

CANWEST GLOBAL COMMUNICATIONS CORP.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED MAY 31, 2004 AND 2003

(UNAUDITED)

July 15, 2004

To the Audit Committee of CanWest Global Communications Corp.

In accordance with our engagement letter dated January 21, 2004, we have reviewed the accompanying interim consolidated balance sheet of **CanWest Global Communications Corp.** (the "Company") as at May 31, 2004 and the related interim consolidated statements of earnings, retained earnings and cash flows for the three and nine months periods then ended. These interim consolidated financial statements are the responsibility of the Company's management.

We performed our review in accordance with Canadian generally accepted standards for a review of interim financial statements by an entity's auditor. Such an interim review consists principally of applying analytical procedures to financial data, and making enquiries of, and having discussions with, persons responsible for financial and accounting matters. An interim review is substantially less in scope than an audit, whose objective is the expression of an opinion regarding the interim financial statements; accordingly, we do not express such an opinion. An interim review does not provide assurance that we would become aware of any or all significant matters that might be identified in an audit.

Based on our review, we are not aware of any material modification that needs to be made for these interim consolidated financial statements to be in accordance with Canadian generally accepted accounting principles.

This report is solely for the use of the Audit Committee of the Company to assist it in discharging its regulatory obligation to review these interim consolidated financial statements, and should not be used for any other purpose. Any use that a third party makes of this report, or any reliance or decisions made based on it, are the responsibility of such third parties. We accept no responsibility for loss or damages, if any, suffered by any third party as a result of decisions made or actions taken based on this report.

PricewaterhouseCoopers LLP

Chartered Accountants

CANWEST GLOBAL COMMUNICATIONS CORP.
CONSOLIDATED STATEMENTS OF EARNINGS
(UNAUDITED)
(In thousands of Canadian dollars except as otherwise noted)

| | <u>For the three months ended</u> | | <u>For the nine months ended</u> | |
|---|-----------------------------------|----------------------|----------------------------------|----------------------|
| | May 31, 2004 | May 31, 2003 | May 31, 2004 | May 31, 2003 |
| Revenue | 564,599 | 558,497 | 1,610,080 | 1,643,037 |
| Operating expenses | 281,699 | 277,507 | 813,787 | 803,689 |
| Selling, general and administrative expenses | 139,761 | 125,770 | 408,021 | 412,320 |
| Restructuring expenses | - | 14,136 | - | 14,136 |
| | <u>143,139</u> | <u>141,084</u> | <u>388,272</u> | <u>412,892</u> |
| Amortization of intangibles | 4,375 | 4,375 | 13,125 | 13,125 |
| Amortization of property, plant and equipment | 19,364 | 17,385 | 56,353 | 54,771 |
| Other amortization | <u>1,281</u> | <u>1,313</u> | <u>3,670</u> | <u>5,165</u> |
| Operating income | 118,119 | 118,011 | 315,124 | 339,831 |
| Interest expense | (77,651) | (89,340) | (237,750) | (268,502) |
| Interest income | 291 | - | 6,242 | - |
| Amortization of deferred financing costs | (1,957) | (2,372) | (5,862) | (7,185) |
| Interest rate swap gains (losses) | 6,843 | (4,781) | (10,200) | (13,634) |
| Foreign exchange gains (losses) | (1,360) | (495) | 3,766 | (559) |
| Investment gains and losses net of write-down | 354 | (2,277) | (2,460) | 19,831 |
| Dividend income | <u>2,323</u> | <u>1,999</u> | <u>3,738</u> | <u>3,532</u> |
| | 46,962 | 20,745 | 72,598 | 73,314 |
| Provision for income taxes (note 4) | <u>9,842</u> | <u>8,451</u> | <u>12,790</u> | <u>15,303</u> |
| Earnings before the following | 37,120 | 12,294 | 59,808 | 58,011 |
| Interest in earnings of Network TEN | 20,573 | 12,428 | 77,165 | 49,089 |
| Interest in loss of other equity accounted affiliates | (207) | (256) | (556) | (1,035) |
| Realized currency translation adjustments | <u>(5,011)</u> | <u>1,593</u> | <u>(1,885)</u> | <u>693</u> |
| Net earnings from continuing operations | 52,475 | 26,059 | 134,532 | 106,758 |
| Earnings (loss) from discontinued operations (note 8) | <u>1,862</u> | <u>(13,575)</u> | <u>(209,976)</u> | <u>(15,958)</u> |
| Net earnings (loss) for the period | <u><u>54,337</u></u> | <u><u>12,484</u></u> | <u><u>(75,444)</u></u> | <u><u>90,800</u></u> |
| Earnings per share from continuing operations: | | | | |
| Basic | \$0.30 | \$0.15 | \$0.76 | \$0.56 |
| Diluted | \$0.30 | \$0.15 | \$0.76 | \$0.56 |
| Earnings (loss) per share: | | | | |
| Basic | \$0.31 | \$0.07 | (\$0.43) | \$0.47 |
| Diluted | \$0.31 | \$0.07 | (\$0.43) | \$0.47 |

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

CANWEST GLOBAL COMMUNICATIONS CORP.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(In thousands of Canadian dollars)

| | As at | |
|---|-------------------------|----------------------------|
| | May 31, 2004 | August 31, 2003 |
| ASSETS | | |
| Current Assets | | |
| Cash | 53,619 | 121,922 |
| Accounts receivable | 442,597 | 370,783 |
| Distributions receivable from Network TEN | - | 20,909 |
| Inventory | 12,109 | 14,509 |
| Investment in film and television programs | 104,119 | 82,912 |
| Future income taxes | 7,166 | 20,223 |
| Other | 13,703 | 10,483 |
| Assets of discontinued operations (note 8) | 105,789 | 123,812 |
| | 739,102 | 765,553 |
| Investment in Network TEN (note 2) | 62,403 | 55,546 |
| Other investments | 109,481 | 113,022 |
| Investment in film and television programs | 43,940 | 30,960 |
| Property, plant and equipment | 616,673 | 639,081 |
| Other assets | 143,843 | 125,325 |
| Intangible assets | 1,082,035 | 1,093,818 |
| Goodwill | 2,442,648 | 2,424,763 |
| Assets of discontinued operations (note 8) | 40,431 | 281,927 |
| | 5,280,556 | 5,529,995 |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable | 71,584 | 101,034 |
| Accrued liabilities (note 3) | 200,509 | 203,325 |
| Income taxes payable | 9,169 | 24,115 |
| Film and television program accounts payable | 42,095 | 30,507 |
| Deferred revenue | 36,031 | 30,067 |
| Future income taxes | 6,072 | 6,072 |
| Current portion of long term debt | 59,932 | 63,078 |
| Liabilities of discontinued operations (note 8) | 91,961 | 178,027 |
| | 517,353 | 636,225 |
| Long term debt (note 6) | 3,082,899 | 3,167,311 |
| Other accrued liabilities | 154,164 | 150,190 |
| Future income taxes | 402,882 | 400,652 |
| | 4,157,298 | 4,354,378 |
| Contingencies (note 9) | | |
| SHAREHOLDERS' EQUITY | | |
| Capital stock | 848,613 | 846,824 |
| Contributed surplus | 4,434 | 3,647 |
| Retained earnings | 280,348 | 355,792 |
| Cumulative foreign currency translation adjustments | (10,137) | (30,646) |
| | 1,123,258 | 1,175,617 |
| | 5,280,556 | 5,529,995 |

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

CANWEST GLOBAL COMMUNICATIONS CORP.
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
(UNAUDITED)
(In thousands of Canadian dollars)

| | <u>For the three months ended</u> | | <u>For the nine months ended</u> | |
|---|-----------------------------------|-----------------------|----------------------------------|-----------------------|
| | May 31, 2004 | May 31, 2003 | May 31, 2004 | May 31, 2003 |
| Retained earnings - beginning of period | 226,011 | 388,020 | 355,792 | 317,376 |
| Excess of redemption price over carrying value of preferred shares | - | - | - | (7,672) |
| Net earnings for the period | <u>54,337</u> | <u>12,484</u> | <u>(75,444)</u> | <u>90,800</u> |
| Retained earnings - end of period | <u><u>280,348</u></u> | <u><u>400,504</u></u> | <u><u>280,348</u></u> | <u><u>400,504</u></u> |

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

CANWEST GLOBAL COMMUNICATIONS CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(in thousands of Canadian dollars)

| | <u>For the three months ended</u> | | <u>For the nine months ended</u> | |
|--|-----------------------------------|-----------------|----------------------------------|------------------|
| | May 31, 2004 | May 31, 2003 | May 31, 2004 | May 31, 2003 |
| CASH GENERATED (UTILIZED) BY: | | | | |
| OPERATING ACTIVITIES | | | | |
| Net earnings from continuing operations for the period | 52,475 | 26,059 | 134,532 | 106,758 |
| Items not affecting cash | | | | |
| Amortization | 26,977 | 25,445 | 79,010 | 80,246 |
| Interest paid in kind | 25,059 | 28,597 | 72,252 | 85,585 |
| Future income taxes | 8,608 | 1,398 | 2,897 | 1,614 |
| Interest in earnings of Network TEN | (20,573) | (12,428) | (77,165) | (49,089) |
| Realized currency translation adjustments | 5,011 | (1,593) | 1,885 | (693) |
| Interest rate swap loss (gain) | (6,843) | 4,781 | 10,200 | 13,634 |
| Investment gains and losses net of write down | (354) | 2,277 | 2,460 | (19,831) |
| Amortization of film and television programs | 3,875 | - | 5,074 | - |
| Pension expense | 3,241 | 2,758 | 7,736 | 4,156 |
| Other | 1,191 | 256 | (3,841) | 1,035 |
| Distributions from Network TEN | - | - | 99,297 | 30,212 |
| Investment in film and television programs | - | - | (14,077) | - |
| | <u>98,667</u> | <u>77,550</u> | <u>320,260</u> | <u>253,627</u> |
| Changes in non-cash operating accounts | <u>(77,564)</u> | <u>(28,103)</u> | <u>(158,237)</u> | <u>(65,107)</u> |
| Cash flows from operating activities of continuing operations | 21,103 | 49,447 | 162,023 | 188,520 |
| Cash flow from operating activities of discontinued operations | <u>23,959</u> | <u>14,891</u> | <u>13,733</u> | <u>(53,782)</u> |
| Cash flows from operating activities | <u>45,062</u> | <u>64,338</u> | <u>175,756</u> | <u>134,738</u> |
| INVESTING ACTIVITIES | | | | |
| Other investments | (3,057) | - | (3,057) | (4,473) |
| Investment in broadcast licences | - | - | (5,813) | - |
| Proceeds from divestitures | - | - | - | 193,500 |
| Proceeds from sale of property, plant and equipment | - | - | 7,426 | - |
| Purchase of property, plant and equipment | (13,120) | (8,259) | (39,028) | (20,299) |
| Investing activities from discontinued operations | <u>-</u> | <u>(368)</u> | <u>-</u> | <u>(650)</u> |
| | <u>(16,177)</u> | <u>(8,627)</u> | <u>(40,472)</u> | <u>168,078</u> |
| FINANCING ACTIVITIES | | | | |
| Issuance of long term debt | - | 294,700 | - | 294,700 |
| Repayment of long term debt | (34,856) | (298,108) | (158,817) | (548,966) |
| Issuance of share capital | - | - | 1,789 | 392 |
| Preferred share redemption | - | - | - | (57,672) |
| Financing activities from discontinued operations | <u>(21,548)</u> | <u>(15,259)</u> | <u>(48,908)</u> | <u>49,794</u> |
| | <u>(56,404)</u> | <u>(18,667)</u> | <u>(205,936)</u> | <u>(261,752)</u> |
| Foreign exchange gain (loss) on cash denominated in foreign currencies | <u>(326)</u> | <u>-</u> | <u>2,349</u> | <u>-</u> |
| Net change in cash | <u>(27,845)</u> | <u>37,044</u> | <u>(68,303)</u> | <u>41,064</u> |
| Cash – beginning of period | <u>81,464</u> | <u>65,110</u> | <u>121,922</u> | <u>61,090</u> |
| Cash – end of period | <u>53,619</u> | <u>102,154</u> | <u>53,619</u> | <u>102,154</u> |

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

CANWEST GLOBAL COMMUNICATIONS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED MAY 31, 2004 AND 2003
(UNAUDITED)
(In thousands of Canadian dollars except as otherwise noted)

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, publishing and online operations and outdoor advertising. In Canada, the Television Broadcast segment includes the operation of the Global Television Network, Prime, various other conventional and specialty channels and Cool FM and The Beat radio stations. The Australian Television Broadcast segment includes the Company's 56.6% economic interest 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 New Zealand Television Broadcast segment includes the operations of the 3 and C4 Television Networks. The New Zealand Radio Broadcast segment includes five nationally-networked radio brands and 27 local radio stations including More FM stations. The Irish Television Broadcast 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") (sold in June 2004).

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 and Online 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 for interim financial statements and reflect all adjustments which are, in the opinion of management, necessary for fair statement of the results of the interim periods presented. However, these interim financial statements do not include all of the information and disclosures required for annual financial statements. The accounting policies used in the preparation of these interim financial statements are the same as those used in the most recent annual financial statements except as indicated below. These interim statements should be read in conjunction with the most recent annual financial statements of the Company. 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 12.

Disposal of long-lived assets and discontinued operations

Long-lived assets are classified as held for sale when specific criteria are met, in accordance with CICA Handbook Section 3475, "Disposal of Long-Lived Assets and Discontinued Operations". Assets held for sale are measured at the lower of their carrying amounts and fair values less costs to dispose and are no longer amortized. Assets and liabilities classified as held for sale are reported separately on the balance sheet. A component of the Company that is held for sale is reported as a discontinued operation if the operations and cash flows of the component will be eliminated from the ongoing operations as a result of the disposal transaction and the Company will not have a significant continuing involvement in the operations of the component after the disposal transaction.

Changes in Accounting Policies

(a) Hedging relationships

The Company adopted CICA Accounting Guideline 13, "Hedging Relationships", (AcG 13) effective September 1, 2003. In accordance with the new policy, the Company's hedging relationships are documented and subject to effectiveness tests on a quarterly basis for reasonable assurance that they are and will continue to be effective. Any derivative that does not qualify for hedge accounting is reported on a mark to market basis in earnings. The adoption of this guideline had no impact on the financial statements.

(b) Stock options

The Company adopted the fair value method of accounting recommended by the CICA in Section 3870, "Stock-based Compensation and Other Stock Based Payments", prospectively for stock-based compensation awards granted after September 1, 2003. The impact of this policy is described in note 7.

2. INVESTMENT IN NETWORK TEN

The Company owns approximately 14.5% of the issued ordinary shares and all of the convertible debentures and subordinated debentures of the TEN Group Pty Limited. The subordinated debentures have an aggregate principal amount of A\$45.5 million and pay interest based on distributions to holders of the ordinary shares. The convertible debentures have an aggregate partially paid-up principal amount of A\$45,500 and pay a market linked rate of interest. The convertible debentures are convertible, upon payment of an aggregate of A\$45.5 million, into a number of ordinary shares which would represent 49.2% of the issued and outstanding shares of the TEN Group Pty Limited at the time of conversion. The combination of ordinary shares and subordinated debentures yield distributions equivalent to approximately 56.6% of all distributions paid by Network TEN.

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

During the nine months ended May 31, 2004 the TEN Group Pty Limited issued 7,370,000 shares for proceeds of A\$14.6 million as a result of the exercise of certain management stock options. This effectively diluted the Company's economic interest in Network TEN to 56.6% from 57.1% at August 31, 2003 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

| | As at | |
|---|-------------------------|----------------------------|
| | May 31, 2004 | August 31, 2003 |
| Assets | | |
| Current assets | 293,778 | 241,822 |
| Other assets | 42,424 | 37,367 |
| Property, plant and equipment | 78,964 | 79,288 |
| Long term investments | 14,180 | 11,421 |
| Intangibles | 278,885 | 257,477 |
| Goodwill | <u>96,080</u> | <u>88,752</u> |
| | <u>804,311</u> | <u>716,127</u> |
| Liabilities and Shareholders' Equity | | |
| Current liabilities | 188,789 | 188,633 |
| Long term debt | 407,351 | 349,326 |
| Other long term liabilities | 49,001 | 48,721 |
| Subordinated debentures issued to the Company | 40,171 | 40,171 |
| Share capital | 67,964 | 53,150 |
| Undistributed earnings | 46,571 | 35,636 |
| Cumulative foreign currency translation adjustment | <u>4,464</u> | <u>490</u> |
| | <u>804,311</u> | <u>716,127</u> |

Summary Consolidated Statements of Earnings

| | For the 9 months ended | |
|---|-------------------------------|-------------------------|
| | May 31, 2004 | May 31, 2003 |
| Revenue | 602,982 | 477,280 |
| Operating expenses | <u>394,992</u> | <u>338,695</u> |
| Operating profit before amortization | 207,990 | 138,585 |
| Amortization of property, plant, equipment and other | <u>13,949</u> | <u>11,419</u> |
| | 194,041 | 127,166 |
| Interest rate swap gain | 1,100 | - |
| Financing expenses | <u>(94,215)</u> | <u>(59,886)</u> |
| | 100,926 | 67,280 |
| Provision for income taxes | <u>29,586</u> | <u>19,334</u> |
| Net earnings for the period | <u><u>71,340</u></u> | <u><u>47,946</u></u> |
| Net earnings for the period | 71,340 | 47,946 |
| Interest in respect of subordinated debentures held by the Company | <u>72,926</u> | <u>43,236</u> |
| Earnings for the period before interest in respect of subordinated debentures ⁽¹⁾ | <u><u>144,266</u></u> | <u><u>91,182</u></u> |

Summary Statement of Undistributed earnings

| | For the 9 months ended | |
|---|-------------------------------|-------------------------|
| | May 31, 2004 | May 31, 2003 |
| Undistributed earnings (deficit) – beginning of year | 35,636 | (52,232) |
| Earnings for the period before interest in respect of subordinated debentures ⁽¹⁾ | 144,266 | 91,182 |
| Distributions paid and payable | <u>(133,331)</u> | <u>(56,559)</u> |
| Undistributed earnings (deficit) – end of period | <u><u>46,571</u></u> | <u><u>(17,609)</u></u> |

⁽¹⁾ The Company's economic interest in the TEN Group Pty Limited's earnings for the nine months ended May 31, 2004 was \$77.2 million (2003 – \$49.1 million), comprised of its 14.5% interest in net earnings and its interest in the subordinated debentures.

3. RESTRUCTURING ACCRUALS

For the nine months ended May 31, 2004, expenditures charged to the restructuring accruals were \$10.7 million. The balance of the restructuring accruals is expected to be utilized by August 31, 2004.

| | Severance | Lease/ contract termination | Integration | Other | Total |
|-------------------------|--------------|-----------------------------------|-------------|--------------|---------------|
| Balance August 31, 2003 | 10,326 | 2,482 | 250 | 2,340 | 15,398 |
| Expenditures – 2004 | <u>9,408</u> | <u>667</u> | <u>-</u> | <u>608</u> | <u>10,683</u> |
| Balance May 31, 2004 | <u>918</u> | <u>1,815</u> | <u>250</u> | <u>1,732</u> | <u>4,715</u> |

4. 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:

| | For the three months ended | | For the nine months ended | |
|---|----------------------------|-----------------|---------------------------|-----------------|
| | May 31, 2004 | May 31, 2003 | May 31, 2004 | May 31, 2003 |
| Income taxes at combined Canadian statutory rate of 35.59% (2003 — 36.57%) | 16,714 | 7,586 | 25,838 | 26,811 |
| Effect of valuation allowance on future tax assets | - | - | 3,807 | - |
| Effect of foreign income tax rates differing from Canadian income tax rates | (1,718) | (943) | (4,141) | (2,717) |
| Large corporations tax | 800 | 800 | 2,400 | 2,400 |
| Effect of change in tax rates | - | - | 16,832 | - |
| Effect of change in expected future tax rates | - | - | (12,586) | - |
| Effect of resolved tax dispute | - | - | (7,000) | - |
| Utilization of loss carry forwards not previously tax effected | (4,942) | (895) | (12,328) | (6,818) |
| Capital gains | - | 433 | - | (7,273) |
| Other | <u>(1,012)</u> | <u>1,470</u> | <u>(32)</u> | <u>2,900</u> |
| Provision for income taxes | <u>9,842</u> | <u>8,451</u> | <u>12,790</u> | <u>15,303</u> |

5. EARNINGS PER SHARE

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

| | <u>For the three months ended</u> | | <u>For the nine months ended</u> | |
|--|-----------------------------------|-------------------------|----------------------------------|-------------------------|
| | <u>May 31, 2004</u> | <u>May 31, 2003</u> | <u>May 31, 2004</u> | <u>May 31, 2003</u> |
| Net earnings from continuing operations | 52,475 | 26,059 | 134,532 | 106,758 |
| Excess of redemption price over carrying value of preferred shares | <u>-</u> | <u>-</u> | <u>-</u> | <u>(7,672)</u> |
| Net earnings from continuing operations | 52,475 | 26,059 | 134,532 | 99,086 |
| Net earnings (loss) from discontinued operations | <u>1,862</u> | <u>(13,575)</u> | <u>(209,976)</u> | <u>(15,958)</u> |
| Net earnings (loss) available to common shareholders | <u>54,337</u> | <u>12,484</u> | <u>(75,444)</u> | <u>83,128</u> |
| Basic weighted average shares outstanding during the period | 177,275,947 | 177,071,250 | 177,222,140 | 177,068,661 |
| Dilutive effect of options | <u>160,171</u> | <u>8,040</u> | <u>173,411</u> | <u>6,718</u> |
| Diluted weighted average shares outstanding during the period | <u>177,436,118</u> | <u>177,079,290</u> | <u>177,395,551</u> | <u>177,075,379</u> |
| Options outstanding that would have been anti-dilutive | <u>1,940,571</u> | <u>2,143,247</u> | <u>1,860,889</u> | <u>2,143,247</u> |

6. LONG TERM DEBT

The following provisions of the Company's Senior Secured Credit Facility are in addition to the terms described in note 9 of the annual financial statements.

The provisions of the Company's Senior Secured Credit facility require that, for fiscal years in which the credit rating for the Senior Secured Credit facility is below a prescribed level, the Company make a prepayment of its Senior Secured Credit facility equal to 50% of its free cash flow, as defined under the facility, for such fiscal year. The Company was required to make a prepayment of \$41.5 million in January 2004 in respect of fiscal 2003. Prepayment requirements in respect of fiscal 2004 under this provision, if any, are dependent on the credit rating of the Senior Secured Credit facility at August 31, 2004.

Under its Senior Secured Credit facility the Company is required to maintain a fair value of its interest rate swaps and foreign currency and interest rate swaps above a prescribed minimum. There are also prescribed minimums with individual counterparties, which have two-way recouping provisions. The Company was required to make net recouping payments of \$31 million in the nine months ended May 31, 2004 (nine months ended May 31, 2003 – nil). Further strengthening of the Canadian currency and/or declining interest rates may result in further payments to counterparties.

The Fireworks credit facility includes certain profitability and financial ratio covenants, certain of which were not met at May 31, 2004, and accordingly the debt has been classified as current. Fireworks is currently renegotiating certain terms and conditions of the credit facility.

7. SHARE BASED COMPENSATION

The Company adopted the fair value method of accounting for share based compensation on a prospective basis for options granted subsequent to September 1, 2003, resulting in additional compensation expense for the nine months ended May 31, 2004 of \$0.8 million. The fair value of the options granted during the nine months ended May 31, 2004 was estimated using the Black-Scholes option pricing model with the assumptions of no dividend yield, an expected volatility of 52%, risk free interest rates of 4.5% to 4.9% and an expected life of 7 to 9 years.

The total fair value of 510,500 stock options granted by the Company in the nine months ended May 31, 2004 with an exercise price of \$12.90 per option was \$3.9 million, a weighted average fair value per option of \$7.64.

The following are proforma results reflecting the fair value based method of accounting for share-based compensation for options issued prior to September 1, 2003.

The proforma cost of share compensation expense for the three and nine months ended May 31, 2004 would be \$0.4 million and \$1.2 million, respectively (2003 – \$0.4 million and \$1.2 million). A value of \$3.2 million will be charged to proforma net earnings in future years according to the vesting terms of the options. The resulting proforma net earnings from continuing operations, basic and diluted earnings per share for the three months ended May 31, 2004 are \$52.1 million, \$0.29 and \$0.29 respectively (2003 - \$25.7 million, \$0.15, and \$0.15), and nine months ended May 31, 2004 are \$133.3 million, \$0.75 and \$0.75 respectively (2003 - \$105.5 million, \$0.55, and \$0.55). The resulting proforma net earnings (loss), basic and diluted earnings per share for the three months ended May 31, 2004 are \$53.9 million, \$0.30 and \$0.30 respectively (2003 - \$12.1 million, \$0.07, and 0.07), and nine months ended May 31, 2004 are (\$76.6) million, (\$0.43) and (\$0.43) respectively (2003 - \$89.6 million, \$0.46, and \$0.46).

The Company's proforma disclosure does not apply to awards prior to 1996.

8. DISCONTINUED OPERATIONS

Following a period of poor financial performance and continued weakness in international demand for its films and television programs, the Company has commenced a process to sell its Fireworks Entertainment Division. As a result, the earnings (loss) of Fireworks have been classified as earnings (loss) from discontinued operations in the Consolidated Statements of Earnings, the net cash flows are classified as operating, investing and financing activities from discontinued operations in the Consolidated Statements of Cash Flows and the assets and liabilities have been classified on the Consolidated Balance Sheets as assets and liabilities of discontinued operations. An impairment charge of \$201.8 million including goodwill impairment of \$30.9 million was recorded to adjust the assets to fair value based on recent estimates less cost to dispose. Included in the loss from discontinued operations is a charge of \$1.5 million related to the estimated transaction costs. The Consolidated Balance Sheets as at August 31, 2003 and the Consolidated Statements of Earnings and the Consolidated Statements of Cash Flows for the periods ended May 31, 2003 have been restated for purposes of comparability. Prior to the classification as a discontinued operation, these results were reported within the Canadian Entertainment segment. The Company expects to complete a sale transaction in the near term.

The earnings from discontinued operations of Fireworks are summarized as follows:

| | <u>For the three months ended</u> | | <u>For the nine months ended</u> | |
|---|-----------------------------------|-------------------------|----------------------------------|-------------------------|
| | <u>May 31, 2004</u> | <u>May 31, 2003</u> | <u>May 31, 2004</u> | <u>May 31, 2003</u> |
| Revenue | 28,064 | 34,715 | 93,864 | 114,978 |
| Income (loss) from discontinued operations before tax expense | 2,174 | (13,356) | (209,527) | (15,251) |
| Income tax expense | <u>312</u> | <u>219</u> | <u>449</u> | <u>707</u> |
| Income (loss) from discontinued operations | <u>1,862</u> | <u>(13,575)</u> | <u>(209,976)</u> | <u>(15,958)</u> |
| Income (loss) from discontinued operations per share: | | | | |
| Basic and diluted | \$0.01 | (\$0.08) | (\$1.19) | (\$0.09) |

The carrying value of the net assets related to the discontinued Fireworks Entertainment Division is as follows:

| | <u>May 31, 2004</u> | <u>August 31, 2003</u> |
|--|-------------------------|----------------------------|
| Current assets | <u>105,789</u> | <u>123,812</u> |
| Property, plant and equipment | - | 951 |
| Investment in film and television programs | 40,066 | 239,345 |
| Goodwill | - | 30,856 |
| Other assets | <u>365</u> | <u>10,775</u> |
| Total non current assets | <u>40,431</u> | <u>281,927</u> |
| Debt | (35,874) | (84,308) |
| Other current liabilities | <u>(56,087)</u> | <u>(93,719)</u> |
| Total current liabilities | <u>(91,961)</u> | <u>(178,027)</u> |
| Net assets | <u>54,259</u> | <u>227,712</u> |

9. CONTINGENCIES

a) On December 17, 2003 the Company filed a statement of claim against Hollinger International Inc., Hollinger Inc. and certain related parties in the amount of \$25.7 million plus interest representing amounts owed to the Company related to its acquisition of 50% of The National Post Company partnership in March 2002. The Company has also requested arbitration related to a further \$54.3 million owed by Hollinger International Inc. and Hollinger Canadian Newspapers Limited Partnership related to certain unresolved matters related to its November 15, 2000 acquisition of certain newspaper assets from Hollinger International Inc. and Hollinger Canadian Newspapers Limited Partnership.

b) In February 2004, a subsidiary of the company, Fireworks Entertainment Inc., instituted a claim against Tribune Entertainment Company ("Tribune") for breach of contract in respect of the financing production and distribution of certain television series. Tribune countered by filing a Statement of Claim alleging that Fireworks wrongfully repudiated the contracts and was in breach of its obligations, in respect of those series. These claims were settled in May 2004 by way of amendment and settlement of certain contractual obligations. The impact was to increase net earnings from discontinued operations by \$0.7 million.

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.

10. SEGMENTED INFORMATION

The Company operates primarily within the publishing, online, television and radio broadcasting, 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⁽¹⁾. 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:

| | For the three months ended May 31, | | | | For the nine months ended May 31, | | | |
|---|------------------------------------|-----------------|---------------------------------|-----------------|-----------------------------------|------------------|---------------------------------|-----------------|
| | Revenue ⁽²⁾ | | Operating profit ⁽¹⁾ | | Revenue ⁽²⁾ | | Operating profit ⁽¹⁾ | |
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Operating Segments | | | | | | | | |
| Publishing and Online - Canada | 299,680 | 300,566 | 74,269 | 71,757 | 878,167 | 898,853 | 213,995 | 206,510 |
| Television | | | | | | | | |
| Canada | 207,483 | 207,635 | 61,322 | 82,944 | 559,712 | 593,461 | 147,450 | 206,833 |
| Australia - Network TEN | 106,857 | 86,054 | 31,412 | 21,562 | 309,920 | 245,996 | 112,274 | 77,464 |
| New Zealand | 27,180 | 24,096 | 4,748 | 90 | 79,860 | 69,549 | 17,661 | 7,063 |
| Ireland | <u>9,423</u> | <u>8,556</u> | <u>2,993</u> | <u>2,736</u> | <u>27,042</u> | <u>26,520</u> | <u>8,879</u> | <u>8,651</u> |
| Total Television | 350,943 | 326,341 | 100,475 | 107,332 | 976,534 | 935,526 | 286,264 | 300,011 |
| Radio - New Zealand | 20,833 | 17,644 | 5,927 | 4,421 | 65,299 | 54,654 | 20,944 | 15,168 |
| Outdoor - Australia | <u>10,986</u> | <u>9,478</u> | <u>2,116</u> | <u>777</u> | <u>32,441</u> | <u>27,941</u> | <u>5,885</u> | <u>2,106</u> |
| | 682,442 | 654,029 | 182,787 | 184,287 | 1,952,441 | 1,916,974 | 527,088 | 523,795 |
| Corporate and other | - | - | (6,120) | (6,728) | - | - | (20,657) | (17,197) |
| Restructuring expenses | - | - | - | (14,136) | - | - | - | (14,136) |
| Total Combined | 682,442 | 654,029 | 176,667 | 163,423 | 1,952,441 | 1,916,974 | 506,431 | 492,462 |
| Elimination of equity accounted affiliates ⁽³⁾ | <u>(117,843)</u> | <u>(95,532)</u> | <u>(33,528)</u> | <u>(22,339)</u> | <u>(342,361)</u> | <u>(273,937)</u> | <u>(118,159)</u> | <u>(79,570)</u> |
| Total Consolidated | <u>564,599</u> | <u>558,497</u> | <u>143,139</u> | <u>141,084</u> | <u>1,610,080</u> | <u>1,643,037</u> | <u>388,272</u> | <u>412,892</u> |

(1) Operating profit is earnings before interest, taxes, amortization, interest rate swap losses and gains, foreign exchange losses and gains, investment gains and losses net of write-down, dividend income, interest in earnings of equity accounted affiliates and realized currency translation adjustments.

(2) Represents revenue from third parties. In addition, the Canadian Television segment recorded intersegment revenues in the nine months ended May 31, 2004 of \$678 (2003 – nil).

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

11. SUBSEQUENT EVENTS

a) In June 2004, CanWest MediaWorks (NZ) Limited launched an Initial Public Offering (IPO) of its shares which is expected to raise NZ\$104 million (\$90 million). On completion of the IPO and a concurrent bank financing, CanWest MediaWorks (NZ) Limited will acquire CanWest's New Zealand media operations. The Company will receive proceeds of NZ\$300 million (approximately \$259 million) as well as shares representing a 70% controlling interest in CanWest MediaWorks (NZ) Limited as consideration for the sale of its New Zealand operations. The Company will consolidate the financial results of CanWest MediaWorks (NZ) Limited, reflecting the 30% non-controlling interest as a minority interest in its accounts.

b) In June 2004, the Company sold its holdings in shares of Ulster Television plc for proceeds of approximately \$145 million resulting in an after tax gain of approximately \$50 million.

c) In June 2004, the Company completed a refinancing of \$911 million of its Senior Secured credit facility which, in addition to reducing the interest rate to reflect the current market, amended certain ratio covenants. The Company also amended certain foreign currency and interest rate swaps which relate to this debt.

12. U.S. GAAP RECONCILIATION

These interim financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). In certain aspects GAAP as applied in the United States ("U.S.") differs from Canadian GAAP. The principal differences affecting the Company are disclosed in the annual financial statements with the exception of the following reconciling item.

Adjustment to purchase equation

Under U.S. GAAP, the settlement of tax issues acquired through a business acquisition result in an adjustment to the purchase equation. In accordance with Canadian GAAP, the impact is recorded in earnings.

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:

| | For the nine months ended | |
|---|----------------------------------|-------------------------|
| | May 31, 2004 | May 31, 2003 |
| Net earnings from continuing operations in accordance with Canadian GAAP | 134,532 | 106,758 |
| Pre-operating costs, net of tax of (\$397) (2003 – (\$1,012)) | (519) | 2,596 |
| Realization of cumulative translation adjustments, net of tax of nil | 1,885 | (693) |
| Integration costs, net of tax of \$109 | - | (193) |
| Programming costs imposed by regulatory requirement, net of tax of \$1,182 (2003 - \$1,852) | (3,429) | (2,455) |
| Adjustments related to equity accounted affiliates, net of tax of \$430 (2003 – (\$1,359)) | (765) | 2,125 |
| Adjustment to purchase equation | (7,000) | - |
| Gain on interest rate swaps and foreign currency and interest rate swaps and translation of foreign denominated debt, net of tax of \$3,243 (2003 – \$28,747) | <u>15,709</u> | <u>(403)</u> |
| Net earnings from continuing operations in accordance with U.S. GAAP | 140,413 | 107,735 |
| Net loss from discontinued operations | <u>(209,976)</u> | <u>(15,958)</u> |
| Net earnings (loss) in accordance with U.S. GAAP | <u>(69,563)</u> | <u>91,777</u> |
| Net earnings per share from continuing operations in accordance with U.S. GAAP: | | |
| Basic and diluted | \$0.79 | \$0.57 |
| Loss from discontinued operations per share: | | |
| Basic and diluted | (\$1.19) | (\$0.09) |
| Net earnings (loss) per share in accordance with U.S. GAAP: | | |
| Basic and diluted | (\$0.40) | \$0.48 |