

CANWEST GLOBAL COMMUNICATIONS CORP.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED AUGUST 31, 2003 AND 2002

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, 2003 and August 31, 2002 and the consolidated statements of earnings, retained earnings and cash flows for the years 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 audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2003 and August 31, 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

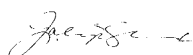
Winnipeg, Canada
October 31, 2003

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

	2003	2002
	\$000	\$000
ASSETS		
Current Assets		
Cash	121,922	61,090
Accounts receivable	493,905	470,246
Distributions receivable from Network TEN	20,909	-
Income taxes recoverable	-	33,334
Inventory	14,509	19,836
Investment in film and television programs (note 5)	82,912	98,096
Future income taxes (note 14)	20,223	30,013
Other	<u>11,173</u>	<u>13,726</u>
	765,553	726,341
Investment in Network TEN (note 3)	55,546	4,494
Other investments (note 4)	113,022	162,361
Investment in film and television programs (note 5)	270,306	317,176
Property, plant and equipment (note 6)	640,032	679,224
Other assets	136,100	103,975
Intangible assets (note 8)	1,093,818	1,096,458
Goodwill (note 7)	<u>2,455,618</u>	<u>2,610,051</u>
	<u>5,529,995</u>	<u>5,700,080</u>
LIABILITIES		
Current Liabilities		
Accounts payable	108,689	164,988
Accrued liabilities (note 10)	203,325	227,104
Income taxes payable	24,459	-
Film and television program accounts payable	99,410	64,834
Deferred revenue	46,884	60,596
Future income taxes (note 14)	6,072	6,072
Current portion of long term debt	<u>147,386</u>	<u>172,753</u>
	636,225	696,347
Long term debt (note 9)	3,167,311	3,337,163
Other accrued liabilities	150,190	65,169
Future income taxes (note 14)	<u>400,652</u>	<u>425,490</u>
	<u>4,354,378</u>	<u>4,524,169</u>
Commitments, contingencies and guarantees (note 20)		
SHAREHOLDERS' EQUITY		
Capital stock (note 11)	846,824	896,422
Contributed surplus	3,647	3,647
Retained earnings	355,792	317,376
Cumulative foreign currency translation adjustments (note 13)	<u>(30,646)</u>	<u>(41,534)</u>
	<u>1,175,617</u>	<u>1,175,911</u>
	<u>5,529,995</u>	<u>5,700,080</u>

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

Signed on behalf of the Board



Director



Director

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

	2003	2002
	\$000	\$000
Revenue	2,278,316	2,272,783
Operating expenses	1,257,836	1,244,263
Selling, general and administrative expenses	559,047	558,214
Restructuring and film and television program impairment expenses	<u>42,771</u>	<u>-</u>
	418,662	470,306
Amortization of intangibles	17,500	17,500
Amortization of property, plant and equipment	72,050	74,654
Other amortization	<u>7,087</u>	<u>6,670</u>
Operating income	322,025	371,482
Financing expenses	(363,518)	(376,632)
Dividend income	<u>3,532</u>	<u>3,241</u>
	(37,961)	(1,909)
Investment gains, losses and write-downs	9,240	32,043
Interest rate swap loss (note 9)	<u>(23,015)</u>	<u>-</u>
	(51,736)	30,134
Provision for income taxes (note 14)	<u>3,105</u>	<u>7,108</u>
Earnings (loss) before the following	(54,841)	23,026
Minority interests	-	4,330
Interest in earnings (loss) of Network TEN	101,339	(11,815)
Interest in loss of other equity accounted affiliates	(1,332)	(1,523)
Realized currency translation adjustments	<u>922</u>	<u>(1,000)</u>
Net earnings for the year	<u><u>46,088</u></u>	<u><u>13,018</u></u>
Net earnings per share (note 12):		
Basic	\$0.22	\$0.07
Diluted	\$0.22	\$0.07

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**

	2003	2002
	\$000	\$000
Retained earnings – beginning of year, as previously reported	317,376	475,053
Adjustment for adoption of new accounting pronouncements	<u>-</u>	<u>(170,695)</u>
Retained earnings – beginning of year, as adjusted	317,376	304,358
Excess of redemption price over carrying value of preferred shares (note 11)	(7,672)	-
Net earnings for the year	<u>46,088</u>	<u>13,018</u>
Retained earnings - end of year	<u><u>355,792</u></u>	<u><u>317,376</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**

	2003	2002
	\$000	\$000
CASH GENERATED (UTILIZED) BY:		
OPERATING ACTIVITIES		
Net earnings for the year	46,088	13,018
Items not affecting cash		
Amortization	106,983	108,765
Interest paid in kind	108,385	105,790
Future income taxes	(20,423)	11,209
Interest in (earnings) loss of Network TEN	(101,339)	11,815
Interest in loss of other equity accounted affiliates	1,332	1,523
Minority interests	-	(4,330)
Realized currency translation adjustments	(922)	1,000
Interest rate swap loss	23,015	-
Investment gains, losses and write-downs	(9,240)	(32,043)
Pension expense	7,609	6,445
Distributions from Network TEN	<u>33,378</u>	<u>60,984</u>
	194,866	284,176
Investment in film and television programs	(172,743)	(194,619)
Amortization and impairment of film and television programs	214,879	132,033
Other changes in non-cash operating accounts (note 15)	<u>(9,212)</u>	<u>(61,999)</u>
Cash flows from operating activities	<u>227,790</u>	<u>159,591</u>
INVESTING ACTIVITIES		
Other investments	(4,311)	(5,187)
Investment in broadcast licences	(2,325)	-
Proceeds from sale of other investments	45,605	87,000
Proceeds from divestitures	193,500	390,059
Purchase of property, plant and equipment	<u>(38,555)</u>	<u>(53,338)</u>
	<u>193,914</u>	<u>418,534</u>
FINANCING ACTIVITIES		
Issuance of long term debt	374,758	3,255
Repayment of long term debt	(678,360)	(510,889)
Issuance of share capital	402	109
Preferred share redemption	(57,672)	-
Net change in bank loans and advances	<u>-</u>	<u>(28,999)</u>
	<u>(360,872)</u>	<u>(536,524)</u>
Net change in cash	60,832	41,601
Cash - beginning of year	<u>61,090</u>	<u>19,489</u>
Cash - end of year	<u>121,922</u>	<u>61,090</u>

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, 2003 AND 2002

1. SIGNIFICANT ACCOUNTING POLICIES

The Company is an international media company with interests in broadcast television, publishing, radio, specialty cable channels, out-of-home advertising, 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, publishing and online operations and outdoor advertising. In Canada, the Television Broadcast segment includes the operation of the Global Television Network, Global Prime, various other conventional and specialty channels and the Cool FM radio station. The Australian Television segment includes the Company's 57.1% economic interest (57.5% to February 27, 2003) in the TEN Group Pty Limited which owns and operates Australia's TEN Television Network ("Network TEN"). The Canadian Publishing and Online segment includes the publication of a number of newspapers, including metropolitan daily newspapers, and 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 producer and distributor of film and television programs. The New Zealand Television Broadcasting segment includes the operations of the 3 and C4 Television Networks. The New Zealand Radio Broadcasting segment includes five nationally networked radio brands and 27 local radio stations including More FM stations. The Irish Television Broadcasting segment includes the Company's 45% interest in the Republic of Ireland's TV3 Television Network. The Australian Outdoor Advertising segment includes the Company's economic interest in EyeCorp, an out-of-home advertising operation which is wholly owned by the TEN Group Pty Limited. The Corporate and Other segment includes various investments in media operations including a 29.9% interest in Northern Ireland's Ulster Television plc ("UTV").

The Company's broadcast customer base is comprised primarily of large advertising agencies which place advertisements with the Company on behalf of their customers. Publishing revenues include advertising, circulation and subscriptions which are derived from a variety of sources. The Company's advertising revenues are seasonal. Revenues and accounts receivable are highest in the first and third quarters, while expenses are relatively constant throughout the year.

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

Basis of presentation

The 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 22.

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.

Investments

The Company accounts for its investment in Network TEN, CF Television Inc. (to the date of its sale on September 12, 2001), mentv and Mystery using the equity method. Other investments are

recorded at the lower of cost and net realizable value. A provision for loss in value of investments is made when a decline in value is considered other than temporary.

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 broadcast rights and the corresponding asset when the programs are available for telecast. Broadcast rights are charged to operations as programs are telecast over the anticipated period of use. An impairment loss is recognized when the carrying amount is not recoverable and exceeds fair value.

(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 costs and capitalized interest, which are expected to be recovered from exploitation, exhibition or licencing. Film and television programs in progress represent the accumulated costs of productions that have not yet been completed by the Company. Acquired libraries are defined to include titles released at least three years prior to the date of acquisition 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 date incurred. Costs of advertising and marketing are expensed as incurred.

Amortization of investment in completed films and television programs and accrual of participation costs are calculated using the individual film forecast computation method, based on the ratio that current period revenue earned from the film and television programs bears to management's estimate of ultimate revenue expected to be recognized from the exploitation of the film or television program.

Estimates of ultimate future revenue are prepared on a title-by-title basis and reviewed periodically based on current market conditions. For episodic television series, until revenue estimates include revenues from secondary markets, capitalized costs for each episode are limited to the amount of revenue contracted for each episode. Ultimate revenue estimates include secondary market revenue only when the Company can demonstrate through its experience or industry norms, that the number of episodes already produced, plus those for which a firm commitment exists and the Company expects to deliver, can be licenced successfully in the secondary market. Ultimate revenue estimates include revenues for up to ten years for film and television programs produced by the Company, and up to 20 years for acquired libraries.

The valuation of film and television programs, including acquired film libraries, is reviewed on a title-by-title basis. When an event or change in circumstances indicates that the fair value of a film or television program is less than its unamortized cost, the fair value is determined using management's estimate of discounted future cash flows. A write-down is recorded equivalent to the amount by which the unamortized costs exceeds the estimated fair value of the film or television program.

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, plant and equipment

Property, plant 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%

Impairment of long lived assets

Impairment of long lived assets is recognized when an event or change in circumstances causes the assets' carrying value to exceed the total undiscounted cash flows expected from its use and eventual disposition. The impairment loss is calculated by deducting the fair value of the asset from its carrying value.

Deferred Charges

Certain 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. Costs related to debt financing are deferred and amortized over the term of the debt.

Capitalization of interest

Interest is capitalized as part of the cost of certain assets while they are being prepared for use or sale. Interest in the amount of \$5.6 million was capitalized in 2003 (2002 - \$5.9 million).

Intangible assets

Broadcast licences, newspaper mastheads, circulation and other intangible assets are recorded at their cost which, for business acquisitions, represents the fair market value at the date of the acquisition.

Circulation and other finite life intangibles are amortized over periods from 5 to 40 years. Intangibles with indefinite lives are not subject to amortization and are tested for impairment annually. Impairment of an intangible asset is recognized in an amount equal to the difference between the carrying value and the fair value of the related intangible asset.

Goodwill

Goodwill represents the cost of acquired businesses in excess of the fair value of net identifiable assets acquired. Goodwill is tested for impairment annually by comparing the fair value of a particular reporting unit to its carrying value. When the carrying value exceeds its fair value, the fair value of the reporting unit's goodwill is compared with its carrying value to measure any impairment loss.

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 when the newspaper is delivered. Subscription revenue is recognized on a straight-line basis over the term of the subscription.

Revenue from the sale or licencing of film and television programs is recognized when all of the following conditions are met: persuasive evidence of a sale or licencing arrangement exists, the film is complete, the contractual delivery arrangements have been satisfied, the licence period has begun, the fee is fixed or determinable and collection of the fee is reasonably assured.

Amounts received that do not meet all of the above criteria are recorded as 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 amounts and the tax bases of assets and liabilities including equity accounted investments. 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 undistributed earnings of Network TEN are provided at rates applicable to distributions. Income taxes on undistributed earnings of foreign operations other than Network TEN are not provided as such earnings are expected to be indefinitely reinvested.

Inventory

Inventory, consisting primarily of printing materials, 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 and other post retirement benefit plans. For the defined benefit plans, the cost of pension and other retirement benefits earned by employees is determined using the projected benefit method pro rated on service and management's estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Past service costs from plan amendments are amortized on a straight line basis over the average remaining service period of employees active at the date of the amendment. The excess of the net actuarial gain or loss over 10% of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of employees covered by the pension plans is 15 years. The average remaining service period of the employees covered by the post retirement benefit plans is 15 years. For the defined contribution plans, the pension expense is the Company's contribution to the plan.

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.

Share-based compensation

The Company has share-based compensation plans as described in note 11. The Company utilizes the intrinsic value approach to account for share-based compensation. No compensation expense is recorded for these plans when the options are issued. Any consideration paid by employees on exercise of stock options is credited to share capital. The Company's proforma results, reflecting the fair value based method of accounting for stock-based compensation, are disclosed in note 11.

Derivative financial instruments

Derivative financial instruments are used to reduce foreign currency and interest rate risk on the Company's debt. The Company does not enter into financial instruments for trading or speculative purposes. The Company's policy is to designate each derivative financial instrument as a hedge of a specifically identified debt instrument.

Interest rate swap agreements are used as part of the Company's program to manage the fixed and floating interest rate mix of the Company's total debt portfolio and related overall cost of borrowing. The interest differential to be paid or received under interest rate swap agreements is recognized as an adjustment to interest expense.

Foreign currency interest rate swap agreements are used to manage exchange and interest rate exposures related to debt instruments denominated in foreign currencies. Translation gains and losses on the principal swapped are offset by corresponding translation losses and gains on the related debt in earnings. The Company translates its foreign currency denominated debt that is hedged by foreign currency interest rate swaps at the rate implicit in the swap agreement.

Gains and losses on terminations of interest rate and foreign currency interest rate swap agreements are deferred and amortized as an adjustment to interest expense related to the underlying debt over the remaining term of the original contract life of the terminated swap agreement. In the event of early extinguishment of the debt obligation, any realized or unrealized gain or loss from the swap is recognized in earnings.

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 and the value of goodwill, 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 the value and life of intangible assets and goodwill.

Management estimates ultimate revenue from film and television programs to determine amortization and fair values of investments in film and television programs. Actual revenues may differ from these estimates.

Expenses, assets and liabilities related to defined benefit pension and other post retirement benefit plans are determined actuarially based on estimates including discount rates for obligations, expected long term rates of return on pension assets and the rate of compensation increase. Actual results may differ from these estimates.

Changes in Accounting Policies

(a) Goodwill and other intangibles

On September 1, 2001, the Company adopted Section 3062, *Goodwill and Other Intangibles*. As a result of adopting the new standard, goodwill and certain intangibles with indefinite lives, including newspaper mastheads and broadcast licences, are no longer amortized. Circulation and other intangibles are amortized over periods from 5 to 40 years. As a result of applying the new standards, no initial impairment in intangibles with indefinite lives or goodwill were identified at the Company or any of its subsidiaries. However, an initial goodwill impairment was identified by Network TEN in its reporting unit, Eye Corp, resulting in a charge to the Company's retained earnings of \$45.3 million (net of income tax recoveries of \$2.5 million). In addition, as a result of events occurring after the beginning of 2001, a goodwill impairment of \$30.2 million (net of income tax recoveries of \$2.0 million) was reflected in the Company's interest in loss of Network TEN in the Company's statement of earnings for the period ended August 31, 2002 (see note 3).

(b) Accounting for 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, established new accounting standards for producers or distributors of films, including changes in revenue recognition, capitalization and amortization of costs of films and television programs and accounting for development, overhead and other exploitation costs, including advertising and marketing expenses.

The Company retroactively adopted SOP 00-2 effective as of September 1, 2001. Prior years' financial statements were not restated, as the effect of the new policy on prior periods was not reasonably determinable. Accordingly, opening retained earnings for the year ended August 31, 2002 were reduced to reflect the cumulative effect of the accounting change in the amount of \$125.4 million (net of income taxes of \$nil).

Proposed accounting policies

(a) Hedging relationships

The CICA has issued Accounting Guideline 13, "Hedging Relationships", (AcG 13) which will be effective for fiscal years beginning on or after July 1, 2003. AcG 13 addresses the identification, designation, documentation, and effectiveness of hedging transactions for the purposes of applying hedge accounting. It also establishes conditions for applying or discontinuing hedge accounting. Under the new guideline, the Company will be required to document its hedging transactions and explicitly demonstrate that the hedges are sufficiently effective in order to continue accrual accounting for positions hedged with derivatives. As at August 31, 2003, the only derivatives utilized by the Company are interest rate swaps and foreign currency interest rate swaps as described in notes 9 and 17. The Company has determined that the adoption of AcG 13 will not have a material effect on the balance sheet or the statement of earnings.

2. ACQUISITIONS AND DIVESTITURES

Acquisitions

a) Effective March 31, 2002, the Company acquired the remaining 50% interest in the National Post not already owned. In September 2001, the Company assumed control of the National Post and, accordingly, changed its method of accounting for the National Post to a consolidation basis from an equity basis.

The fair values of the net assets acquired for proceeds consisting of the carrying value of The National Post Company at date of acquisition of \$83.6 million are as follows:

	\$000
Current assets	50,257

Property plant and equipment	12,436
Circulation and other intangibles	10,700
Newspaper masthead	35,000
Goodwill	<u>62,987</u>
Total Assets	<u>171,380</u>
Current liabilities	(50,665)
Future income taxes	(14,600)
Minority interests	<u>(22,500)</u>
Total liabilities	<u>(87,765)</u>
	<u>83,615</u>

b) On November 16, 2000, the Company acquired substantially all of the Canadian newspaper and other Canadian media assets including a 50% interest in the National Post (“CanWest 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.

In 2003 the Company retroactively adjusted the allocation of the purchase price based on the final determination of the balance of pension assets acquired. The impact was to reduce goodwill by \$21.0 million and reduce the pension liability by \$21.0 million.

The purchase price is subject to adjustment based on the working capital of CanWest Publications at August 31, 2000 and the results of its operations from September 1, 2000 to November 16, 2000. The amount of such adjustment is subject to negotiation between the parties and has not been finally determined. When finalized, the working capital adjustment payable or refundable will increase or decrease the amount of goodwill recorded on the acquisition. In June 2003, the Company filed a claim with Hollinger in respect of several items including the working capital and other closing adjustments totaling \$54.1 million. Certain amounts are currently in dispute and are to be resolved with Hollinger. Inability to resolve disagreements of amounts owing may result in matters being referred to arbitration or formal court adjudication.

Divestitures

(a) In February 2003, the Company sold its interest in community newspapers and related assets in Southern Ontario for cash proceeds of \$193.5 million. The accounting gain on this sale was \$21.3 million; assets and liabilities disposed of amounted to \$179.6 million and \$7.4 million, respectively.

(b) In August 2002, the Company sold its interest in community newspapers and related assets in Atlantic Canada and Saskatchewan for cash proceeds of \$257.0 million. The accounting gain on this sale was \$48.2 million; assets and liabilities disposed of amounted to \$228.7 million and \$19.9 million, respectively.

(c) In October 2001, the Company completed the sale of CKVU Sub Inc., and received cash proceeds of \$133.0 million. The accounting gain on the sale was \$67.7 million; assets and liabilities disposed of amounted to \$84.1 million and \$18.8 million, respectively.

(d) In September 2001, the Company completed the sale of CF Television Inc., and received cash proceeds of \$87.0 million. No gain or loss arose from this transaction; assets and liabilities disposed of amounted to \$87.0 million and nil, respectively.

3. INVESTMENT IN NETWORK TEN

The Company owns approximately 14.8% (15% to February 27, 2003) 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 A\$45.5 million and pay interest based on distributions to holders of ordinary shares. The convertible debentures have an aggregate principal amount of A\$45,500 and pay a market linked rate of

interest. The combination of ordinary shares and subordinated debentures yield distributions equivalent to approximately 57.1% (57.5% to February 27, 2003) of all distributions paid by Network TEN. The convertible debentures are convertible, upon payment of an aggregate of A\$45.5 million, into a number of ordinary shares which would represent 49.7% (50% to February 27, 2003) of the issued and outstanding shares of Network TEN 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.

During the year ended August 31, 2003 Network TEN issued 7.1 million shares for proceeds of \$14.4 million as a result of the exercise of management stock options. This effectively diluted the Company's economic interest in Network TEN to 57.1% from 57.5% and resulted in an investment gain of \$1.9 million.

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

	2003	2002
	\$000	\$000
Assets		
Current assets	241,822	285,303
Other assets	37,367	11,913
Property, plant and equipment	79,288	71,875
Long term investments	11,421	2,188
Intangibles	257,477	246,305
Goodwill	<u>88,752</u>	<u>49,304</u>
	<u>716,127</u>	<u>666,888</u>
Liabilities and Shareholders' Equity		
Current liabilities	188,633	191,736
Other long term liabilities	398,047	450,063
Subordinated debentures issued to the Company	40,171	40,154
Share capital	53,150	40,146
Undistributed earnings (deficit)	35,636	(52,232)
Cumulative foreign currency translation adjustment	<u>490</u>	<u>(2,979)</u>
	<u>716,127</u>	<u>666,888</u>

Summary Consolidated Statements of Earnings

	2003	2002
	\$000	\$000
Revenue	650,952	555,653
Operating expenses	459,842	411,904
Write down of program inventory	<u>18,082</u>	<u>-</u>
Operating profit before amortization	173,028	143,749
Amortization of property, plant, equipment and other	<u>16,329</u>	<u>15,130</u>
	156,699	128,619
Investment income and gains net of losses on write down of investments	-	(17,221)
Financing expenses	(102,124)	(28,270)
Goodwill impairment loss ⁽¹⁾	<u>-</u>	<u>(56,114)</u>
	54,575	27,014
Provision for (recovery of) income taxes ⁽²⁾	<u>(55,969)</u>	<u>59,511</u>
Earnings (loss) before the following	110,544	(32,497)
Minority interests	<u>48</u>	<u>4,737</u>
Net earnings (loss) for the year	<u>110,592</u>	<u>(27,760)</u>
Net earnings (loss) for the year	110,592	(27,760)
Interest in respect of subordinated debentures held by the Company	<u>78,056</u>	<u>5,370</u>
Earnings (loss) for the year before interest in respect of subordinated debentures ⁽³⁾	<u>188,648</u>	<u>(22,390)</u>

Summary Statement of Undistributed earnings

	2003 \$000	2002 \$000
Undistributed earnings (deficit) – beginning of year as previously reported	(52,232)	177,251
Adjustment for adoption of new accounting pronouncements ⁽¹⁾	<u> -</u>	<u>(83,109)</u>
Undistributed earnings (deficit) – beginning of year as adjusted	(52,232)	94,142
Earnings (loss) for the year before interest in respect of subordinated debentures	188,648	(22,390)
Distributions paid and payable	<u>(100,780)</u>	<u>(123,984)</u>
Undistributed earnings (deficit) – end of year	<u>35,636</u>	<u>(52,232)</u>

⁽¹⁾ On December 18, 2000, Network TEN acquired 60% of Eye Corp. for A\$189.9 million. Under Australian generally accepted accounting principles (“GAAP”), on February 28, 2002 the Eye Corp. goodwill was written down by A\$137.5 million to A\$113.8 million. In August, 2002, Network TEN determined that there was a further impairment of Eye Corp. goodwill which resulted in an additional write down of A\$40.9 million. Under Canadian GAAP, in accordance with the Company’s adoption of CICA Handbook Section 3062, the Eye Corp. goodwill impairment was recorded as a charge of \$83.1 million to retained earnings as of September 1, 2001 with a further goodwill impairment loss of \$56.1 million recorded as a charge to net earnings for year ended August 31, 2002. Under Canadian GAAP, the fair value of Eye Corp. was determined on a discounted cash flow basis. The decline in fair value was attributable to weaknesses in the out-of-home advertising market and to certain operational issues.

⁽²⁾ During 2003 Network TEN and its wholly controlled Australian entities implemented a new income tax consolidation regime provided for under enacted changes to Australian tax law. During the application of the new regime, the tax values of certain assets were reset. This resulted in the recognition of additional goodwill and intangible assets of approximately \$47.3 million, and equivalent additional future income tax liabilities. In addition, the new regime allowed for the uplift in the tax value of certain assets; as a result a non-recurring income tax recovery of \$63.9 million was recorded related to reduction of future tax liabilities.

In 2002, Network TEN reached an agreement with the Australian Tax Office (“ATO”) regarding a dispute related to the deductibility of debenture interest paid to the Company since 1997. Under the agreement Network TEN will be entitled to deduct debenture interest until June 30, 2004. The settlement resulted in a non-recurring income tax expense of A\$36.2 million to Network TEN in the year ended August 31, 2002.

⁽³⁾ The Company’s economic interest in Network TEN’s earnings for the year ended August 31, 2003 is \$101.3 million (2002 – \$11.8 million loss), comprised of its 14.8% interest in net earnings and interest on the subordinated debentures.

At August 31, 2003 the Company’s share of undistributed earnings of Network TEN was \$20.3 million, (August 31, 2002 - NIL). The Company estimates that the market value of the Company’s investment in Network TEN, based on quoted market rates for Ten Network Holdings Limited at August 31, 2003, was approximately \$1,091 million (August 31, 2002 - \$901 million).

4. OTHER INVESTMENTS

	2003		2002	
	Cost \$000	Market Value ⁽²⁾ \$000	Cost \$000	Market Value ⁽²⁾ \$000
Investments in publicly traded securities – at cost				
Ulster Television plc ⁽¹⁾	92,006	108,841	92,006	148,340
Other	<u>6,121</u>	<u>6,121</u>	<u>59,160</u>	<u>52,355</u>
	98,127	<u>114,962</u>	151,166	<u>200,695</u>
Investments in private companies – at cost	8,602		8,602	
Investments – on an equity basis	<u>6,293</u>		<u>2,593</u>	
	<u>113,022</u>		<u>162,361</u>	

During 2003 the Company sold its investment in SBS Broadcasting S.A. for proceeds of \$44.1 million resulting in an investment loss of \$11.0 million.

During 2002 the Company wrote down the value of various other investments by \$85.5 million to reflect the non-temporary decline in market value.

⁽¹⁾ The Company's 29.9% equity interest (15,763,545 ordinary shares) 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.

⁽²⁾ Market value for publicly traded securities is based on quoted market prices.

5. INVESTMENT IN FILM AND TELEVISION PROGRAMS

	2003		2002	
	Current \$000	Long term \$000	Current \$000	Long term \$000
Broadcast rights ⁽¹⁾	82,912	27,661	98,096	23,172
Non- theatrical films and television programs:				
Released ⁽¹⁾	-	115,906	-	112,297
Acquired library ⁽¹⁾	-	62,770	-	90,314
Programs in progress	-	29,534	-	50,779
Development costs	-	64	-	1,520
Theatrical Films:				
Released ⁽¹⁾	-	34,044	-	37,029
Acquired library ⁽¹⁾	-	-	-	661
Development costs	-	327	-	1,404
	<u>82,912</u>	<u>270,306</u>	<u>98,096</u>	<u>317,176</u>

⁽¹⁾ Net of accumulated amortization.

The Company expects that 40% of the unamortized cost of released film and television programs will be amortized during the year ended August 31, 2004. The Company expects that 62% of the unamortized cost of released film and television programs will be amortized during the three year period ended August 31, 2006. The Company expects that over 80% of the amounts of all such programming will be amortized by August 31, 2007. The Company expects that acquired libraries

will be fully amortized in 17 years. The Company expects that \$1.3 million of participation liabilities will be paid during the year ended August 31, 2004.

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 additional 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 broadcast rights expenditures of \$250 million to \$277 million.

In addition, the Company has entered into various agreements to acquire investments in film and television programs amounting to \$74.6 million at August 31, 2003 (US\$53.8 million) (2002 - \$17.5 million (US\$11.2 million)). Subsidiaries of the Company have provided financial guarantees on certain credit facilities arranged for the acquisition of film and television programs. An amount of \$1.5 million (US\$1.1 million) (2002 - \$17.7 million (US\$11.4 million)) has been guaranteed, in addition to the guarantee of certain interest obligations on such facilities.

6. PROPERTY, PLANT AND EQUIPMENT

	2003		
	Cost	Accumulated	Net
	\$000	amortization	\$000
		\$000	\$000
Land	58,703	-	58,703
Buildings	179,214	29,972	149,242
Machinery and equipment	674,456	259,238	415,218
Leasehold and land improvements	<u>30,445</u>	<u>13,576</u>	<u>16,869</u>
	<u>942,818</u>	<u>302,786</u>	<u>640,032</u>
	2002		
	Cost	Accumulated	Net
	\$000	amortization	\$000
		\$000	\$000
Land	60,002	-	60,002
Buildings	176,946	36,790	140,156
Machinery and equipment	662,621	201,133	461,488
Leasehold and land improvements	<u>29,293</u>	<u>11,715</u>	<u>17,578</u>
	<u>928,862</u>	<u>249,638</u>	<u>679,224</u>

Property, plant and equipment located in Canada was \$596.0 million (2002 - \$637.7 million) and in foreign jurisdictions was \$44.0 million (2002 - \$41.5 million).

7. GOODWILL

Operating segment	2002 \$000	Additions \$000	Divestitures \$000	Other \$000	2003 \$000
Television - Canada	604,437	-	-	(4,025) ⁽¹⁾	600,412
Television - New Zealand	19,613	-	-	-	19,613
Television - Ireland	1,223	-	-	-	1,223
Radio - New Zealand	55,239	-	-	1,775 ⁽²⁾	57,014
Entertainment - Canada	30,855	-	-	-	30,855
Publishing and Online - Canada	<u>1,898,684</u>	<u>-</u>	<u>(151,376)</u>	<u>(807)⁽¹⁾</u>	<u>1,746,501</u>
Total	<u>2,610,051</u>	<u>-</u>	<u>(151,376)</u>	<u>(3,057)</u>	<u>2,455,618</u>

Operating segment	2001 \$000	Additions \$000	Divestitures \$000	Other \$000	2002 \$000
Television - Canada	662,637	-	(44,800)	(13,400) ⁽¹⁾	604,437
Television - New Zealand	19,613	-	-	-	19,613
Television - Ireland	1,223	-	-	-	1,223
Radio - New Zealand	53,039	-	-	2,200 ⁽²⁾	55,239
Entertainment - Canada	30,855	-	-	-	30,855
Publishing and Online - Canada	<u>2,039,607</u>	<u>47,000</u>	<u>(187,923)</u>	<u>-</u>	<u>1,898,684</u>
Total	<u>2,806,974</u>	<u>47,000</u>	<u>(232,723)</u>	<u>(11,200)</u>	<u>2,610,051</u>

⁽¹⁾ Decrease in goodwill was related to the adjustment of WIC and CanWest Publications purchase equations including the reversal of certain unutilized restructuring provisions (note 10).

⁽²⁾ Increase in goodwill was related to increase in currency translation rates.

8. INTANGIBLE ASSETS

	2003		
	Cost \$000	Accumulated Amortization \$000	Net \$000
Finite life:			
Circulation and other	140,000	44,472	95,528
Indefinite life:			
Broadcast licences			639,800
Newspaper mastheads			<u>358,490</u>
			<u>998,290</u>
Total intangible assets			<u><u>1,093,818</u></u>

	2002		
	Cost	Accumulated Amortization	Net
	\$000	\$000	\$000
Finite life:			
Circulation and other	140,000	26,972	113,028
Indefinite life:			
Broadcast licences			624,940
Newspaper mastheads			<u>358,490</u>
			<u>983,430</u>
Total intangible assets			<u><u>1,096,458</u></u>

Amortization of intangible assets of \$17.5 million was recorded in 2003 and 2002.

9. LONG TERM DEBT

	Interest Rate ⁽¹⁾	2003 \$000	Interest Rate ⁽¹⁾	2002 \$000
Term bank loans ⁽²⁾	9.7%	1,417,148	9.7%	1,791,938
Senior subordinated notes ⁽³⁾	8.2%	709,399	7.8%	705,700
Term loans US\$17,162		-	4.0%	26,758
Term loan US\$57,802 ⁽⁴⁾	4.0%	80,058		-
Senior unsecured notes ⁽⁵⁾	7.2%	294,500		-
Term and demand loan €17,201 (2002 - €21,375) ⁽⁶⁾	2.7%	26,177	5.8%	32,686
Note payable ⁽⁷⁾	2.3%	4,250	3.7%	4,250
Junior subordinated notes ⁽⁸⁾	12.1%	<u>783,165</u>	12.1%	<u>948,584</u>
Long term debt		3,314,697		3,509,916
Less portion due within one year		<u>(147,386)</u>		<u>(172,753)</u>
Long term portion		<u><u>3,167,311</u></u>		<u><u>3,337,163</u></u>

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

⁽²⁾ Credit facilities provide for revolving and term loans in the maximum amounts of \$600 million and \$1,768.5 million, respectively. At August 31, 2003 the Company had drawn on availabilities under all of its term facilities, including U.S. dollar loans of US\$648.8 million and had \$250 million drawn under revolving facilities. The revolving credit facility matures in November 2006. The amount of credit available under the \$1,768.5 million term facilities decreases periodically until maturity between November 2006 and May 2009. The Canadian dollar debt bears interest at CDOR plus a margin and the US dollar debt bears interest at LIBOR plus a margin. During 2003, the Company refinanced all of its US dollar debt and \$30.2 million of its Canadian dollar debt resulting in the extension of maturity dates and reduction of interest rates.

Up to \$30.0 million of the revolving credit facility is available on an operating basis, of which no amount was utilized at August 31, 2003.

⁽³⁾ The senior subordinated notes include loans of US\$425.0 million and loans held by the majority shareholder of the Company in the amount of US\$41.9 million (2002 - \$56.1 million) which mature

on May 15, 2011 and bear interest at 10.625%. The notes rank junior to the Company's senior credit facility and are guaranteed by certain subsidiaries of the Company.

(4) The three year revolving facility is collateralized by certain assets of Fireworks Entertainment Inc., matures in October, 2005 and bears interest at floating rates of LIBOR plus a margin. The total US\$85.0 million commitment under this facility is based on acceptable receivables; as at August 31, 2003 total availability of US\$57.8 million was advanced. The facility contains profitability and financial ratio covenants, certain of which were not met at August 31, 2003 and accordingly, the debt has been classified as current. Fireworks is negotiating with its lenders to receive the necessary covenant amendments and waivers. As well, in order for Fireworks' bank debt to remain within acceptable limits, the Company may be required to provide additional financial support to Fireworks over the course of the next fiscal year.

(5) The US\$200.0 million senior unsecured notes mature on April 3, 2013 and bear interest at 7.625%.

(6) These credit facilities provide for demand bank loans at August 31, 2003 in the maximum amount of €40.7 million (2002 - €47.5 million). The debt bears interest at floating rates and is secured by a letter of credit provided by the Company.

(7) The demand note bears interest at prime less 2% and is unsecured.

(8) The junior subordinated notes mature in November 2010, bear interest at a fixed rate of 12.125%. At the Company's option, interest payments to November 2005 may be paid in cash, the issuance of additional notes, or subject to conditions, 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 \$110.1 million in notes issued during 2003 in satisfaction of interest as well as an accrual of \$8.2 million for notes to be issued in January 2004, (2002 - \$104.7 million and \$10.0 million respectively). In May 2003, the Company repaid \$274.0 million in 12.125% junior subordinated notes.

The Company has entered into various cross-currency interest rate and interest rate swaps which have resulted in fixed interest costs on its senior indebtedness. The total notional value of such instruments was \$1,661.3 million at August 31, 2003 (2002 - \$1,796.5 million) at rates ranging from 6.25% to 6.59% plus a margin (2002 - 5.7% to 6.63% plus a margin). As a result of debt repayment during 2003 the notional value of the swaps exceeded the principal outstanding on the debt, resulting in a swap loss of \$23.0 million being recorded in earnings. The Company has also entered into a cross-currency interest rate swap resulting in floating interest rates on the US\$425.0 million, senior subordinated notes and the US\$200.0 million, senior unsecured notes at rates based on CDOR 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, 2003 over the next five years, are:

		\$000
Year ending August 31,	2004	147,386
	2005	47,484
	2006	56,701
	2007	33,657
	2008	137,982

10. RESTRUCTURING ACCRUALS

In 2000, the Company established restructuring accruals of \$37.8 million related to the acquisition and integration of WIC Western International Communications Ltd. ("WIC"). This balance was made up of approximately \$12.5 million in severance costs, \$9.7 million related to integration and rebranding of WIC and \$15.7 million in other restructuring costs.

In 2001, the Company recorded restructuring accruals of \$43.0 million related to the acquisition and restructuring of its publishing operations. Restructuring activities included the centralization of certain call centres, integration of the Company's interactive and news and editorial operations, and centralization of business, finance and information technology functions. This balance was made up of \$24.5 million in involuntary severance costs, \$3.6 million in lease and contract termination costs and \$14.9 million in other restructuring costs.

In the year ended August 31, 2002, the Company established a restructuring accrual of \$7.0 million related to its acquisition and restructuring of the National Post. This balance is primarily related to involuntary severance costs and contract cancellation costs.

In 2003, the Company undertook restructuring activities in its Canadian Media and Entertainment operations. The \$20.0 million cost of this restructuring, consisted of \$14.3 million in employee severance, \$3.4 million in lease termination costs and \$2.3 million in costs related to discontinuing certain film and television projects. The restructuring expense related to the following operating segments: Canadian Broadcasting - \$3.2 million, Canadian Publishing and Online - \$8.8 million, Entertainment - \$6.9 million and Corporate and Other - \$1.1 million.

For the year ended August 31 2003, expenditures charged to the restructuring accruals were \$40.7 million (August 31, 2002- \$26.9 million). The balance of the restructuring accruals is expected to be utilized by August 31, 2004.

In 2003, the Company reversed certain unutilized restructuring accruals in the amount of \$8.1 million as a result of changes in estimates. The reversal was recorded as a reduction of goodwill.

	Severance \$000	Lease/ contract termination \$000	Integration \$000	Other \$000	Total \$000
WIC integration accrual	12,450	-	9,670	15,680	37,800
CanWest Publications accrual	24,556	3,588	250	14,606	43,000
Expenditures - 2001	<u>(3,851)</u>	<u>-</u>	<u>(8,232)</u>	<u>(2,259)</u>	<u>(14,342)</u>
Balance August 31, 2001	33,155	3,588	1,688	28,027	66,458
National Post accrual	4,539	2,461	-	-	7,000
Expenditures - 2002	<u>(14,728)</u>	<u>(3,328)</u>	<u>(1,438)</u>	<u>(7,452)</u>	<u>(26,946)</u>
Balance August 31, 2002	22,966	2,721	250	20,575	46,512
Canadian Media operations accrual	14,333	3,438	-	2,252	20,023
Expenditures - 2003	(22,062)	(2,053)	-	(16,553)	(40,668)
Reversals	<u>(4,117)</u>	<u>-</u>	<u>-</u>	<u>(3,934)</u>	<u>(8,051)</u>
Balance August 31, 2003	<u>11,120</u>	<u>4,106</u>	<u>250</u>	<u>2,340</u>	<u>17,816</u>

11. 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 were issued on the amalgamation of subsidiaries of the Company, including CanWest Broadcasting Ltd. and were held by the former minority shareholders of CanWest Broadcasting Ltd. 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 subordinate voting or non-voting shares at the date of conversion. On December 18, 2002 the Company elected to redeem all of its outstanding series 2 preference shares recorded at \$50.0 million for an aggregate redemption price of \$57.7 million.

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

<i>Issued</i>	2003	2002
	\$000	\$000
76,785,976 (2002 - 76,785,976) multiple voting shares	3,199	3,199
98,280,191 (2002 – 98,371,658) subordinate voting shares	815,545	816,418
2,066,248 (2002 – 1,903,401) non-voting shares	28,080	26,805
Nil (2002 – 21,783) Series 2 preference shares	—	<u>50,000</u>
	<u>846,824</u>	<u>896,422</u>

Changes in outstanding share capital during the two years ended August 31, 2003 were as follows:

	Number of shares	\$000
Multiple voting share capital:		
Balance – August 31, 2001, 2002 and 2003	<u>76,785,976</u>	<u>3,199</u>
Subordinate voting share capital:		
Balance – August 31, 2001	70,545,434	419,583
Changes pursuant to:		
Share purchase plans	6,077	66
Exercise of stock options	9,645	43
Redeemed fractions	(11)	-
Conversion from series 1 preference share	405,000	6,156
Conversion from non-voting shares – net	<u>27,405,513</u>	<u>390,570</u>
Balance – August 31, 2002	98,371,658	816,418
Changes pursuant to:		
Share purchase plans	58,454	369
Exercise of stock options	13,031	33
Redeemed fractions	(4)	-
Conversion to non-voting shares – net	<u>(162,848)</u>	<u>(1,275)</u>
Balance – August 31, 2003	<u>98,280,291</u>	<u>815,545</u>
Non-voting share capital:		
Balance – August 31, 2001	29,308,918	417,375
Changes pursuant to:		
Dividend reinvestment plan	(4)	-
Conversion to subordinate voting shares – net	<u>(27,405,513)</u>	<u>(390,570)</u>
Balance – August 31, 2002	1,903,401	26,805
Changes pursuant to:		
Redeemed fractions	(1)	-
Conversion from subordinate voting shares – net	<u>162,848</u>	<u>1,275</u>
Balance – August 31, 2003	<u>2,066,248</u>	<u>28,080</u>
Series 1 preference share capital:		
Balance – August 31, 2001	2,700,000	6,156
Conversion to subordinate voting shares	<u>(2,700,000)</u>	<u>(6,156)</u>
Balance – August 31, 2002 and 2003	<u>-</u>	<u>-</u>
Series 2 preference share capital:		
Balance – August 31, 2001 and 2002	21,783	50,000
Redemption of shares	<u>(21,783)</u>	<u>(50,000)</u>
Balance – August 31, 2003	<u>-</u>	<u>-</u>

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, are fully exercisable on vesting and expire ten years after issuance, except that under certain specified conditions the options vest and 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.

The Company utilizes the intrinsic value approach to account for share-based compensation.

The following are proforma results reflecting the fair value based method of accounting for share-based compensation.

The fair value of the options granted during 2003 was estimated using the Black-Scholes option pricing model with the assumptions of no dividend yield (2002 – nil), an expected volatility of 54% (2002 – 40%), risk free interest rates of 4.5% to 4.9% (2002 – 4.8% to 5.4%) and an expected life of 7 to 9 years (2002 – 6 to 9 years).

The total fair value of 394,500 stock options that were granted by the Company during 2003 was \$1.5 million, a weighted average fair value per option of \$3.81 (during 2002, 233,458 stock options were granted with a total fair value of \$1.5 million, a weighted average fair value per option of \$6.61). The proforma cost of share compensation expense for the year ended August 31, 2003 would be \$1.6 million (2002 – \$2.3 million). A value of \$4.4 million will be charged to proforma net earnings in future years according to the vesting terms of the options. The resulting proforma net earnings and diluted earnings per share for the year ended August 31, 2003 are \$44.5 million and \$0.21 respectively (2002 - \$10.7 million and \$0.06).

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

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

	<u>2003</u>		<u>2002</u>	
	Options	Average Price	Options	Average Price
Options outstanding, beginning of year	1,819,268	15.24	1,646,321	15.75
Changes pursuant to:				
Options granted	394,500	7.21	233,458	11.52
Options exercised	(13,031)	2.51	(9,645)	4.30
Options expired	<u>(125,176)</u>	11.67	<u>(50,866)</u>	16.68
Options outstanding, end of year	<u>2,075,561</u>	13.95	<u>1,819,268</u>	15.24

The following options to purchase subordinate voting shares or non-voting shares were outstanding and exercisable as at August 31, 2003:

Range of exercise prices	Number outstanding	Weighted average remaining life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$1 - \$4.99	16,429	1.1	\$ 4.27	16,429	\$ 4.27
\$5 - \$9.99	426,031	9.0	\$ 7.32	63,531	\$ 7.18
\$10 - \$14.99	743,229	4.2	\$12.75	725,025	\$12.79
\$15 - \$19.99	601,907	6.6	\$16.25	259,964	\$16.34
\$20 - \$24.99	280,370	4.6	\$22.54	270,486	\$22.59
\$25 and over	<u>7,595</u>	4.3	\$25.67	<u>7,595</u>	\$25.67
	<u>2,075,561</u>	5.9	\$13.95	<u>1,343,030</u>	\$15.15

12. EARNINGS PER SHARE

Basic earnings per share are calculated using the daily weighted average number of shares outstanding.

Diluted earnings per share are calculated using the daily weighted average number of shares that would have been outstanding during the year had all 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.

The following table provides a reconciliation of the numerators and denominators used in computing basic and diluted earnings per share.

	2003 \$000	2002 \$000
Net earnings	46,088	13,018
Excess of redemption price over carrying value of preferred shares	<u>(7,672)</u>	<u>-</u>
Earnings available to common shareholders	<u>38,416</u>	<u>13,018</u>
Basic weighted average shares outstanding during the period	177,140,694	176,956,800
Dilutive effect of options	8,025	26,793
Dilutive effect of preference shares	-	<u>5,274,619</u>
Diluted weighted average shares outstanding during the period	<u>177,148,719</u>	<u>182,258,212</u>
Options outstanding that would have been anti-dilutive	<u>2,056,178</u>	<u>1,721,000</u>

13. 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 arise from changes in the Australian, New Zealand, Euro, 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:

	2003	2002
	\$000	\$000
Deferred loss, beginning of year	41,534	69,017
Deferred foreign currency gain during the year	(11,810)	(26,483)
Realization of translation gain (loss) due to distributions	<u>922</u>	<u>(1,000)</u>
Deferred loss, end of year	<u>30,646</u>	<u>41,534</u>

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

	2003	2002
	\$000	\$000
Australian dollar	5,705	8,120
New Zealand dollar	21,506	40,266
Euro	282	272
United States dollar	<u>3,153</u>	<u>(7,124)</u>
	<u>30,646</u>	<u>41,534</u>

14. 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:

	2003	2002
	\$000	\$000
Income taxes at combined Canadian statutory rate of 36.6% (2002 – 38.7%)	(18,935)	11,661
Non-taxable portion of capital gains	(3,705)	(17,049)
Non-deductible amortization expense	-	6,766
Effect of valuation allowance on future tax assets	18,233	3,090
Effect of foreign income tax rates differing from Canadian income tax rates	(1,477)	(1,924)
Large corporation tax	3,853	3,250
Effect of future tax rates differing from current rates	3,011	-
Non deductible expenses	1,832	1,125
Other	<u>293</u>	<u>189</u>
Provision for (recovery of) income taxes	<u>3,105</u>	<u>7,108</u>

An analysis of net earnings (loss) before tax by jurisdiction follows:

	2003	2002
	\$000	\$000
Canada	(48,439)	9,463
Foreign	<u>(3,297)</u>	<u>20,671</u>
Net earnings (loss) before tax	<u>(51,736)</u>	<u>30,134</u>

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

	2003	2002
	\$000	\$000
Current income taxes		
Canada	23,157	(4,403)
Foreign	<u>371</u>	<u>302</u>
	<u>23,528</u>	<u>(4,101)</u>
Future income taxes		
Canada	(20,685)	11,059
Foreign	<u>262</u>	<u>150</u>
	<u>(20,423)</u>	<u>11,209</u>
Provision for (recovery of) income taxes	<u>3,105</u>	<u>7,108</u>

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

	2003	2002
	\$000	\$000
Future tax assets		
Non-capital loss carryforwards	132,311	107,909
Accounts payable and other accruals	29,756	45,417
Pension and post retirement benefits	7,139	-
Less: Valuation allowance	<u>(62,620)</u>	<u>(61,439)</u>
Total future tax assets	<u>106,586</u>	<u>91,887</u>
Future tax liabilities		
Capital cost allowances in excess of book amortization	75,112	56,407
Pension obligations	2,404	14,823
Intangible assets	387,176	408,797
Other assets	<u>28,395</u>	<u>13,409</u>
Total future tax liabilities	<u>493,087</u>	<u>493,436</u>
Net future tax liability	386,501	401,549
Current future tax asset	20,223	30,013
Current future tax liability	<u>(6,072)</u>	<u>(6,072)</u>
Net long term future tax liability	<u>400,652</u>	<u>425,490</u>

As at August 31, 2003, the Company had non-capital loss carry forwards for income tax purposes of \$468.4 million, that expire as follows: 2006 - \$2.0 million, 2007 - \$12.0 million, 2008 - \$41.8 million, 2009 - \$127.6 million, thereafter - \$285.0 million.

15. STATEMENTS OF CASH FLOWS

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

	2003	2002
	\$000	\$000
CASH GENERATED (UTILIZED) BY:		
Accounts receivable	(30,653)	6,415
Investment in film and television programs	(1,613)	(25,733)
Inventory	4,681	12,342
Other current assets	2,478	1,400
Other assets	(15,688)	10,379
Accounts payable and accrued liabilities	(60,203)	(60,792)
Income taxes payable	58,873	(6,724)
Deferred revenue	(11,897)	(18,620)
Film and program accounts payable	44,810	19,334
	<u>(9,212)</u>	<u>(61,999)</u>

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

	2003	2002
	\$000	\$000
Interest	319,774	261,265
Income taxes	9,732	23,961

16. RETIREMENT ASSETS AND OBLIGATIONS

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

	Pension benefits		Post retirement benefits	
	2003 \$000	2002 \$000 Revised	2003 \$000	2002 \$000 Revised
Plan Assets				
Fair value – beginning of year	254,906	240,533	-	-
Plan assets acquired (disposed)	(1,330)	8,163	-	-
Investment income (loss)	(10,368)	3,739	-	-
Employer contributions	10,693	3,699	275	400
Employee contributions	6,322	5,800	-	-
Benefits paid and refund of contributions	(9,346)	(7,027)	(275)	(400)
Fair value – end of year	<u>250,877</u>	<u>254,907</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	277,612	226,361	40,429	35,121
Obligation acquired (disposed)	(2,000)	8,084	-	-
Amendment to plan	16,808	-	-	-
Gain on sale of assets	-	-	(3,195)	-
Accrued interest on benefits	20,622	18,252	2,868	2,503
Current service cost	17,055	15,174	1,235	1,198
Past service costs	-	11,868	-	-
Benefits paid	(9,346)	(7,027)	(275)	(400)
Actuarial loss (gain)	<u>16,685</u>	<u>4,900</u>	<u>(10,338)</u>	<u>2,007</u>
Accrued benefit obligation – end of year	<u>337,436</u>	<u>277,612</u>	<u>30,724</u>	<u>40,429</u>

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

Plan deficit	(86,559)	(22,705)	(30,724)	(40,429)
Unamortized net actuarial loss (gain)	84,481	41,639	(8,870)	1,500
Unamortized transitional (asset) obligation	6,220	(4,688)	3,329	4,938
Unamortized past service costs	16,142	11,542	1,110	-
Valuation allowance	<u>(770)</u>	<u>(916)</u>	<u>-</u>	<u>-</u>
Accrued plan asset (liability)	<u>19,514</u>	<u>24,872</u>	<u>(35,155)</u>	<u>(33,991)</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	17,055	15,174	1,235	1,198
Employee contributions	(6,322)	(5,800)	-	-
Accrued interest on benefits	20,622	18,252	2,868	2,503
Expected return on plan assets	(18,060)	(19,174)	-	-
Amortization of transitional (asset) obligation	610	(358)	439	439
Amortization of past service costs	808	527	-	-
Amortization of net actuarial loss	1,516	57	92	-
Changes in valuation allowance	<u>(146)</u>	<u>(86)</u>	<u>-</u>	<u>-</u>
Benefit expense	16,083	8,592	4,634	4,140
Employer contribution to the defined contribution plan	<u>2,299</u>	<u>1,552</u>	<u>-</u>	<u>-</u>
Total pension and post retirement benefit expense	<u>18,382</u>	<u>10,144</u>	<u>4,634</u>	<u>4,140</u>

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

Discount rate	6.50-6.75%	6.75-7.25%	6.50-6.75%	7.25%
Expected long-term rate of return on pension plan assets	6.75-7.25%	7.00-7.25%	7.25%	7.00%
Rate of compensation increase	3.50-4.50%	3.50-4.00%	3.50-5.00%	4.00%

17. FINANCIAL INSTRUMENTS

Financial instruments consist of the following:

	2003		2002	
	Carrying Value \$000	Fair Value \$000	Carrying Value \$000	Fair Value \$000
Short term assets	647,909	647,909	578,396	578,396
Other investments	113,022	123,564	162,361	209,297
Short term liabilities	435,883	435,883	456,926	456,926
Long term debt	3,314,697	2,980,756	3,509,916	3,453,916
Other long term liabilities	150,190	150,190	65,169	65,169
Interest rate and cross-currency swap liabilities	23,015	356,956	-	56,000

The fair values of short-term assets and liabilities, which include cash, accounts receivable, distributions receivable from Network TEN, income taxes recoverable, and other assets, bank loans and advances, accounts payable and accrued liabilities and film and program accounts payable approximate their fair values 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 television program accounts payable, approximate their carrying values.

The fair values of unrealized net gains and losses on interest rate and cross-currency interest rate 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 due to the concentration of individual balances with large advertising agencies. The Company performs regular credit assessments of its customers and provides allowances for potentially uncollectible 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 9.

18. JOINTLY CONTROLLED ENTERPRISE

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

	2003	2002
	\$000	\$000
Balance sheets		
Assets		
Current assets	10,182	9,329
Long term assets	<u>9,823</u>	<u>12,732</u>
	<u>20,005</u>	<u>22,061</u>
Liabilities		
Current liabilities	33,692	32,906
Long term liabilities	<u>-</u>	<u>4,643</u>
	<u>33,692</u>	<u>37,549</u>
Statements of earnings		
Revenue	29,461	25,643
Expenses	<u>27,674</u>	<u>24,630</u>
	<u>1,787</u>	<u>1,013</u>
Statements of cash flows		
Cash generated (utilized) by:		
Operating activities	6,833	242
Investing activities	(70)	(887)
Financing activities	<u>(6,602)</u>	<u>600</u>
Net increase in cash	<u>161</u>	<u>(45)</u>

19. RELATED PARTY TRANSACTIONS

Senior subordinated notes held by CanWest Communications Corporation, the parent company of CanWest Global Communications Corp. totaled \$58.1 million (US\$41.9 million) at August 31, 2003 (2002 - \$56.1 million). This debt, issued in May 2001, matures May 15, 2011 and bears interest at 10.625%. Interest expense related to this debt totaled \$6.4 million in fiscal 2003 (2002 - \$6.0 million). During 2003, CanWest Communications Corporation exchanged these Canadian dollar denominated notes for United States dollar denominated notes. The exchange was completed pursuant to the provisions of the original note indenture. In September 2003, the necessary filings were made with the Securities Exchange Commission to register the notes for trading.

In June 2003, a company in which an affiliate of CanWest Communications Corporation holds a 50% interest, acquired the TD Centre in Winnipeg, Manitoba, a building in which the Company is a tenant. Rent paid to this company in fiscal 2003 amounted to \$0.2 million.

20. COMMITMENTS, CONTINGENCIES and GUARANTEES

COMMITMENTS

The Company's future minimum payments under the terms of its operating lease are as follows:

	\$000
2004	31,165
2005	29,479
2006	25,964
2007	20,939
2008	20,514
thereafter	53,050

CONTINGENCIES

a) The Company has entered into a Management Services Agreement with The Ravelston Corporation Limited, a company affiliated with The Lord Black of Crossharbour and Mr. David Radler, who are directors of the Company. The agreement provides for annual payments of \$6.0 million. Either party upon six months notice may terminate the agreement. In the event of termination by the Company, a fee of \$45 million is payable. In the event of termination by The Ravelston Corporation Limited, or in the event that The Ravelston Corporation Limited is unable to perform the services in accordance with the agreement, a fee in the amount of \$22.5 million is payable.

b) In March 2001, a statement of claim was filed against the Company and certain of the Company's subsidiaries by CanWest Broadcasting Ltd.'s ("CBL's") former minority interests requesting, among other things, that their interests in CBL be purchased without minority discount. In addition, the claim alleges the Company wrongfully terminated certain agreements and acted in an oppressive and prejudicial manner towards the plaintiffs. The lawsuit seeks damages in excess of \$345 million. 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.

c) The Company is involved in various legal matters arising in the ordinary course of business. The resolution of these matters is not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows.

d) The Company has claimed \$54.1 million from Hollinger related to certain unresolved matters related to the acquisition of CanWest Publications including the National Post. Certain of these matters are in dispute and may result in the claim being referred to arbitration or formal court adjudication. (see note 2(b)).

GUARANTEES

In connection with the disposition of assets, the Company has provided customary representations and warranties that range in duration. In addition, as is customary, the Company has agreed to indemnify the buyers of certain assets in respect of certain liabilities pertaining to events occurring prior to the respective sales relating to taxation, environmental, litigation and other matters. The Company is unable to estimate the maximum potential liability for these indemnifications as the underlying agreements often do not specify a maximum amount and the amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined.

The Company has agreed to indemnify its current and former directors and officers to the extent permitted by law against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by the directors and officers as a result of any lawsuit or any other judicial, administrative or investigative proceeding in which the directors and officers are sued as result of their service. These indemnification claims will be subject to any statutory or other legal limitation period. The nature of such indemnification prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to counter parties. The Company has \$30 million in directors' and officers' liability insurance coverage.

21. SEGMENTED INFORMATION

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

Each segment below operates as a strategic business unit with separate management. Segment performance is measured primarily on the basis of operating profit. Management includes its proportionate interest in the results of its equity accounted Australian television and outdoor operations in strategic decision making, therefore, these proportionate results are included in the following segmented disclosure. Segmented information in Canadian dollars is as follows:

Operating Segments	Revenue		Operating profit		Total assets		Capital expenditures	
	2003 \$000	2002 \$000	2003 \$000	2002 \$000	2003 \$000	2002 \$000	2003 \$000	2002 \$000
Television								
Canada	728,318	691,888	220,099	190,752	1,485,263	1,362,562	9,364	14,392
Australia - Network TEN	336,362	281,427	106,975	81,782	372,039	345,051	11,097	12,388
New Zealand	95,752	69,079	10,095	(1,938)	156,662	141,677	3,056	1,518
Ireland	<u>32,490</u>	<u>28,317</u>	<u>9,729</u>	<u>7,654</u>	<u>19,923</u>	<u>21,530</u>	<u>117</u>	<u>479</u>
	1,192,922	1,070,711	346,898	278,250	2,033,887	1,870,820	23,634	28,777
Radio - New Zealand	73,400	60,724	20,751	16,361	163,118	150,176	2,666	1,207
Entertainment - Canada	184,344	152,439	(34,524)	(743)	406,497	425,146	117	396
Publishing and Online - Canada	1,164,012	1,270,335	258,496	285,027	2,836,809	3,236,317	9,348	17,063
Outdoor - Australia	<u>36,656</u>	<u>38,074</u>	<u>2,560</u>	<u>874</u>	<u>23,789</u>	<u>27,867</u>	<u>693</u>	<u>2,379</u>
	2,651,334	2,592,283	594,181	579,769	5,464,100	5,710,326	36,458	49,822
Corporate and other	-	-	(23,213)	(26,807)	385,268	358,178	13,887	18,283
	2,651,334	2,592,283	570,968	552,962	5,849,368	6,068,504	50,345	68,105
Restructuring and film and television impairment expenses	-	-	(53,087)	-	-	-	-	-
Total Combined	2,651,334	2,592,283	517,881	552,962	5,849,368	6,068,504	50,345	68,105
Elimination of equity accounted affiliates ⁽¹⁾	<u>(373,018)</u>	<u>(319,500)</u>	<u>(99,219)</u>	<u>(82,656)</u>	<u>(319,373)</u>	<u>(368,424)</u>	<u>(11,790)</u>	<u>(14,767)</u>
Total Consolidated	<u>2,278,316</u>	<u>2,272,783</u>	<u>418,662</u>	<u>470,306</u>	<u>5,529,995</u>	<u>5,700,080</u>	<u>38,555</u>	<u>53,338</u>

⁽¹⁾ Elimination of proportionate interest in Australia's Network TEN and Outdoor.

22. UNITED STATES ACCOUNTING PRINCIPLES

These consolidated financial statements have been prepared in accordance with Canadian 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 deferred 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 an acquisition 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 using the equity method during the period that this investment was held in trust pending completion of the regulatory approval process. Under US GAAP, the investment was accounted for on a cost basis then, as a result of receiving approval to complete the purchase of WIC, the Company changed its method of accounting for WIC to the equity method. The change in accounting policy was 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 consolidated its investment in WIC for both Canadian and US GAAP purposes.

Intangible assets

Under Canadian GAAP, certain costs related to the acquisition of broadcast licences, other than through a business combination, were recorded as intangible assets. Under U.S. GAAP such costs are expensed as incurred.

Investment in marketable securities

In the U.S., investment assets classified as “available for sale” are carried at market, and unrealized temporary 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 lower of cost and net realizable value.

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.

Pension Valuation Allowances

Under Canadian GAAP a valuation allowance is used to reduce the carrying value of pension assets to the future benefit expected to be realized. Changes in the valuation allowance are recorded as adjustments to pension expense. Under US GAAP valuation allowances are not recorded.

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

Canadian GAAP requires the accounts of jointly controlled enterprises to be proportionately consolidated. In the U.S., investments in jointly controlled entities are accounted as equity investments. This accounting difference applies to the Company’s investment in TV3 Ireland. The proportionate interest is disclosed in note 18. Accordingly, under accommodation provided by the SEC this difference is not included in the following reconciliation.

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 in the statement of earnings. In addition, under U.S. GAAP foreign denominated debt is adjusted through earnings to reflect currency translation rates at each balance sheet date. Under Canadian GAAP hedging derivatives are eligible for hedge accounting if certain criteria are met. Non-hedging derivatives are recognized at their fair value as either assets or liabilities.

U.S. GAAP for Equity accounted affiliates

For Canadian GAAP the Company accounts for Network TEN’s derivative instruments using hedge accounting. Under U.S. GAAP the change in fair value of the instruments would be reflected in earnings as described above.

Cumulative effect of the prospective adoption of new accounting pronouncements

Under U.S. GAAP, the transitional impairment of goodwill related to Network TEN is recorded as a charge to net earnings in accordance with Statement of Financial Accounting Standard No. 142, *Goodwill and Other Intangibles*, whereas under Canadian GAAP it was recorded as a charge to opening retained earnings. The principles and methods for computing impairment in accordance with FAS 142 are similar to those prescribed under Canadian GAAP, as described in notes 1 and 3.

In addition, under U.S. GAAP the effect of the adoption of SOP 00-2 as of September 1, 2001 was recorded as a charge to earnings rather than retained earnings.

Integration costs related to CanWest Publications

Under Canadian GAAP certain integration costs related to the CanWest Publications acquisition were accrued in the purchase equation. Under US GAAP, these costs are expensed as incurred.

Revision of 2002 and Prior Years' Information

The Company's 2001 and 2002 net income and shareholders' equity under U.S. GAAP were revised to reflect certain adjustments to previously reported net income and shareholders' equity for the accounting for derivative financial instruments. The Company has determined, notwithstanding their designation as hedges and achievement of their intended economic purpose, its cross currency interest rate and interest rate swaps did not meet all of the criteria for hedge accounting under FAS 133. As a result, the unrealized gains and losses on derivative financial instruments are included in net income as they arise whereas previously these amounts were included in other comprehensive income. These adjustments resulted in increasing U.S. GAAP net income for 2002 by \$27.5 million (net of income taxes of \$1.3 million) and decreasing U.S. GAAP net income for 2001 by \$55.6 million (net of income taxes of \$37.0 million). The effect on U.S. GAAP shareholders' equity resulting from these adjustments was an increase of \$4.8 million (net of income taxes of \$9.4 million) as at August 31, 2002 and a decrease of \$5.9 million (net of income taxes of \$2.5 million) as at August 31, 2001.

RECONCILIATION TO US GAAP

Consolidated Statements of Earnings

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

	2003 \$000	2002 \$000 revised
Net earnings in accordance with Canadian GAAP	46,088	13,018
Pre-operating costs net of tax of (\$939) (2002 – \$1,331)	2,921	(100)
Realization of cumulative translation adjustments net of tax of nil	(922)	1,000
Programming costs imposed by regulatory requirement net of tax of \$2,567 (2002 – \$2,438)	(3,403)	(3,232)
Integration costs related to CanWest Publications net of tax of \$109 (2002 - \$827)	(193)	(1,470)
Intangible assets net of tax of \$860	(1,465)	-
Pension valuation allowances net of tax of \$54 (2002 - \$32)	(92)	(54)
Equity accounted affiliates in trust net of tax of nil	-	3,375
US GAAP adjustments in equity accounted affiliates net of tax of (\$1,955)	(3,476)	-
Gain (loss) on interest rate and cross-currency swaps and translation of foreign denominated debt net of tax of \$30,272 (2002 - \$1,199)	<u>(40,605)</u>	<u>27,535</u>
Net earnings (loss) in accordance with U.S. GAAP before cumulative effect of adoption of new accounting policies	(1,147)	40,072
Cumulative effect of adoption of new accounting policies net of tax of nil (2002 - \$2,500)	<u>-</u>	<u>(170,695)</u>
Net earnings (loss) in accordance with U.S. GAAP	<u>(1,147)</u>	<u>(130,623)</u>
Earnings per share:		
Net earnings (loss) before cumulative effect of adoption of new accounting policies		
Basic	(\$0.05)	\$0.23
Diluted	(\$0.05)	\$0.22
Net earnings (loss)		
Basic	(\$0.05)	(\$0.74)
Diluted	(\$0.05)	(\$0.72)

Statements of Comprehensive Income

Comprehensive income (loss) – current periods:

	2003 \$000	2002 \$000 revised
Net earnings (loss) in accordance with U.S. GAAP	<u>(1,147)</u>	<u>(130,623)</u>
Other comprehensive income, net of tax:		
Foreign currency translation gain	<u>11,810</u>	<u>26,483</u>
Unrealized gains (losses) on securities available for sale, net of tax of nil (2002 – nil)	(43,647)	31,387
Realization of prior years unrealized losses on sale / write-down of securities available for sale, net of tax of nil (2002 – nil)	<u>10,952</u>	<u>60,000</u>
	<u>(32,695)</u>	<u>91,387</u>
Reclassification of transition adjustment related to interest rate swaps net of tax of \$68 (2002 - \$69)	118	115
	<u>(20,767)</u>	<u>117,985</u>
Comprehensive income (loss)	<u>(21,914)</u>	<u>(12,638)</u>

Comprehensive income (loss) – accumulated balances:

	Foreign currency translation	Unrealized gains (losses) on securities	Transition adjustment on swaps	Total revised
Balance, August 31, 2001	(74,447)	(41,858)	(2,463)	(118,768)
Change during 2002	<u>26,483</u>	<u>91,387</u>	<u>115</u>	<u>117,985</u>
Balance, August 31, 2002	(47,964)	49,529	(2,348)	(783)
Change during 2003	<u>11,810</u>	<u>(32,695)</u>	<u>118</u>	<u>(20,767)</u>
Balance, August 31, 2003	<u>(36,154)</u>	<u>16,834</u>	<u>(2,230)</u>	<u>(21,550)</u>

Consolidated Balance Sheets

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

	2003 \$000	2002 \$000 revised
ASSETS		
Current assets	755,370	683,677
Investment in Network TEN	52,070	4,494
Property, plant and equipment	636,701	675,041
Intangibles and goodwill	3,564,926	3,743,404
Other investments	116,007	196,253
Other assets	<u>396,025</u>	<u>485,089</u>
	<u>5,521,099</u>	<u>5,787,958</u>
LIABILITIES		
Current liabilities	600,281	621,609
Long term debt	2,973,329	3,339,507
Other liabilities	460,754	196,938
Future income taxes	<u>343,093</u>	<u>407,078</u>
	<u>4,377,457</u>	<u>4,565,132</u>
SHAREHOLDERS' EQUITY		
Capital stock	846,824	896,422
Contributed surplus	3,647	3,647
Retained earnings	314,721	323,540
Accumulated other comprehensive income (loss)	<u>(21,550)</u>	<u>(783)</u>
	<u>1,143,642</u>	<u>1,222,826</u>
	<u>5,521,099</u>	<u>5,787,958</u>

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

	2003 \$000	2002 \$000 revised
Shareholders' equity in accordance with Canadian GAAP	1,175,617	1,175,911
Adjustments relating to pre-operating costs, net of tax of \$2,669 (2002 – \$3,608)	(3,552)	(6,473)
Adjustment to goodwill resulting from retroactive equity accounting of WIC upon regulatory approval net of tax of nil	38,503	38,503
Programming costs imposed by regulatory requirement on business combination net of tax of \$5,779 (2002 – \$3,212)	(7,661)	(4,258)
Integration costs related to CanWest Publications net of tax of \$936 (2002 - \$827)	(1,663)	(1,470)
Reversal of amortization of goodwill related to future programming costs imposed by regulatory requirement on business combination net of tax of nil	938	938
Adjustment from expensing intangible assets net of tax of \$860	(1,465)	-
Pension valuation allowance net of tax of \$285 (2002 - \$339)	485	577
Adjustments to equity accounted affiliates net of tax of \$1,955	(3,476)	-
Adjustment to reflect losses on interest rate and cross-currency swaps net of tax of \$65,951 (2002 – \$35,679)	(68,688)	(28,083)
Transition adjustment on interest rate swaps, net of tax of \$1,451 (2002 - \$1,383)	(2,230)	(2,348)
Unrealized gain (loss) on other investments net of tax of nil (2002 – nil)	<u>16,834</u>	<u>49,529</u>
Shareholders' equity in accordance with U.S. GAAP	<u>1,143,642</u>	<u>1,222,826</u>

Other

The following amounts are included in accounts receivable:

	2003 \$000	2002 \$000
Allowance for doubtful accounts	14,700	14,800

The following amounts are included in operating expenses:

	2003	2002
	\$000	\$000
Bad debt expense	6,366	5,700
Rent expense	20,545	17,300

The following amounts are included in accrued liabilities:

	2003	2002
	\$000	\$000
Accrued salaries	76,000	63,000

Amortization expense related to existing finite life intangibles will be \$17.5 million per year to 2005, \$8.8 million in 2006 and \$1.5 million in 2007 and 2008.