\$000</b>
<b>CASH GENERATED (UTILIZED) BY:</b>		
<b>OPERATING ACTIVITIES</b>		
Net earnings for the year	46,633	177,638
Items not affecting cash		
Amortization	166,979	47,552
Interest paid in kind	75,947	-
Future income taxes	(97,281)	(23,831)
Interest in earnings of Network TEN	(52,567)	(72,194)
Interest in loss (earnings) of other equity accounted affiliates	14,491	(2,286)
Minority interests	3,196	(2,174)
Realized translation adjustments	7,200	1,300
Gain on sale of investments, net of write- down	(28,630)	(101,787)
Write-off of deferred financing fees	17,900	-
Write-down of program inventory	-	12,566
Distributions from Network TEN	<u>71,096</u>	<u>75,259</u>
	224,964	112,043
Changes in non-cash operating accounts	<u>(51,406)</u>	<u>18,878</u>
	<u>173,558</u>	<u>130,921</u>
<b>INVESTING ACTIVITIES</b>		
Acquisitions	(2,007,291)	(627,500)
Other investments	-	(118,152)
Proceeds from sale of other investments	65,596	224,782
Proceeds from divestitures	32,454	-
Investment in film and television programs	(109,808)	(102,613)
Purchase of broadcast facilities and licences	(1,733)	(6,389)
Purchase of property and equipment	<u>(49,641)</u>	<u>(9,958)</u>
	<u>(2,070,423)</u>	<u>(639,830)</u>
<b>FINANCING ACTIVITIES</b>		
Dividends paid	(49,003)	(44,933)
Issuance of long term debt	1,872,303	610,776
Issuance of share capital	4,012	2,709
Net change in bank loans and advances	<u>12,744</u>	<u>(17,493)</u>
	<u>1,840,056</u>	<u>551,059</u>
<b>NET CHANGE IN CASH</b>	<b>(56,809)</b>	<b>42,150</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u><b>76,298</b></u>	<u><b>34,148</b></u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u><u><b>19,489</b></u></u>	<u><u><b>76,298</b></u></u>
<b>CASH FLOW PER SHARE</b>		
Basic	\$1.31	\$0.74
Diluted	\$1.31	\$0.73

The notes constitute an integral part of the consolidated financial statements.

**CANWEST GLOBAL COMMUNICATIONS CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2001 AND 2000**

**1. SIGNIFICANT ACCOUNTING POLICIES**

The Company is an international media company with interests in broadcast television, publishing, radio, specialty cable channels, the production and distribution of film and television programming and internet websites in Canada, Australia, New Zealand, Ireland and Northern Ireland. The Company's operating segments include television and radio broadcasting, entertainment, and publishing and online operations. In Canada, the television broadcasting segment includes the operation of the Global Television Network, Global Prime Cable Network, and various other conventional and specialty channels. Canadian publishing and online operations include the publication of a number of newspapers including metropolitan daily newspapers and a 50% interest in the National Post as well as operation of the canada.com web portal, and other web based operations. The entertainment segment includes the operation of CanWest Entertainment, a film production and distribution company. New Zealand television broadcasting includes the operations of the TV3 and TV4 Television Networks. The New Zealand radio broadcasting segment includes the More FM Radio and RadioWorks Networks. Irish television broadcasting includes the Company's 45% interest in the Republic of Ireland's TV3 Television Network. The Corporate and other segment includes the Company's 57.5% economic interest in The TEN Group Pty Limited, which owns and operates Australia's TEN Television Network ("Network TEN") and various portfolio investments in media operations, including a 29.9% equity interest in Northern Ireland's Ulster Television plc ("UTV").

The Company's broadcast customer base is comprised primarily of large advertising companies who place advertisements with the Company on behalf of their customers. Publishing revenues which include advertising, circulation and subscriptions are derived from a variety of sources.

A summary of significant accounting policies followed in the preparation of these consolidated financial statements is as follows:

***Basis of presentation***

These consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada. All amounts are expressed in Canadian dollars unless otherwise noted. A reconciliation to accounting principles generally accepted in the United States is provided in note 19.

## ***Principles of consolidation***

The consolidated financial statements include the accounts of the Company and its subsidiaries, and the Company's pro rata 45% share of the assets, liabilities, and results of operations of TV3 Ireland from March 28, 2001, the date when it ceased to be a subsidiary and became a jointly controlled enterprise.

## ***Investments***

The Company accounts for its investment in Network TEN, The National Post Company, ROBTv (to the date of its sale) and CF Television using the equity method. The Company's accounting for its investment in WIC Western International Communications Ltd. ("WIC") is described in note 2. Other investments are recorded at cost.

## ***Investment in film and television program rights***

### **(a) *Broadcast rights***

The Company has entered into various agreements for the rights to broadcast certain feature films and television programs. The Company records a liability for film and program rights and the corresponding asset when films and programs are available for telecast. Broadcast rights are charged to operations as programs are telecast over the anticipated period of use. Broadcast rights are carried at the lower of unamortized cost and net recoverable value based on undiscounted future cash flows.

### **(b) *Film and television programs***

Investment in film and television programs represents the unamortized costs of film and television programs that have been produced by the Company or for which the Company has acquired distribution rights. Included in investment in film and television programs are film and television programs in progress and in development, and acquired film and television program libraries. Costs of completed film and television programs include all production and exploitation costs and capitalized interest, which are expected to be recovered from future revenue. Film and television programs in progress represent the accumulated costs of productions that have not yet been completed by the Company.

Costs of film and television programs in development represent expenditures made on projects prior to production, including investments in scripts. Advances or contributions received from third parties to assist in development are deducted from these costs. Upon commencement of production, development costs are reclassified to investment in film and television programs. Development costs are written off at the earlier of when determined not to be recoverable and three years following the year incurred.

Amortization of investment in completed films and television programs is determined based on the ratio that current revenue earned from the film and television programs bears to expected gross future revenue for periods not exceeding ten years from the date of delivery. The cost of acquired libraries is amortized over the acquired titles' economic lives not exceeding twenty years from the date of acquisition. Revenue estimates are reviewed periodically by management and are revised, if warranted, based on management's appraisal of current market conditions.

Where the carrying amount of investment in film and television programs exceeds the estimated net recoverable amount, the investment is written down to the net recoverable amount. Net recoverable

amount is defined as the total undiscounted future revenue expected to be earned from the film and television programs, net of future costs.

### ***Foreign currency translation***

The Company's operations in Australia, New Zealand and Ireland represent self-sustaining foreign operations, and the respective accounts have been translated into Canadian dollars in accordance with the current rate method. Assets and liabilities are translated at the exchange rates prevailing at the balance sheet dates, and revenue and expenses are translated on the basis of average exchange rates during the periods. Any gains or losses arising from the translation of these accounts are deferred and included as a component of shareholders' equity as cumulative foreign currency translation adjustments. An applicable portion of these deferred gains and losses is included in the determination of net earnings when there is a reduction of the net investment.

### ***Property and equipment***

Property and equipment are recorded at cost. Amortization is provided over the assets' estimated useful lives on a straight-line basis at the following annual rates:

Buildings	2 1/2% - 5%
Machinery and equipment	4% - 33 1/3%
Leasehold and land improvements	2 1/2% - 20%

### ***Intangibles and goodwill***

Intangibles include circulation, broadcast licences and goodwill. Amortization is provided on a straight-line basis over 40 years. On a regular basis, the Company reviews the carrying value of its intangibles and goodwill to determine if there has been an impairment in value. The measurement of possible impairment is based primarily on the ability to recover the balances from expected future operating cash flows on an undiscounted basis.

### ***Pre-operating costs***

Pre-operating costs incurred in new business undertakings are deferred prior to the commencement of commercial operations, which is generally the time at which subscriber revenues commence. Pre-operating costs are amortized over a period of five years.

### ***Revenue recognition***

Revenue derived from broadcasting activities consists primarily of the sale of airtime which is recognized at the time commercials are broadcast. Circulation and advertising revenue from publishing activities is recognized in income when the newspaper is delivered. Subscription revenue is recognized as earned on a straight-line basis over the term of the subscription.

Revenue derived from the sale of film and program distribution rights and equity in productions is recognized as earned when the film or television program is complete, amounts are due from the exhibitor or a contract is executed that irrevocably transfers distribution rights to a licensee or equity to an investor, the license period has begun and there is reasonable assurance of collectibility of proceeds.

Amounts received and not yet recognized as revenue are included in deferred revenue.

### ***Income taxes***

The asset and liability method is used to account for income taxes. Under this method, future income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amount and the tax bases of assets and liabilities. Future income tax assets and liabilities are measured using substantively enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Future income tax assets are recognized to the extent that realization is considered more likely than not.

Income taxes on unremitted earnings of Network TEN are provided at rates applicable to distributions. Income taxes on unremitted earnings of the other foreign operations are not provided as such earnings are expected to be indefinitely reinvested.

### ***Inventory***

Inventory, primarily printing material, is valued at the lower of cost and net realizable values.

### ***Pension plans and post retirement benefits***

The Company maintains a number of defined benefit and defined contribution pension plans. For the defined benefit plans the pension expense is determined using the projected benefit method pro rated based on service. For the defined contribution plans the pension expense is the Company's contribution to the plan. The Company also maintains a post retirement benefit plan for certain of its employees, the cost of which is expensed as earned by the employees.

### ***Cash and cash equivalents***

For the purpose of the statements of cash flows, cash includes cash and short-term investments with maturities at the date of purchase of up to three months.

### ***Per share calculations***

Basic earnings and cash flow per share are calculated using the daily weighted average number of shares outstanding. Cash flow is defined as cash flow from operations excluding changes in non-cash operating accounts.

Diluted earnings and cash flow per share are calculated using the daily weighted average number of shares that would have been outstanding during the year had all dilutive potential common shares been issued at the beginning of the year, or when the underlying options or convertible securities were granted or issued, if later. The treasury stock method is employed to determine the incremental number of shares that would have been outstanding had the Company used proceeds from the exercise of options to acquire shares.

During the year, the Company adopted the recommendations of the CICA Handbook Section 3500, *Earnings Per Share*, which changed the method of calculation for earnings per share. The new standard requires presentation of basic and diluted earnings per share. The prior year's financial statements were restated to reflect the change resulting in no change to basic or diluted earnings per share.

### ***Stock-based Compensation Plans***

The Company has share based compensation plans as described in note 9. No compensation expense is recognized for these plans when the options are issued. Any consideration paid by employees on exercise of stock options is credited to share capital.

### ***Financial Instruments***

The Company uses various financial instruments to reduce its exposure to fluctuations in interest rates and U.S. currency exchange rates. The Company does not hold or issue any derivative financial instruments for speculative trading purposes. The interest differential to be paid or received under interest rate swap agreements is recognized as an adjustment to interest expense. The Company translates its U.S. denominated debt that is hedged by cross currency swaps at the rate implicit in the swap agreement.

### ***Use of Estimates***

The preparation of financial statements in accordance with generally accepted accounting principles requires the Company to make estimates and assumptions that affect reported amounts of assets, liabilities, revenue and expenses, and disclosure of contingencies. Future events could alter such estimates in the near term.

The Company operates in highly competitive markets. The Company has estimated the useful lives of intangible assets, based on historical customer patterns, industry trends and existing competitive factors. Significant long-term changes in these factors could result in a material impairment of intangible assets.

In addition, management estimates future revenue for amortization and impairment assessments of investments in film and television programs. Actual revenues could differ from these estimates.

## ***Changes in Accounting Policies***

### a) *Income taxes*

On September 1, 2000 the Company adopted the recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3465, *Income Taxes*, which replaced the deferral method with the asset and liability method of tax allocation. The Company has applied the change retroactively, restating prior years.

The cumulative effect of the change was to reduce opening retained earnings at September 1, 2000 by \$5.2 million (1999 - \$20.1 million), decrease the Investment in Network TEN by \$7.9 million (1999 - \$7.9 million), increase goodwill by \$417.5 million (1999 - \$174.0 million), and increase future income tax liabilities by \$414.8 million (1999 - \$186.2 million). Net earnings for the year ended August 31, 2000 were increased by \$14.9 million, and net earnings per share were increased by \$0.10.

### b) *Employee future benefits*

On September 1, 2000, the Company adopted the recommendations of the CICA Handbook Section 3461, *Employee Future Benefits*, which changed the accounting for pension and other employee future benefit costs. The new standard required that the cost of employee future benefits be recognized in the period in which the employee has provided the service which gives rise to the benefit. The standard also required a change in the discount rate used to value liabilities and service costs from an estimated long-term rate to a market based interest rate. The Company has applied the new recommendations prospectively.

## ***New Accounting Standards***

### a) *Business combinations and intangibles and goodwill*

In July 2001, the Accounting Standards Board of the Canadian Institute of Chartered Accountants issued CICA Handbook Section 1581, *Business Combinations* and CICA Handbook Section 3062, *Goodwill and Other Intangibles*.

Under the new Section 1581, all business combinations initiated after June 30, 2001, must be accounted for as a purchase. In addition, the standards require classification of carrying amounts of goodwill and other intangibles related to purchase business combinations in accordance with the new definitions of intangibles. In addition, the standard requires intangibles assets to be recognized separately from goodwill if an asset arises from contractual or other legal rights, or is separable. These provisions are applicable to business combinations consummated after June 30, 2001 and for any recognized intangibles acquired in a business combination prior to July 1, 2001 when Section 3062 is first applied. This section will be applied prospectively.

Under the new Section 3062, goodwill and other intangibles with indefinite lives will not be amortized, however, will be subject to annual impairment tests based on fair values. Other intangible assets with finite useful lives will continue to be amortized, with no ceiling on the useful lives. Section 3062 is effective for years beginning on or after January 1, 2002, under certain circumstances early adoption is permitted. The Company will apply the new standard for its fiscal year beginning on September 1, 2001. The company expects the standard to have a material effect on the Company as intangibles with indefinite lives and goodwill will no longer be subject to amortization. The Company has not completed the determination of the impact of the new standards.

b) *Film and television programs*

In June 2000, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position 00-2, "Accounting by Producers or Distributors of Films" (SOP 00-2). SOP 00-2 establishes new accounting standards for producers or distributors of films, including changes in revenue recognition, capitalization and amortization of costs and accounting for exploitation costs, including advertising and marketing expenses. Among the changes specified by SOP 00-2 is the requirement that capitalization of production costs for episodic television series be limited to contracted revenue on an episode by episode basis unless specific criteria for recognizing secondary markets revenues are met.

SOP 00-2 is effective for the year beginning September 1, 2001 and will be applied for both Canadian and U.S. generally accepted accounting purposes. The Company has not yet quantified the impact of adopting SOP 00-2.

c) *Foreign Currency Translation and Hedging Relationships*

In November 2001, the Accounting Standards Board of the Canadian Institute of Chartered Accountants approved amendments to CICA Handbook Section 1650, *Foreign Currency Translation* and a new accounting Guideline, *Hedging Relationships*. The amendments to Section 1650, applicable for the Company in Fiscal 2003 with retroactive application, eliminate the deferral and amortization method for unrealized translation gains and losses on non current monetary assets and liabilities and require the disclosure of exchange gains and losses included in net income. The Guideline, applicable for the Company in fiscal 2003, deals with the identification, documentation and designation and effectiveness of hedges. The impact of implementing these changes has not been determined.

d) *Stock-based compensation*

Under Section 3870, stock-based payments to non-employees and direct awards of stock to employees and non-employees will be accounted for using a fair value method of accounting. The standard provides for the recognition of compensation expense based on fair values or a disclosure only basis of accounting. The standard is effective for years beginning on or after January 1, 2002. The Company will apply this standard in fiscal 2003 and has not yet determined the impact.

## **2. ACQUISITIONS AND DIVESTITURES**

### **Acquisitions**

- (a) In April, 2001, through an amalgamation of CanWest Broadcasting Ltd. ("CBL"), the 30% minority interest in CBL was exchanged for 21,783 series 2 preference shares of the Company, rendering CBL a wholly owned subsidiary. The redemption and conversion value of the shares is based on valuations which have not been finally determined and have been estimated at \$50,000,000.
- (b) in August 2000, the Company acquired substantially all of the distribution assets of an independent film and television distribution company, Endemol International Distribution for \$109,681,000.
- (c) In May 2000, the Company acquired a 72% interest in RadioWorks, a network of commercial radio stations in New Zealand for \$52,092,000. In January 2001, the Company acquired the shares of RadioWorks that it did not already own. The cost to acquire this 28% interest was \$21,770,000.

- (d) On November 16, 2000, the Company acquired substantially all of the Canadian newspaper and other Canadian media assets ("Southam Publications") of Hollinger International Inc. and certain of its affiliates ("Hollinger") for consideration of approximately \$3.1 billion, including certain costs related to the acquisition.

The purchase price is subject to adjustment based on the working capital of Southam Publications at August 31, 2000 and the results of its operations from September 1, 2000 to November 16, 2000. The amount of such adjustment has not been finally determined.

The Company partially financed the acquisition and refinanced certain existing credit facilities by entering into a new senior secured credit facility, of which the Company had drawn approximately \$2.5 billion at closing. In addition, the Company issued US\$425.0 million and \$60.7 million in senior subordinated notes, and approximately \$767.0 million in subordinated notes payable to Hollinger. (See note 8 (7)). The Company also issued 2.7 million Series 1 preferred shares and 24.3 million non-voting shares to Hollinger.

The results of operations of Southam Publications have been reported on a consolidated basis effective November 16, 2000. The Company's 50% interest in The National Post Company is accounted on an equity basis.

- (e) During 1998, the Company increased its investment in WIC to an approximate 44% aggregate shareholding in WIC, at an aggregate cash cost of \$381,775,000.

In November 1999, the Company reached an agreement with the other significant WIC shareholders as to a division of WIC's assets. Under the terms of this agreement, effective March 31, 2000, the Company acquired all of the shares in WIC that it did not hold. On this same date, the other significant shareholders of WIC acquired all of WIC's radio, certain pay and specialty television undertakings, satellite television interests and other related assets. The net cash consideration paid and debt assumed as a result of the agreement amounted to \$465,727,000.

As a result of the agreement, the Company owns WIC and its conventional television and television-related entertainment assets. The shares of WIC's regulated companies were placed in a voting trust arrangement pending completion of the regulatory approval process. Under the terms of the trust agreement, the Company was not in a position to exercise control over these companies, and accordingly, equity accounted for its investment during the period from April 1, 2000 to July 5, 2000. On July 6, 2000, the Company received approval for the acquisition from the Canadian Radio-television and Telecommunications Commission ("CRTC"). The Company commenced to consolidate the WIC regulated properties effective July 6, 2000.

As a condition to the CRTC's approval of the acquisition, the Company was required to dispose of its interests in certain television operations in Montreal and Vancouver, see note 17(a) and (b).

In 2001, the Company restated the August 31, 2000 allocation of the purchase price related to the acquisition of WIC. This resulted in the restatement of the following balances: goodwill decreased by \$27,762,000, investment in film and television program rights decreased by \$8,441,000, other investments increased by \$37,416,000, other accrued liabilities increased by \$18,335,000 and future income tax liability decreased by \$17,122,000.

The Company accounted for these acquisitions using the purchase method. As such, the results of operations reflect the revenues and expenses of the acquired operations since the dates of acquisition. A summary of the fair value of the net assets acquired is as follows:

**August 31, 2001**

**\$000**

	<u>Southam Publications</u>	<u>RadioWorks</u>	<u>CBL</u>	<u>Total</u>
Current assets	324,382	-	-	324,382
Property and equipment	517,053	-	-	517,053
Other investments	101,561	-	-	101,561
Circulation	217,000	-	-	217,000
Other assets	67,412	-	-	67,412
Intangibles and goodwill	<u>2,264,919</u>	<u>16,928</u>	<u>25,466</u>	<u>2,307,313</u>
	3,492,327	16,928	25,466	3,534,721
Other current liabilities	(294,856)	-	-	(294,856)
Other accrued liabilities	(10,000)	-	-	(10,000)
Future income taxes	(59,587)	-	-	(59,587)
Minority interests <sup>(1)</sup>	<u>-</u>	<u>4,842</u>	<u>24,534</u>	<u>29,376</u>
	<u>(364,443)</u>	<u>4,842</u>	<u>24,534</u>	<u>(335,067)</u>
	<u>3,127,884</u>	<u>21,770</u>	<u>50,000</u>	<u>3,199,654</u>
Consideration:				
Cash	1,985,521	21,770	-	2,007,291
Shares	375,516	-	50,000	425,516
Junior subordinated notes	<u>766,847</u>	<u>-</u>	<u>-</u>	<u>766,847</u>
	<u>3,127,884</u>	<u>21,770</u>	<u>50,000</u>	<u>3,199,654</u>

(1) The allocation of consideration to minority interests represents the extinguishment of these interests.

The allocation of the purchase price related to the acquisition of Southam Publications is preliminary and will be refined as additional information is obtained about restructuring plans and asset valuations, particularly relating to intangibles. Such adjustments are expected to be finalized in the first quarter of 2002.

**August 31, 2000**

**\$000**

	<u>Endemol</u>	<u>RadioWorks</u>	<u>WIC</u>	<u>Total</u>
Cash	?	959	?	959
Other current assets	20,229	5,285	66,512	92,026
Investments	?	?	117,020	117,020
Film and program rights	93,463	?	27,291	120,754
Property, plant and equipment	32	9,119	82,184	91,335
Other assets	215	?	25,299	25,514
Broadcast licences	?	54,593	362,990	417,583
Goodwill	<u>?</u>	<u>18,016</u>	<u>640,926</u>	<u>658,942</u>
Total assets	113,939	87,972	1,322,222	1,524,133
Bank loans and advances	?	?	(19,937)	(19,937)
Other current liabilities	(4,258)	(7,602)	(62,466)	(74,326)
Film and program accounts payable	?	?	(49,426)	(49,426)
Long term liabilities	?	(24,395)	(113,678)	(138,073)
Future income tax liabilities	?	?	(215,849)	(215,849)
Minority interest	<u>?</u>	<u>(3,883)</u>	<u>?</u>	<u>(3,883)</u>
Total liabilities	<u>(4,258)</u>	<u>(35,880)</u>	<u>(461,356)</u>	<u>(501,494)</u>
	<u>109,681</u>	<u>52,092</u>	<u>860,866</u>	<u>1,022,639</u>
Consideration:				
Cash	109,681	52,092	465,727	627,500
Carrying value of WIC investment at date of acquisition	<u>?</u>	<u>?</u>	<u>395,139</u>	<u>395,139</u>

109,681                      52,092                      860,866                      1,022,639

### Pro forma financial information

The following information gives effect to the acquisitions of WIC, Southam Publications and Radio Works as if they had occurred at the beginning of the respective years:

	<b>2001</b>	<b>2000</b>
	<b>\$000</b>	<b>\$000</b>
Revenue	2,216,296	2,179,704
Operating profit	525,113	508,263

### Divestitures

(a) On August 31, 2001, the Company sold its 50% interest in ROBTv for \$30.0 million. There was no gain or loss arising from this sale.

On March 28, 2001, the Company restructured its controlling interest in TV3 Ireland through a series of transactions, which included: (i) the repayment by TV3 Ireland of loans made by the Company and another minority investor, (ii) the exercise of certain call options by the Company, and (iii) the acquisition by Granada Media plc of a 45% interest in TV3 Ireland from the Company and another minority investor. The Company received cash, net of the call price and including repayment of loans made to TV3 Ireland, of \$32.5 million and recorded a gain on disposition of \$30.7 million. The Company and Granada Media plc have also entered into a joint venture agreement to jointly control TV3 Ireland. As a result, effective March 28, 2001, the Company began to proportionately consolidate its 45% interest in TV3 Ireland.

### 3. INVESTMENT IN NETWORK TEN

The Company owns 15% of the issued ordinary shares and all of the convertible debentures and subordinated debentures of Network TEN, an Australian television broadcast network. The subordinated debentures have an aggregate principal amount of AUS\$45.5 million and pay interest based on distributions to holders of ordinary shares. The convertible debentures have an aggregate principal amount of AUS\$45,500 and pay a market linked rate of interest. The combination of ordinary shares and subordinated debentures yield distributions equivalent to approximately 57.5% of all distributions paid by Network TEN. The convertible debentures are convertible, upon payment of an aggregate of AUS\$45.5 million, into a number of ordinary shares which would represent 50% of the issued and outstanding shares at the time of conversion.

As a result of its contractual right to representation on Network TEN's board of directors and other factors, the Company accounts for its interest in Network TEN on the equity basis. The Company has appointed three of the thirteen members of the board of directors of Network TEN.

The following selected consolidated financial information of Network TEN has been prepared in accordance with accounting principles generally accepted in Canada. The accounts have been translated to Canadian dollars using the current rate method.

**Summary Consolidated Balance Sheets**

	<b>2001</b>	<b>2000</b>
	<b>\$000</b>	<b>\$000</b>
Assets		
Current assets	192,460	172,141
Other assets	7,893	23,101
Property and equipment	61,967	40,498
Long term investments	17,516	50,046
Broadcast licences	<u>461,336</u>	<u>226,617</u>
	<u>741,172</u>	<u>512,403</u>
Liabilities and Shareholders' Equity		
Current liabilities	194,813	193,575
Other long term liabilities	251,390	42,405
Subordinated debentures issued to the Company	40,154	40,154
Shareholders' equity	<u>254,815</u>	<u>236,269</u>
	<u>741,172</u>	<u>512,403</u>

**Other Consolidated Financial Data**

	<b>2001</b>	<b>2000</b>
	<b>\$000</b>	<b>\$000</b>
Cash flow from operations	<u>105,000</u>	<u>139,000</u>
Distributions paid	<u>130,000</u>	<u>138,000</u>
Capital expenditures	<u>18,600</u>	<u>14,300</u>

**Summary Consolidated Statements of Earnings**

	<b>2001</b>	<b>2000</b>
	<b>\$000</b>	<b>\$000</b>
Revenue	445,179	495,479
Operating expenses	<u>324,999</u>	<u>318,223</u>
Operating profit before amortization	120,180	177,256
Amortization of intangibles	10,802	7,348
Other amortization	<u>9,329</u>	<u>4,832</u>
	100,049	165,076
Investment income	26,427	-
Financing expenses	<u>(71,343)</u>	<u>(76,391)</u>
	55,133	88,685
Provision for income taxes	<u>19,328</u>	<u>30,521</u>
Earnings before the following	35,805	58,164
Minority interests	4,354	-
Interest in earnings of equity accounted affiliates	<u>940</u>	<u>1,284</u>
Net earnings for the year	41,099	59,448
Interest in respect of subordinated debentures held by the Company	<u>56,697</u>	<u>74,519</u>
Earnings for the period before interest in respect of subordinated debentures (1)	<u>97,796</u>	<u>133,967</u>

(1) The Company's economic interest in Network TEN's earnings is \$52,567,000 (2000 - \$72,194,000).

At August 31, 2001, the Company's share of undistributed earnings of Network TEN was approximately \$169,000,000 (2000 - \$127,000,000). The market value of the Company's investment in Network TEN based on quoted market rates for Ten Network Holdings Limited at August 31, 2001 was approximately \$994,175,000 (2000 - \$1,167,000,000).

Network TEN is currently in dispute with the Australian Tax Office ("ATO") regarding the deductibility of debenture interest paid to CanWest. Network TEN has received assessments from the ATO in relation to debenture interest claimed for the years June 30, 1994 to June 30, 2000 inclusive. The ATO has determined that the primary tax payable on the debenture interest paid during that period is A\$106.1 million plus interest charges of A\$32.6 million. To date, no culpability charges have been assessed. The amount due on receipt of the assessments was reduced by other factors, to A\$133.4 million. Network TEN has lodged objections in respect of the assessments with the ATO.

Network TEN has agreed with the ATO on payment terms while the matter remains in dispute, and subsequent to August 31, 2001, paid an agreed amount of A\$52.0 million, representing 50% of the amount currently due, offset by 50% of the withholding taxes previously paid pursuant to the subordinated debenture interest.

Network TEN has continued to claim deductions on the debenture interest paid since the period covered by the assessments. The total debenture interest paid or payable since inception (including the period covered by the assessments) is A\$451.1 million (tax effect A\$155.5 million). Withholding tax paid or payable to date pursuant to the subordinated debenture interest since inception is A\$42.7 million.

Should this matter be resolved not in favor of Network TEN, Network TEN's and the Company's income for the period in which the matter was resolved would be adversely affected, and earnings available for distribution to security holders would be reduced.

Network TEN remains convinced its current tax treatment is correct, and will vigorously pursue all avenues of appeal.

#### 4. OTHER INVESTMENTS

	2001		2000	
	\$000		\$000	
	Cost	Market Value <sup>(1)</sup>	Cost	Market Value <sup>(1)</sup>
Investments in publicly traded companies, at cost				
Ulster Television plc <sup>(2)</sup>	92,006	95,109	92,006	112,466
Alliance Atlantis Communications Inc.	-	-	24,466	26,014
Other companies	<u>118,741</u>	<u>73,781</u>	<u>136,038</u>	<u>152,579</u>
	<u>210,747</u>	<u>168,890</u>	<u>252,510</u>	<u>291,059</u>
Investments in private companies, at cost				
Internet Broadcasting Systems Inc.	24,582		22,098	
LifeServ Corporation	<u>9,470</u>		<u>9,470</u>	
	<u>34,052</u>		<u>31,568</u>	
Investments, at equity				
CF Television Inc.	87,000		85,025	
ROBTV	-		29,068	
The National Post Company	<u>83,614</u>		<u>-</u>	
	<u>170,614</u>		<u>114,093</u>	
	<u>415,413</u>		<u>398,171</u>	

(1) Market values are based on quoted closing prices at August 31. The Company considers the excess of cost over market value to be a temporary decline in value, the result of short term market volatility.

(2) The Company's 29.9% equity interest is accounted for at cost as the Company has not been successful in its attempts to gain board representation or to influence UTV's management.

#### 5. INVESTMENT IN FILM AND TELEVISION PROGRAM RIGHTS

	2001		2000	
	\$000		\$000	
	Current	Long term	Current	Long term
Broadcast rights	96,385	8,335	48,949	11,293
Completed film and television programs and distribution rights acquired, net of amortization	?	239,757	?	157,776
Film and television programs in progress	<u>?</u>	<u>107,902</u>	<u>?</u>	<u>82,045</u>
	<u>96,385</u>	<u>355,994</u>	<u>48,949</u>	<u>251,114</u>

The Company has entered into various agreements for the right to broadcast certain feature films and syndicated television programs in the future. These agreements, which range in term from one to five years, generally commit the Company to acquire specific programs or films or certain levels of future productions. The acquisition of these broadcast rights is contingent on the actual production and/or the airing of the programs or films. Management estimates that these agreements will result in future annual program and film expenditures of \$284,000,000 to \$345,000,000.

In addition, the Company has entered into various agreements to acquire film and television rights and distribution rights amounting to \$55,655,000 (US\$36,011,000). Subsidiaries of the Company have provided financial guarantees on certain credit facilities arranged for the acquisition of film and television programs. An amount of \$18,612,000 (US\$12,043,000) (2000 - \$14,000,000) has been guaranteed, in addition to the guarantee of certain interest obligations on such facilities.

## 6. PROPERTY AND EQUIPMENT

	<b>2001</b>		
	<b>\$000</b>		
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net</b>
Land	61,409	-	61,409
Buildings	192,497	35,426	157,071
Machinery and equipment	604,551	146,108	458,443
Leasehold and land improvements	18,550	7,662	10,888
	<u>877,007</u>	<u>189,196</u>	<u>687,811</u>

	<b>2000</b>		
	<b>\$000</b>		
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net</b>
Land	19,452	-	19,452
Buildings	40,166	10,082	30,084
Machinery and equipment	245,641	119,973	125,668
Leasehold and land improvements	15,830	5,810	10,020
	<u>321,089</u>	<u>135,865</u>	<u>185,224</u>

## 7. INTANGIBLES AND GOODWILL

	2001 \$000	2000 \$000
Circulation (net of accumulated amortization of \$4,290)	212,461	-
Broadcast licences (net of accumulated amortization of \$96,401, 2000 - \$75,543)	630,172	642,798
Goodwill (net of accumulated amortization of \$135,465, 2000 - \$67,766)	<u>3,085,801</u>	<u>842,040</u>
	<u>3,928,434</u>	<u>1,484,838</u>

The Company's broadcasting activities are regulated by various regulatory authorities. Each broadcasting undertaking operates under licences which are granted for varying periods and are subject to certain performance requirements.

## 8. LONG TERM DEBT

	Interest Rate (1)	2001 \$000	Interest Rate (1)	2000 \$000
Term bank loans (2)	9.14%	2,286,018	7.00%	1,117,968
Senior subordinated notes (3)	9.08%	703,585	-	-
Term loans USD\$26,329 (4)	6.40%	40,691	-	-
Term and demand loan IRE£16,505	5.32%	29,486	5.50%	29,837
Term and demand loan NZ\$7,275 (2000 – NZ\$9,107) (6)	6.50%	4,938	6.50%	5,935
Term and demand note payable due August 2001	-	-	5.00%	14,542
Note payable due May, 2003	3.25%	4,250	5.50%	4,250
Junior subordinated notes (7)	12.125%	<u>842,794</u>	-	-
Long term debt		3,911,762		1,172,532
Less portion due within one year		<u>(116,500)</u>		-
Long term portion		<u>3,795,262</u>		<u>1,172,532</u>

(1) The weighted average interest rate giving effect to interest rate swaps.

(2) Credit facilities provide for revolving and term loans in the maximum amounts of \$600,000,000 and \$2,168,000,000 respectively. At August 31, 2001 the Company had drawn on availabilities under \$2,168,000,000 of its term facilities, including U.S. dollar loans of US\$706,813,044 and had drawn \$120,000,000 under revolving facilities. The revolving credit facility matures in November 2006. The amount of credit available under \$2,168,000,000 of the term facilities decreases periodically until maturity between November 2006 and May 2009. Additional term facilities of \$15,000,000 of which \$8,495,000 was drawn at August 31, 2001 mature in August 2005. The loans bear interest at floating rates, and are collateralized by certain assets of the

Company. (At August 31, 2000, the Company had term credit facilities in the maximum amounts of \$1,265,000,000, most of which were refinanced in November 2000).

Up to \$30,000,000 of the revolving credit facility is available on an operating basis, of which \$12,000,000 was utilized at August 31, 2001, at a weighted average interest rate of 7.25%.

- (3) The senior subordinated notes mature on May 15, 2011 and bear interest at 10.625% and include loans of US\$425,000,000 and Canadian dollar loans of \$60,724,000. The notes rank junior to the Company's senior credit facility and are guaranteed by certain subsidiaries of the Company.
- (4) Loans payable consists of term bank loans with maturity dates commencing January 2002 to December 2003. The debt bears interest at floating rates from LIBOR + 2.0% and is collateralized by the Company's rights to certain film and television programs including an assignment of accounts receivable and all expected future revenues from exploitation of the financed film and television programs.
- (5) These credit facilities provide for term and demand bank loans at August 31, 2001 in the maximum amount of IRE£46,086,000 (2000 - IRE£28,400,000) with demand loans maturing in December 2001, and term loans of IRE£4,400,000 maturing in 2004. The debt bears interest at floating rates. As the Company intends to refinance the demand facility upon maturity under its available facilities, the loan has been classified as long term.
- (6) These credit facilities provide for term and demand loans at August 31, 2001 of NZ\$8,375,000 (2000 - NZ\$13,832,500) with term maturity dates in December, 2001 and October, 2002. As the Company intends to refinance these loans under its available facilities they have been classified as long term.
- (7) The junior subordinated notes mature in November 2010, bear interest at fixed rates, and are redeemable after May, 2004. At the Company's option, interest payments to November, 2006 may be paid in cash, by the issuance of additional notes, or subject to conditions, by the issuance of non-voting shares of the Company. The notes rank junior to senior debt and are collateralized by way of assets of certain subsidiaries of the Company. The notes include \$67,082,427 in notes issued during the year in satisfaction of interest as well as an accrual of \$8,864,781 for notes to be issued in January 2002.

The Company has entered into various cross currency interest rate and interest rate swaps resulting in fixed interest costs on its senior indebtedness, in a principal amount of \$1,884,000,000 at August 31, 2001 at rates ranging from 5.7% to 6.73%, plus a margin, for terms matching the maturity of the loans. (At August 31, 2000 the Company had fixed \$700,000,000 at interest rates ranging from 5.55% to 6.69%, plus a margin).

The Company is subject to covenants under certain of the credit facilities referred to above, including thresholds for leverage and interest coverage, and is also subject to certain restrictions under negative covenants.

Principal payments of long term debt based on terms existing at August 31, 2001 over the next five years are:

		<b>\$000</b>
Year ending August 31,	2002	178,134
	2003	173,244
	2004	182,477
	2005	229,998
	2006	273,998

In addition to the facilities described above, the Company has additional operating loan facilities payable on demand of NZ\$5,000,000 at floating rates. As at August 31, 2001, the Company's indebtedness under these facilities was \$728,000 (2000 - \$16,255,000). The weighted average interest rate during the years ended August 31, 2001 and August 31, 2000 was approximately 7%.

## **9. CAPITAL STOCK**

### *Authorized*

Authorized capital consists of an unlimited number of preference shares issuable in series, multiple voting shares, subordinate voting shares and non-voting shares.

The multiple voting shares, the subordinate voting shares and the non-voting shares rank equally on a per share basis in respect of dividends and distributions of capital and are subordinate to the preference shares. Subordinate voting shares carry one vote per share and multiple voting shares carry ten votes per share. Non-voting shares do not vote, except at meetings where the holders of such shares would be entitled by law to vote separately as a class.

Multiple voting shares are convertible into subordinate voting shares and non-voting shares on a one-for-one basis at any time at the option of the holder. Subordinate voting shares are convertible into non-voting shares on a one-for-one basis at any time at the option of the holder. Non-voting shares are convertible into subordinate voting shares on a one-for-one basis provided the holder is Canadian.

Series 1 preference shares carry 19 votes per share, and carry preferential votes pertaining to the election of up to two directors of the Company. Each series 1 preference shares is convertible, at the option of the holder, into 0.15 subordinate voting or non-voting shares.

Series 2 preference shares are not eligible to vote. Series 2 preference shares are, at the option of the Company, redeemable for cash, or convertible to subordinate voting or non-voting shares based on the market value of the shares at the date of conversion. In the event the Company does not redeem or convert the series 2 preference shares within a certain time period, they will convert automatically. The stated capital amount, redemption price and aggregate conversion value of the shares is based upon valuations which have not been finally determined and have been estimated at \$50,000,000.

The series 1 and 2 preference shares are not entitled to dividends and distributions in the normal course or in respect of a liquidation on wind up, and have no right to vote separately as a class.

<i>Issued</i>	<b>2001 \$000</b>	<b>2000 \$000</b>
76,785,976 (2000 - 78,040,908) multiple voting shares	3,199	3,252
70,545,434 (2000 – 69,395,035) subordinate voting shares	419,583	394,050
29,308,918 (2000 – 2,607,837) non-voting shares	417,375	22,958
2,700,000 (2000 – NIL) series 1 preference shares	6,156	?
21,783 (2000 – NIL) series 2 preference shares	<u>50,000</u> <u>896,313</u>	<u>?</u> <u>420,260</u>

Changes in outstanding share capital during the two years ended August 31, 2001 were as follows:

	Number of shares	Amount \$000
<b>Multiple voting share capital:</b>		
Balance - August 31, 1999 and 2000	78,040,908	3,252
Changes pursuant to:		
Conversion to non-voting shares	<u>(1,254,932)</u>	<u>(53)</u>
Balance – August 31, 2001	<u>76,785,976</u>	<u>3,199</u>
<b>Subordinate voting share capital:</b>		
Balance – August 31, 1999	67,706,697	378,385
Changes pursuant to:		
Share purchase plans	44,030	713
Exercise of stock options	340,039	900
Dividend reinvestment plan	201,705	3,304
Share repurchase program	(139,600)	(785)
Conversion from non-voting shares - net	<u>1,242,164</u>	<u>11,533</u>
Balance – August 31, 2000	69,395,035	394,050
Changes pursuant to:		
Share purchase plans	69,502	836
Exercise of stock options	195,197	735
Dividend reinvestment plan	165,434	2,344
Stock dividend	760,917	18,050
Conversion to non-voting shares – net	<u>(40,651)</u>	<u>3,568</u>
Balance – August 31, 2001	<u>70,545,434</u>	<u>419,583</u>
<b>Non-voting share capital:</b>		
Balance – August 31, 1999	3,847,291	34,446
Changes pursuant to:		
Dividend reinvestment plan	2,710	45
Conversion to subordinate voting shares - net	<u>(1,242,164)</u>	<u>(11,533)</u>
Balance – August 31, 2000	2,607,837	22,958
Changes pursuant to:		
Treasury	24,300,000	369,360
Conversion from multiple voting shares	1,254,932	53
Stock dividend	1,100,082	28,475
Dividend reinvestment plan	5,416	97
Conversion from subordinate voting shares – net	<u>40,651</u>	<u>(3,568)</u>
Balance – August 31, 2001	<u>29,308,918</u>	<u>417,375</u>
<b>Series 1 preference share capital:</b>		
Balance – August 31, 1999 and 2000	-	-
Shares issued as consideration in an acquisition	<u>2,700,000</u>	<u>6,156</u>
Balance – August 31, 2001	<u>2,700,000</u>	<u>6,156</u>
<b>Series 2 preference share capital:</b>		
Balance – August 31, 1999 and 2000	-	-
Shares issued as consideration in an acquisition	<u>21,783</u>	<u>50,000</u>
Balance – August 31, 2001	<u>21,783</u>	<u>50,000</u>

#### *Stock Dividend*

In September 2000 a 1.24% stock dividend was paid in subordinate voting and non-voting shares.

#### *Share Compensation Plans*

The Company's board of directors has approved share compensation plans, the purpose of which is to provide employees and certain directors of the Company and its subsidiaries with the opportunity to participate in the growth and development of the Company through the granting of options and share purchase loans. At any time, the number of subordinate voting and non-voting shares reserved and set aside for purposes of the plans may not exceed 10% of the issued shares of the Company.

Options vest over a five or six-year period and are exercisable on a cumulative basis over a ten-year period, except that under certain specified conditions the options become exercisable immediately. The exercise price represents the market trading price at the date on which the option was granted.

Under management and employee share purchase plans, employees may purchase subordinate voting shares or non-voting shares from treasury at the market trading price using non-interest bearing short term loans provided by the Company. The shares are held as collateral by a trustee until the loans are repaid.

Changes in outstanding options to purchase subordinate voting shares or non-voting shares for the two years ended August 31 were as follows:

	<u>2001</u>		<u>2000</u>	
	Options	Average Price	Options	Average Price
Options outstanding, beginning of year	1,651,792	14.52	1,512,471	11.13
Changes pursuant to:				
Options granted	240,440	14.66	484,180	16.65
Options exercised	(195,197)	3.77	(344,256)	2.62
Options expired	<u>(50,714)</u>	16.88	<u>(603)</u>	15.65
Options outstanding, end of year	<u>1,646,321</u>	15.75	<u>1,651,792</u>	14.52

The following options to purchase subordinate voting shares or non-voting shares were outstanding as at August 31, 2001:

Year Granted	Exercise Price	Expiry Date	Number Outstanding
1992	\$1.62	2002	956
1993	\$2.13	2003	10,884
1994	\$3.53	2004	10,887
1995	\$4.54	2005	13,442
1996	\$7.12 - \$12.76	2006	557,975
1997	\$14.07 - \$22.22	2007	152,680
1998	\$22.67 - \$25.67	2008	151,546
1999	\$18.70 - \$21.14	2009	69,731
2000	\$16.00 - \$16.79	2010	437,780
2001	\$12.03 - \$15.20	2011	<u>240,440</u>
			<u>1,646,321</u>

#### *Share Repurchase Program*

During 2000, the Company made a Normal Course Issuer Bid, pursuant to which it could have purchased for cancellation up to 6,059,719 of its subordinate voting shares. The Bid expired on December 1, 2000 and no repurchases occurred in the year ended August 31, 2001. During the year ended August 31, 2000, the Company acquired 139,600 of its subordinate voting shares through open-market purchases for cash of \$2,253,000. The excess of the redemption amount paid over the stated capital of the shares redeemed of \$1,468,000 was charged to retained earnings.

#### *Dividend Reinvestment Plan*

The Company has established a dividend reinvestment plan. Under the terms of this plan, shareholders may, under certain conditions, apply their cash dividends to the purchase of shares from treasury at a price equal to 95% of the average market trading price of the shares.

## **10. CUMULATIVE TRANSLATION ADJUSTMENTS**

The cumulative foreign currency translation adjustments account reflects the net changes in the respective book values of the Company's investments in self-sustaining foreign operations due to exchange rate fluctuations since the respective dates of their acquisition or start-up.

The changes in this account during the years ended August 31, 2001 and 2000 arise from changes in the Australian, New Zealand, Irish and United States currencies relative to the Canadian currency, and changes in the Company's net investment in the book values of international operations.

Changes in this account were as follows:

	<b>2001</b>	<b>2000</b>
	<b>\$000</b>	<b>\$000</b>
Deferred loss, beginning of year	87,728	36,348
Deferred foreign currency exchange (gain) loss during the year	(11,511)	52,680
Realization of translation loss due to distributions	<u>(7,200)</u>	<u>(1,300)</u>
Deferred loss, end of year	<u>69,017</u>	<u>87,728</u>

The balance of cumulative translation adjustments at the end of the year represents net unrealized losses (gains) as follows:

	<b>2001</b>	<b>2000</b>
	<b>\$000</b>	<b>\$000</b>
Australian dollar	19,759	19,863
New Zealand dollar	55,467	67,508
Irish punt	(932)	357
United States dollar	<u>(5,277)</u>	<u>-</u>
	<u>69,017</u>	<u>87,728</u>

## 11. INCOME TAXES

The Company's provision for income taxes reflects an effective income tax rate which differs from the combined Canadian statutory rate as follows:

	<b>2001</b>	<b>2000</b>
	<b>\$000</b>	<b>\$000</b>
Income taxes at combined Canadian statutory rates of 41.3% (2000 – 43.83%)	(16,547)	65,923
Non-taxable portion of capital gains	(11,716)	(16,418)
Non-deductible amortization expense	30,980	6,300
Effect of income tax losses not recognized	2,490	4,552
Effect of foreign income tax rates differing from Canadian income tax rates	(995)	6,360
Effect of substantively enacted income tax rate change on future tax balances	(70,573)	(14,832)
Large corporation tax	1,788	293
Other	5,554	(4,054)
Provision for (recovery of) income taxes	<u>(59,019)</u>	<u>48,124</u>

An analysis of net earnings before tax by jurisdiction follows:

	<b>2001</b>	<b>2000</b>
	<b>\$000</b>	<b>\$000</b>
Canada	(64,960)	177,003
Foreign	24,894	(26,595)
Net earnings (loss) before tax	<u>(40,066)</u>	<u>150,408</u>

An analysis of the provision for (recovery of) current and future income taxes by jurisdiction follows:

	<b>2001</b>	<b>2000</b>
	<b>\$000</b>	<b>\$000</b>
Current income taxes		
Canada	38,059	70,987
Foreign	203	968
	<u>38,262</u>	<u>71,955</u>
Future income taxes		
Canada	(94,819)	(23,678)
Foreign	(2,462)	(153)
	<u>(97,281)</u>	<u>(23,831)</u>
Provision for recovery of income taxes	<u>(59,019)</u>	<u>48,124</u>

Significant components of the Company's future tax assets and liabilities are as follows:

	<b>August, 31,</b>	
	<b>2001</b>	<b>2000</b>
	<b>\$000</b>	<b>\$000</b>
Future tax assets		
Non-capital loss carryforwards	47,984	17,485
Accounts payable and other accruals	63,192	60,833
Pension and post retirement benefits	5,660	-
Less: Valuation allowance	<u>(13,329)</u>	<u>(10,839)</u>
Total future tax assets	<u>103,507</u>	<u>67,479</u>
Future tax liabilities		
Tax depreciation in excess of book depreciation	73,504	14,918
Pension obligations	-	5,158
Broadcast licences	387,481	462,880
Other intangible assets	25,645	-
Other assets	<u>24,626</u>	<u>24,121</u>
Total future tax liabilities	<u>511,256</u>	<u>507,077</u>
Net future tax liability	407,749	439,598
Net current future tax asset	<u>33,243</u>	<u>20,433</u>
Net long-term future tax liability	<u>440,992</u>	<u>460,031</u>

## 12. STATEMENTS OF CASH FLOWS

The following amounts comprise the net change in non-cash operating accounts included in the statements of cash flows:

	<b>2001</b>	<b>2000</b>
	<b>\$000</b>	<b>\$000</b>
CASH GENERATED (UTILIZED) BY:		
Accounts receivable	55,986	(29,466)
Film and television program rights	(55,395)	31,590
Inventory	(7,342)	-
Other current assets	(5,825)	6,033
Other assets	25,121	(19,754)
Accounts payable and accrued liabilities	(35,928)	3,387
Income taxes payable	(49,125)	34,773
Deferred revenue	5,046	36,733
Film and program accounts payable	<u>16,056</u>	<u>(44,418)</u>
	<u>(51,406)</u>	<u>18,878</u>

The following amounts were paid on account of interest and income taxes:

	<b>2001</b>	<b>2000</b>
	<b>\$000</b>	<b>\$000</b>
Interest	241,618	62,152
Income taxes	73,796	50,173

### 13. RETIREMENT ASSETS AND OBLIGATIONS

Information on the Company's pension and post retirement benefit plans follows:

Plan Assets	Pension benefits		Post retirement benefits	
	2001 \$000's	2000 \$000's	2001 \$000's	2000 \$000's
Fair value – beginning of year	96,351	17,417	-	-
Plan assets acquired	132,425	72,167	-	-
Investment income	(2,444)	8,359	-	-
Employer contributions	609	289	-	-
Employee contributions	4,475	595	-	-
Benefits, refund of contributions and administrative expenses	<u>(11,070)</u>	<u>(2,476)</u>	<u>-</u>	<u>-</u>
Fair value – end of year	<u>220,346</u>	<u>96,351</u>	<u>-</u>	<u>-</u>

The valuation of the plan net assets is based on market values with unrealized gains and losses averaged over a five year period

#### Plan Obligations

Accrued benefit obligation – beginning of year	77,704	12,593	5,816	1,219
Obligation acquired	132,425	62,279	26,927	3,578
Accrued interest on benefits	13,814	2,790	1,959	421
Current service cost	10,586	1,806	419	159
Benefits and refund of contributions	(10,499)	(2,476)	-	-
Experience loss	<u>2,331</u>	<u>712</u>	<u>-</u>	<u>439</u>
Accrued benefit obligation – end of year	<u>226,361</u>	<u>77,704</u>	<u>35,121</u>	<u>5,816</u>

The Company's accrued benefit asset is determined as follows:

Plan surplus / (deficit)	(6,015)	18,647	(35,121)	(5,816)
Unamortized net actuarial loss / (gain)	21,069	(5,539)	-	-
Unamortized transitional obligation	(5,029)	(5,387)	5,377	5,816
Valuation allowance	<u>(1,002)</u>	<u>(1,639)</u>	<u>-</u>	<u>-</u>
Accrued plan asset	<u>9,023</u>	<u>6,082</u>	<u>(29,744)</u>	<u>-</u>

The valuation allowance represents the amount of surplus not recognized on the Company's balance sheet.

The Company's benefit expense is determined as follows:

Current service cost	10,586	1,806	419	-
Employee contributions	(4,475)	(456)	-	-
Accrued interest on benefits	13,814	2,790	1,959	-
Expected return on plan assets	(16,451)	(3,432)	-	-
Amortization of transitional asset / (obligation)	(358)	-	439	-
Changes in valuation allowance	<u>(61)</u>	<u>(419)</u>	<u>-</u>	<u>-</u>
Benefit expense	3,055	289	2,817	-
Employer contribution to the defined contribution plan	<u>463</u>	<u>463</u>	<u>-</u>	<u>-</u>
Total pension and post retirement benefit expense	<u>3,518</u>	<u>752</u>	<u>2,817</u>	<u>-</u>

Significant actuarial assumptions in measuring the Company's accrued benefit obligations are as follows:

Discount rate	7.25%	7.25%	7.00%	7.00%
Expected long-term rate of return on pension plan assets	7.25%-8.00%	7.25%	7.00%	7.00%
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%

## 14. FINANCIAL INSTRUMENTS

Financial instruments consist of the following:

	August 31, 2001		August 31, 2000	
	Carrying Value \$000	Fair Value \$000	Carrying Value \$000	Fair Value \$000
Short term assets	512,947	512,947	318,651	318,651
Other investments	415,413	410,838	398,171	455,556
Short term liabilities	591,016	591,016	229,587	229,587
Long term debt	3,795,262	3,701,198	1,172,532	1,168,932
Other long term liabilities	88,809	88,809	114,831	114,831
Unrealized net loss on interest rates swaps	-	94,064	-	3,600

The fair value of short-term assets and liabilities, which include cash and short term investments, accounts receivable, distributions receivable from Network TEN, and other assets, bank loans and advances, accounts payable and accrued liabilities and film and program accounts payable approximate their fair value due to the short term nature of these financial instruments.

The fair value of other investments is primarily based on quoted market prices for publicly traded securities, and the most recent purchase transactions and agreements for non-listed securities.

The fair value of long term debt subject to floating interest rates approximates the carrying value. The fair value of long term debt subject to fixed interest rates is estimated by discounting future cash flows, including interest payments, using rates currently available for debt of similar terms and maturity.

The fair values of other long term liabilities including film and program accounts payable and provisions approximates their carrying values.

The fair values of unrealized net gain on interest rate and cross currency swaps are based on the amounts at which they could be settled based on estimates of market rates.

### **Credit risk**

The Company is exposed to credit risk, primarily in relation to accounts receivable. Exposure to credit risk varies for advertiser accounts receivable due to the concentration of individual balances with large agencies. The Company performs regular credit assessments of its customers and provides allowances for potentially uncollectable accounts receivable.

### **Interest rate risk**

The Company manages its exposure to fluctuations in interest rates through the use of interest rate and cross currency interest rate swap agreements more fully described in note 8.

## 15. JOINTLY CONTROLLED ENTERPRISE

The following amounts included in the consolidated financial statements represent the company's proportionate interest in TV3 Ireland.

	<b>2001</b>	<b>2000</b>
	<b>\$000</b>	<b>\$000</b>
<b>Balance Sheets</b>		
Assets		
Current assets	7,106	-
Property and equipment	4,289	-
Broadcast licenses	1,329	-
Other	<u>7,183</u>	<u>-</u>
	<u><u>19,907</u></u>	<u><u>-</u></u>
Liabilities		
Current liabilities	5,700	-
Long term liabilities	<u>29,486</u>	<u>-</u>
	<u><u>35,186</u></u>	<u><u>-</u></u>
<b>Statements of Earnings</b>		
Revenue	9,542	-
Expenses	<u>8,051</u>	<u>-</u>
Net loss	<u><u>1,491</u></u>	<u><u>-</u></u>
<b>Statements of changes in financial position</b>		
Cash generated (utilized) by:		
Operating activities	207	-
Investing activities	(227)	-
Financing activities	<u>334</u>	<u>-</u>
Net increase in cash	<u><u>314</u></u>	<u><u>-</u></u>

## **16. CONTINGENCY**

On March 5, 2001, a statement of claim was filed against CanWest and certain of the Company's subsidiaries by certain minority interests requesting, among other things, that their interests in CanWest Broadcasting Ltd. ("CBL"), a subsidiary of the Company, be purchased without minority discount. In addition, the claim alleges the Company wrongfully terminated certain agreements and acted in an oppressive and prejudicial matter towards the plaintiffs. The lawsuit seeks damages in excess of \$325,000,000. The Company believes the allegations are substantially without merit and not likely to have a material adverse effect on its business, financial condition or results of operation. The Company intends to vigorously defend this lawsuit.

## **17. EVENTS SUBSEQUENT TO AUGUST 31, 2001**

- (a) On September 12, 2001, the Company completed the sale of CFCF, and received proceeds of \$90,000,000. No gain or loss will arise from this transaction.
- (b) On October 31, 2001, the Company completed the sale of CKVU, and received proceeds of \$125,000,000. The Company has not yet determined the gain from this transaction.
- (c) On August 23, 2001, CanWest and Hollinger entered into a letter agreement providing for the acquisition by the Company of all of Hollinger's and its affiliates' interests in The National Post Company, the partnership that owns and operates the National Post, constituting the 50% of the National Post not already owned by the Company. The acquisition is expected to close on March 31, 2002 and the purchase price will consist of nominal cash consideration and other consideration in the form of agreements and undertakings exchanged by the parties. In addition, Hollinger will make a payment to The National Post Company to fund losses and cash requirements of The National Post Company until March 31, 2002. In September 2001, the Company assumed the day-to-day management of the National Post.

## **18. SEGMENTED INFORMATION**

The Company operates primarily within the publishing, broadcasting and entertainment industries in Canada, New Zealand, Ireland and Australia.

Each segment reported below operates as a strategic business unit with separate management. Segment performance is measured primarily on the basis of operating profit. There are no significant inter segment items. Segmented information in Canadian dollars is as follows:

	<u>Online and Publishing</u>	<u>Broadcasting</u>				<u>Entertainment</u>	<u>Corporate and Other</u>	<u>Consolidated</u>
	<u>Canada</u>	<u>Canada</u>	<u>New Zealand</u>		<u>Ireland</u>	<u>Canada</u>		
	<u>\$000</u>	<u>\$000</u>	<u>TV</u>	<u>Radio</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
Revenue from external customers								
2001	919,923	701,027	58,436	56,864	31,056	177,469	-	1,944,775
2000	-	489,896	72,983	29,981	27,409	111,579	-	731,848
Non-recurring expenses and write-down of program inventory								
2001	-	3,036	-	-	-	-	-	3,036
2000	-	-	12,566	-	-	-	-	12,566
Operating profit (loss) before amortization								
2001	207,804	226,458	(8,939)	14,301	2,748	13,551	(14,852)	441,071
2000	-	166,405	(11,732)	7,002	(8,673)	7,420	(15,879)	144,543
Amortization of intangibles and goodwill								
2001	50,504	33,645	2,246	2,834	61	840	29	90,159
2000	-	16,217	2,198	1,441	192	840	29	20,917
Amortization of capital assets and other								
2001	32,649	24,195	2,731	1,919	3,046	386	879	65,805
2000	-	14,267	3,142	889	4,271	134	652	23,355
Financing expenses (revenue)								
2001	227,464	113,751	104	234	3,374	16,618	(4,790)	356,755
2000	-	59,746	(213)	106	2,970	1,640	(10,485)	53,764
Investment income and gains								
2001	-	-	-	-	-	-	31,582	31,582
2000	-	-	-	-	-	-	103,901	103,901
Earnings (loss) before taxes								
2001	(100,046)	42,536	(14,298)	9,314	(3,733)	(4,292)	30,453	(40,066)
2000	-	65,013	(17,130)	4,566	(16,105)	4,806	109,258	150,408
Capital expenditures								
2001	21,932	16,465	2,163	2,178	713	1,481	6,442	51,374
2000	-	11,160	189	637	2,635	1,026	700	16,347
Property and equipment, intangibles and goodwill								
2001	2,935,179	1,405,751	85,563	131,840	6,841	33,167	17,904	4,616,245
2000	-	1,405,290	96,151	106,868	17,814	32,911	11,028	1,670,062
Total assets								
2001	3,261,423	1,820,356	133,018	141,761	21,950	518,168	402,544	6,299,220
2000	-	1,716,620	125,222	125,786	41,865	382,321	550,797	2,942,611

	<u>Online and Publishing</u>		<u>Broadcasting</u>			<u>Entertainment</u>	<u>Corporate and Other</u>	<u>Consolidated</u>
	Canada	Canada	New Zealand TV	Radio	Ireland	Canada		
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<i>Reconciliation of net earnings before taxes to net earnings – year ended August 31, 2001</i>								
Earnings (loss) before income tax	(100,046)	42,536	(14,298)	9,314	(3,733)	(4,292)	30,453	(40,066)
(Provision for) recovery of income taxes	18,304	35,099	2,821	(614)	269	(73)	3,213	59,019
Minority interests	-	(2,531)	-	(665)	-	-	-	(3,196)
Interest in earnings of Network TEN	-	-	-	-	-	-	52,567	52,567
Interest in earnings of other equity accounted affiliates	(16,385)	1,894	-	-	-	-	-	(14,491)
Realized translation adjustments	-	-	-	-	-	-	(7,200)	(7,200)
Net earnings (loss) for the year	<u>(98,127)</u>	<u>76,998</u>	<u>(11,477)</u>	<u>=</u>	<u>(3,464)</u>	<u>(4,365)</u>	<u>79,033</u>	<u>46,633</u>
<i>Reconciliation of net earnings before taxes to net earnings – year ended August 31, 2000</i>								
Earnings (loss) before income tax	-	65,013	(17,130)	4,566	(16,105)	4,806	109,258	150,408
(Provision for) recovery of income taxes	-	(12,008)	988	(1,285)	1,754	(1,581)	(35,992)	(48,124)
Minority interests	-	(2,607)	-	(268)	5,049	-	-	2,174
Interest in earnings of Network TEN	-	-	-	-	-	-	72,194	72,194
Interest in earnings of WIC	-	2,286	-	-	-	-	-	2,286
Realized translation adjustments	-	-	-	-	-	-	(1,300)	(1,300)
Net earnings (loss) for the year	<u>-</u>	<u>52,684</u>	<u>(16,142)</u>	<u>3,013</u>	<u>(9,302)</u>	<u>3,225</u>	<u>144,160</u>	<u>177,638</u>

Selected financial information for Network TEN is presented in note 3.

## 19. UNITED STATES ACCOUNTING PRINCIPLES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). In certain aspects GAAP as applied in the United States ("U.S.") differs from Canadian GAAP.

### **Principal differences affecting the Company**

#### ***Comprehensive income***

Comprehensive income, defined as all changes in equity other than those resulting from investments by owners and distributions to owners, must be reported under U.S. GAAP. There is no similar requirement under Canadian GAAP.

#### ***Pre-operating costs***

In the U.S., pre-operating costs are expensed in the period incurred. In accordance with Canadian GAAP, the Company defers pre-operating costs until commencement of commercial operations and amortizes the costs over a period of five years.

#### ***Foreign currency translation***

In the U.S., distributions from self-sustaining foreign operations do not result in a realization of the cumulative translation adjustments account. Realization of such foreign currency translation adjustments occur only upon the sale of all or a part of the investment giving rise to the translation adjustments. In accordance with Canadian GAAP, reductions in the net investment in self-sustaining foreign operations result in a proportionate reduction in the cumulative foreign currency translation adjustment accounts.

#### ***Programming commitments***

Under Canadian GAAP, certain programming commitments related to the acquisition of WIC imposed by regulatory requirements were accrued in the purchase equation. Under U.S. GAAP, these costs are expensed as incurred.

#### ***Equity accounted affiliates***

Under U.S. GAAP, investments placed in trust due to regulatory requirements must be accounted for at cost. Under Canadian GAAP, these investments are accounted as cost, equity or consolidated investments based on the level of influence that the investor has over the investment.

#### ***Investment in WIC on an equity basis***

Under Canadian GAAP, the investment in WIC was accounted for as described in note 2 (e). Under US GAAP, as a result of receiving approval to complete the purchase of WIC, the Company changed its method of accounting for its investment in WIC to the equity method. Accordingly, the change in accounting policy has been retroactively applied as required under APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*. Effective July 6, 2000, the Company has consolidated its investment in WIC.

### ***Impairment of long-lived assets***

Under U.S. GAAP, the Company recognizes an impairment loss on property, equipment and broadcast licences and circulation if the undiscounted expected future cash flows are less than the carrying value. The impairment loss recognized would be equal to the difference between the carrying amount and the fair value of the assets. Under Canadian GAAP, the impairment loss would be in the amount equal to the difference between the carrying amount and the undiscounted expected future cash flows.

Under U.S. GAAP, goodwill associated with assets acquired in a purchase business combination is included in impairment evaluations of other long-lived assets when events or circumstances exist that indicate the carrying value of those assets may not be recoverable. In addition, impairments of goodwill would be recognized when a review indicates that the goodwill will not be recoverable, as determined based on projected income and cash flows on an undiscounted basis from the underlying operations. In such circumstances, the goodwill will be reduced to the estimated recoverable amount. Under Canadian GAAP, prior to the acquisition of WIC and Southam Publications the Company has not had any significant goodwill arising on its acquisitions.

The Company regularly assesses the carrying value of its assets and has determined that there is no impairment in long-lived assets at this time.

### ***Investment in marketable securities***

In the U.S., investment assets classified as "available for sale" are carried at market, and unrealized gains and losses are included, net of tax, in accumulated comprehensive income. In accordance with Canadian GAAP, the Company carries its investment in marketable securities at cost.

### ***Stock based compensation***

U.S. GAAP encourages companies to include the fair value of stock options granted in the determination of compensation cost.

For U.S. GAAP reconciliation purposes, the Company follows the disclosure-only provisions of Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" ("SFAS 123"). As permitted by SFAS 123, the Company continues to apply the intrinsic value method of accounting for stock-based compensation prescribed by Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees."

In computing pro forma net earnings for U.S. GAAP had the Company elected to adopt the fair value approach of SFAS 123, the fair value of the options granted during 2001 was estimated using the Black-Scholes option-pricing model with the assumptions of a dividend yield of 2% (2000 - 1.7%), an expected volatility of 60% (2000 - 32.5%), risk-free interest rates of 5.4% to 5.6% (2000 6.2% to 6.6%) and an expected life of 6 to 9 years (2000 6 to 9 years).

The total fair value of 240,440 stock options that were granted by the Company during 2001 was \$1,969,000 (during 2000, 484,180 stock options were granted with a total value of \$3,215,000). The pro forma cost of stock compensation expense for the year ended August 31, 2001 would be \$1,229,000 (2000 - \$1,164,000). An unrecognized value of \$5,310,000 will be charged to pro forma net earnings in future years according to the vesting terms of the options. The resulting pro forma net earnings and diluted earnings per share under U.S. GAAP for the year ended August 31, 2001 are \$46,768,000 and \$0.27, respectively (2000 - \$231,745,000 and \$1.53).

The effects of applying this method in this pro forma disclosure are not indicative of future amounts. The Company's adoption for pro forma disclosure of this method does not apply to awards prior to 1996, and additional awards in future years are anticipated.

### ***Effect of tax rate changes***

Under U.S. GAAP, changes in tax rates are applied to reduce or increase future income tax assets or liabilities when the proposed tax rate change has received legislative approval. Under Canadian GAAP, tax rate changes are applied when the change in tax rate is considered substantively enacted.

### ***Cash flow statement***

The Canadian accounting standard for the preparation of cash flow statements is consistent with the guidance provided under IAS 7, and accordingly, the cash flow statements presented herein have not been reconciled to U.S. GAAP under the accommodation provided by the Securities and Exchange Commission of the United States ("SEC").

### ***Proportionate consolidation***

In the U.S. investments in jointly controlled entities are accounted as equity investments. Canadian GAAP requires the accounts of jointly controlled enterprises to be proportionately consolidated. As permitted by the SEC, the differences in classification and display that result from using the proportionate consolidation method have been omitted from this note.

### ***Accounting for derivative instruments and hedging activities***

Under U.S. GAAP, entities are required to recognize all derivative instruments as either assets or liabilities in the balance sheet and measure those instruments at fair value. The changes in fair value of the derivative are included either in the statement of earnings or other comprehensive income depending on the nature of the instrument. Under Canadian GAAP, there is no requirement to recognize derivatives as either assets or liabilities.

### ***Debt classification***

Under Canadian GAAP, the Company's credit facilities described in note 8(5) and 8(6) are classified as long term because the Company intends to refinance the debt on maturity under its available facilities. Under US GAAP, the amount would be classified as current because the Company does not currently have refinancing in place.

### ***New accounting standards***

#### **(a) Business combinations, intangibles and goodwill**

In fiscal 2002, the Company will adopt new standards approved by the Financial Accounting Standards Board, Statement of Financial Accounting Standard No. 141, *Business Combinations* and Statement of Financial Accounting Standard No. 142, *Goodwill and Other Intangibles*. The new standards are consistent with those described in note 1.

#### **(b) Accounting for Asset Retirement Obligations**

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 143, *Accounting for Asset Retirement Obligations* (FAS 143) FAS 143 requires that an asset retirement obligation be recognized as a liability, measured at fair value, in the period in which

the obligation is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long lived assets and amortized to expense over the asset's useful life. FAS 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company is currently considering the impact of FAS 143.

**(c) Accounting for the impairment or disposal of long-lived assets**

In fiscal 2003, the Company will adopt new standards approved by the Financial Accounting Standards Board, Statement of Financial Accounting Standard No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The Standard requires that an impairment loss should be recognized if the carrying amount of a long-lived asset is not recoverable and exceeds its fair value for assets in use. For long-lived assets classified as held for sale they should be measured at the lower of their carrying amount or fair value less cost to sell. The standard also changes the criteria for classification of operating results as discontinued operations. FAS 144 is effective for financial statements prepared for years beginning on or after December 15, 2001. The Company is currently considering the impact of FAS 144 on the Company's financial statements.

**(d) Accounting by producers or distributors of films**

In fiscal 2002, the Company will adopt new standards of the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants related to film and television revenue recognition and cost deferrals for distributors of films, Statement of Position (SOP) 00-2, *Accounting by Producers or Distributors of Films*. The new standards are described in note 1.

**(i) Consolidated Statements of Earnings**

The following is a reconciliation of net earnings reflecting the differences between Canadian and U.S. GAAP:

	<b>2001</b>	<b>2000</b>
	<b>\$000</b>	<b>\$000</b>
Net earnings in accordance with Canadian GAAP	46,633	177,638
Pre-operating costs - net of tax of \$1,175 (2000 - \$544)	3,337	2,788
Realization of cumulative translation adjustments net of tax of nil	7,200	1,300
Programming costs imposed by regulatory requirement net of tax of (\$774)	(1,026)	-
Reversal of amortization of goodwill related to future programming costs imposed by regulatory requirement on business combination net of tax of nil	938	-
Equity accounted affiliates in trust net of tax of nil	(3,375)	-
Investment in WIC on an equity basis, net of tax of \$2,758 (2000 - \$25,210)	(4,138)	51,183
Amortization of WIC goodwill adjustment resulting from retroactive equity accounting of WIC upon regulatory approval, net of tax of nil	<u>(1,572)</u>	<u>-</u>
Net earnings in accordance with U.S. GAAP	<u>47,997</u>	<u>232,909</u>
Net earnings per share		
Basic	\$0.28	\$1.56
Diluted	\$0.28	\$1.56

**(ii) Statements of Comprehensive Income**

**(a) Comprehensive income (loss) – current periods:**

	<b>2001</b>	<b>2000</b>
	<b>\$000</b>	<b>\$000</b>
Net earnings in accordance with U.S. GAAP	<u>47,997</u>	<u>232,909</u>
Other comprehensive income, net of tax:		
Foreign currency translation gain (loss)	<u>11,511</u>	<u>(52,680)</u>
Unrealized gains (losses) on securities, available for sale, net of tax of \$5,755 (2000 – \$3,624)	(73,178)	39,940
Reversal of unrealized gains on sale of securities available for sale, net of tax of \$486, (2000 – \$2,529)	<u>(987)</u>	<u>(7,332)</u>
	<u>(74,165)</u>	<u>32,608</u>
Unrealized gains (losses) on interest rate and cross currency interest rate swaps, net of tax of \$41,388,	(52,676)	-
Less: Reclassification of foreign currency translation gains on US denominated debt to statement of earnings, net of tax of \$404	<u>515</u>	<u>-</u>
	<u>(52,161)</u>	<u>-</u>
	<u>(114,815)</u>	<u>(20,072)</u>
Comprehensive income	<u>(66,818)</u>	<u>212,837</u>

**(b) Comprehensive income (loss) – accumulated balances:**

	<b>Foreign currency translation</b>	<b>Unrealized gains on securities</b>	<b>Unrealized gains (losses) on swaps</b>	<b>Total</b>
Balance, August 31, 1999	<u>(33,278)</u>	<u>(301)</u>	—	<u>(33,579)</u>
Change during 2000	<u>(52,680)</u>	<u>32,608</u>	—	<u>(20,072)</u>
Balance, August 31, 2000	(85,958)	32,307	-	(53,651)
Change during 2001	<u>11,511</u>	<u>(74,165)</u>	<u>(52,161)</u>	<u>(114,815)</u>
Balance, August 31, 2001	<u>(74,447)</u>	<u>(41,858)</u>	<u>(52,161)</u>	<u>(168,466)</u>

**(iii) Consolidated Balance Sheets**

Balance sheet captions restated to reflect the above items are presented below:

	<b>2001 \$000</b>	<b>2000 \$000</b>
<b>ASSETS</b>		
Current assets	640,149	396,474
Investment in Network TEN	107,210	136,337
Property and equipment	687,811	185,223
Intangibles and goodwill	3,946,499	1,530,432
Other investments	370,180	436,721
Other assets	<u>476,008</u>	<u>330,793</u>
	<u>6,227,857</u>	<u>3,015,980</u>
<b>LIABILITIES</b>		
Current liabilities	729,624	354,002
Long term debt	3,732,710	1,128,153
Other liabilities	147,343	102,803
Future income taxes	<u>377,537</u>	<u>504,086</u>
	<u>4,987,214</u>	<u>2,089,044</u>
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock	896,313	420,260
Contributed surplus	3,647	3,647
Retained earnings	509,149	556,680
Accumulated other comprehensive income (loss)	<u>(168,466)</u>	<u>(53,651)</u>
	<u>1,240,643</u>	<u>926,936</u>
	<u>6,227,857</u>	<u>3,015,980</u>

A reconciliation of shareholders' equity reflecting the differences between Canadian and U.S. GAAP is set out below:

	<b>2001</b> <b>\$000</b>	<b>2000</b> <b>\$000</b>
Shareholders' equity in accordance with Canadian GAAP	1,305,995	860,127
Adjustments relating to pre-operating costs, net of tax of \$2,277 (2000 - \$3,452)	(6,373)	(9,711)
Adjustment to goodwill resulting from retroactive equity accounting of WIC upon regulatory approval net of tax of nil	38,503	44,213
Programming costs imposed by regulatory requirement On business combination net of tax of \$774	(1,026)	-
Reversal of amortization of goodwill related to future programming costs imposed by regulatory requirement on business combination net of tax of nil	938	-
Adjustment to reflect losses on interest rate and cross currency swaps net of tax of \$41,388	(52,676)	-
Foreign exchange gain on US\$ denominated debt net of tax of \$404	515	-
Equity accounted affiliates in trust net of tax of nil	(3,375)	-
Unrealized gain (loss) on other investments net of tax of nil (2000 - \$6,241)	<u>(41,858)</u>	<u>32,307</u>
Shareholders' equity in accordance with U.S. GAAP	<u>1,240,643</u>	<u>926,936</u>

(iv) Other

*The following amounts are included in accounts receivable:*

	<b>2001</b>	<b>2000</b>
	<b>\$000</b>	<b>\$000</b>
Allowance for doubtful accounts	14,500	5,300

The following amounts are included in operating expenses:

	<b>2001</b>	<b>2000</b>
	<b>\$000</b>	<b>\$000</b>
Bad debt expense (recovery)	7,800	(300)
Rent expense	12,700	8,600

The composition of accounts payable and accrued liabilities is as follows:

	<b>2001</b>	<b>2000</b>
	<b>\$000</b>	<b>\$000</b>
Accounts payable	132,000	61,000
Accrued liabilities	269,000	131,000