

**CANWEST GLOBAL COMMUNICATIONS CORP.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED AUGUST 31, 2005 AND 2004**

November 17, 2005

**Auditors' Report**

**To the Shareholders of  
CanWest Global Communications Corp.**

We have audited the consolidated balance sheets of **CanWest Global Communications Corp.** as of August 31, 2005 and August 31, 2004 the consolidated statements of earnings (loss), 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 of August 31, 2005 and August 31, 2004 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**

**CANWEST GLOBAL COMMUNICATIONS CORP.**  
**CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)**  
**FOR THE YEARS ENDED AUGUST 31**  
(In thousands of Canadian dollars except as otherwise noted)

	<b>2005</b>	<b>2004</b> (Revised note 1)
Revenue	3,072,542	2,911,400
Operating expenses	1,617,210	1,538,466
Selling, general and administrative expenses	722,345	653,391
Ravelston management contract termination (note 21)	12,750	-
Restructuring expenses (note 9)	<u>-</u>	<u>2,445</u>
	720,237	717,098
Amortization of intangibles (note 6)	20,341	18,182
Amortization of property, plant and equipment (note 4)	91,868	89,067
Other amortization	<u>5,291</u>	<u>5,035</u>
Operating income	602,737	604,814
Interest expense	(251,853)	(338,528)
Interest income	2,631	9,141
Amortization of deferred financing costs	(12,708)	(12,641)
Interest rate and foreign currency swap losses (note 7)	(188,506)	(110,858)
Foreign exchange gains (note 7)	76,025	44,973
Investment gains, losses and write-downs (note 14)	1,527	115,786
Goodwill impairment (note 5)	(41,406)	-
Asset impairment (note 6)	(9,629)	-
Loss on debt extinguishment (note 7)	(43,992)	-
Dividend income	<u>-</u>	<u>3,738</u>
	134,826	316,425
Provision for income taxes (note 13)	<u>20,472</u>	<u>37,485</u>
Earnings before the following	114,354	278,940
Minority interests	(96,597)	(80,349)
Interest in earnings of equity accounted affiliates	2,043	2,731
Realized currency translation adjustments (note 12)	<u>622</u>	<u>(7,023)</u>
<b>Net earnings from continuing operations</b>	20,422	194,299
Loss from discontinued operations (note 15)	<u>(10,132)</u>	<u>(207,777)</u>
<b>Net earnings (loss) for the year</b>	<u><u>10,290</u></u>	<u><u>(13,478)</u></u>
<b>Earnings per share from continuing operations (note 11):</b>		
<b>Basic</b>	\$0.12	\$1.10
<b>Diluted</b>	\$0.12	\$1.10
<b>Earnings (loss) per share (note 11):</b>		
<b>Basic</b>	\$0.06	(\$0.08)
<b>Diluted</b>	\$0.06	(\$0.08)

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

**CANWEST GLOBAL COMMUNICATIONS CORP.**  
**CONSOLIDATED BALANCE SHEETS**  
**AS AT AUGUST 31**  
(In thousands of Canadian dollars)

	<b>2005</b>	<b>2004</b> (Revised note 1)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	29,858	97,271
Accounts receivable	486,568	488,418
Inventory	13,533	13,449
Investment in broadcast rights	188,729	194,099
Future income taxes (note 13)	3,893	6,166
Other current assets	26,043	22,574
Assets of discontinued operations (note 15)	<u>2,850</u>	<u>89,094</u>
	751,474	911,071
Other investments (note 3)	23,059	26,830
Investment in broadcast rights	21,197	35,157
Property, plant and equipment (note 4)	709,222	708,311
Future income taxes (note 13)	54,058	45,826
Other assets (note 17)	200,242	158,917
Intangible assets (note 6)	1,144,299	1,179,465
Goodwill (note 5)	2,424,867	2,469,690
Assets of discontinued operations (note 15)	<u>-</u>	<u>38,376</u>
	<u><u>5,328,418</u></u>	<u><u>5,573,643</u></u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable	174,602	158,461
Accrued liabilities (note 9)	294,380	240,502
Income taxes payable	51,883	27,419
Broadcast rights accounts payable	78,318	65,270
Deferred revenue	36,774	34,218
Future income taxes (note 13)	44,663	48,080
Current portion of long term debt and obligations under capital leases	22,216	31,008
Liabilities of discontinued operations (note 15)	<u>-</u>	<u>69,716</u>
	702,836	674,674
Long term debt and related foreign currency swap liability (note 7)	2,886,090	3,185,755
Interest rate and foreign currency swap liability (note 7)	215,075	120,341
Obligations under capital leases (note 8)	16,101	17,300
Other accrued liabilities (note 17)	144,532	179,417
Future income taxes (note 13)	77,255	139,280
Minority interests	<u>90,581</u>	<u>77,456</u>
	<u><u>4,132,470</u></u>	<u><u>4,394,223</u></u>
Commitments, contingencies and guarantees (note 22)		
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (note 10)	849,909	848,628
Contributed surplus	7,685	4,612
Retained earnings	350,291	340,001
Cumulative foreign currency translation adjustments (note 12)	<u>(11,937)</u>	<u>(13,821)</u>
	<u><u>1,195,948</u></u>	<u><u>1,179,420</u></u>
	<u><u>5,328,418</u></u>	<u><u>5,573,643</u></u>

Signed on behalf  
of the Board



Director



Director

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**  
**(In thousands of Canadian dollars)**

	<b>2005</b>	<b>2004</b> <b>(Revised note 1)</b>
<b>Retained earnings - beginning of year</b>	340,001	353,479
Net earnings (loss) for the year	<u>10,290</u>	<u>(13,478)</u>
<b>Retained earnings – end of year</b>	<u><u>350,291</u></u>	<u><u>340,001</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  
(In thousands of Canadian dollars)**

	2005	2004 (Revised note 1)
<b>CASH GENERATED (UTILIZED) BY:</b>		
<b>OPERATING ACTIVITIES</b>		
Net earnings from continuing operations for the year	20,422	194,299
Items not affecting cash		
Amortization	130,208	124,925
Non-cash interest expense	32,021	102,092
Future income taxes	(74,349)	(8,310)
Realized currency translation adjustments	(622)	7,023
Interest rate and foreign currency swap losses net of settlements	105,366	98,055
Investment gains, losses, and write-downs	(1,527)	(115,786)
Loss on debt extinguishment	43,992	-
Goodwill and asset impairment	51,035	-
Amortization and write-down of film and television programs	6,163	5,656
Pension expense	8,254	6,276
Minority interests	96,597	80,349
Earnings of equity accounted affiliates	(2,043)	(2,731)
Foreign exchange gains	(10,407)	(5,571)
Stock compensation expense	3,073	964
Investment film and television programs	-	(12,234)
	<u>408,183</u>	<u>475,007</u>
Changes in non-cash operating accounts (note 16)	<u>61,105</u>	<u>(80,724)</u>
Cash flows from operating activities of continuing operations	469,288	394,283
Cash flows from operating activities of discontinued operations	<u>46,408</u>	<u>15,991</u>
Cash flows from operating activities	<u>515,696</u>	<u>410,274</u>
<b>INVESTING ACTIVITIES</b>		
Other investments	426	(389)
Investment in broadcast licences	(2,182)	(5,813)
Acquisitions	(19,487)	-
Proceeds from sale of assets of discontinued operations	13,742	-
Proceeds from sales of other investments	2,171	144,127
Proceeds from divestitures	-	83,316
Proceeds from sale of property, plant and equipment	5,035	7,426
Purchase of property, plant and equipment	<u>(99,191)</u>	<u>(62,556)</u>
	<u>(99,486)</u>	<u>166,111</u>
<b>FINANCING ACTIVITIES</b>		
Issuance of long term debt	161,321	167,500
Repayment of long term debt	(510,323)	(381,589)
Advances (repayments) of revolving facilities	4,640	(243,883)
Swap recouping payments	(41,653)	(27,957)
Payments of capital leases	(1,100)	(358)
Issuance of share capital	1,281	1,804
Issuance of share capital of TEN Group	5,369	14,423
Payment of dividends to minority interests	(84,920)	(93,002)
Financing activities from discontinued operations	<u>(18,354)</u>	<u>(57,644)</u>
	<u>(483,739)</u>	<u>(620,706)</u>
Foreign exchange gain on cash denominated in foreign currencies	<u>116</u>	<u>2,389</u>
<b>Net change in cash</b>	<u>(67,413)</u>	<u>(41,932)</u>
<b>Cash – beginning of year</b>	<u>97,271</u>	<u>139,203</u>
<b>Cash – end of year</b>	<u>29,858</u>	<u>97,271</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, 2005 AND 2004**  
**(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, outdoor advertising, and Internet websites in Canada, Australia, New Zealand and 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 TV, various other conventional and specialty channels and Cool FM and The Beat radio stations. The Australian Television Broadcast segment includes TEN Group Pty Limited's ("TEN Group") 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 CanWest MediaWorks NZ Limited's 3 and C4 Television Networks. The New Zealand Radio Broadcast segment includes CanWest MediaWorks NZ Limited's RadioWorks operation, which is comprised of six nationally-networked radio brands and two local radio brands. 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 EyeCorp Pty Limited ("Eye Corp"), an outdoor advertising operation which is wholly owned by TEN Group. Corporate and Other 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. 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 25.

***Principles of consolidation***

The consolidated financial statements include the accounts of the Company, its subsidiaries, and the Company's pro rata share of the assets, liabilities, and results of operations of TV3 Ireland (45%), Mystery (50%) (effective June 2004), and Metro (33%) (effective March 2005). The Company has determined that it is the primary beneficiary of TEN Group, a variable interest entity. Accordingly, as required by The Accounting Standards Board of the Institute of Chartered Accountants of Canada, Accounting Guideline 15 ("AcG-15"), *Consolidation of Variable Interest Entities*, the Company has consolidated the results of TEN Group.

## ***Investments***

The Company accounts for investments where significant influence can be exercised, but not control, using the equity method. Other investments are recorded at cost. 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. A loss is recognized when the carrying amount exceeds net realizable value.

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

Investment in film and television programs represents the film and television assets 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. These assets were held for sale and recorded at fair value.

## ***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% - 50%
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 or group of assets from its carrying value.

### ***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. The fair value of film and television programs are estimated on a discounted cash flow basis or firm purchase commitments, if available. 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.

### ***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 and advertising revenues commence. Pre-operating costs deferred in the current year amounted to \$3.6 million (2004 – \$1.7 million). 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. Interest of \$4.3 million was capitalized in 2005 (2004 - \$3.8 million).

### ***Intangible assets***

Broadcast licences, site 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, broadcast licences, site licences and other finite life intangibles are amortized over periods from 5 to 40 years. Finite life intangibles are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Intangibles with indefinite lives are not subject to amortization and are tested for impairment annually or when indicated by events or changes in circumstances. Impairment of an indefinite life intangible asset is recognized in an amount equal to the difference between the carrying value and the fair value of the related indefinite life intangible asset. The Company utilizes a direct valuation approach in determining the fair value of intangible assets.

### ***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 or when indicated by events or changes in circumstances 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, net of any provisions for viewer shortfalls. Circulation and advertising revenue from publishing activities is recognized when the newspaper is delivered. Revenue derived from out-of-home advertising is recognized over the period the advertisement is being displayed. Subscription revenues for newspapers and news, business research and corporate financial information services is recognized on a straight-line basis over the term of the subscription or relevant contract.

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 on the balance sheet.

### ***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 substantive 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 TEN Group and CanWest MediaWorks (NZ) Limited are provided at rates applicable to distributions. Income taxes on undistributed earnings of foreign operations, other than TEN Group and CanWest MediaWorks (NZ) Limited, 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 defined 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, expected health care costs, and other 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. For each plan, 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 at the beginning of the year is amortized over the average remaining service period of active employees. Transitional obligations are amortized on a straight line basis over the average remaining service life of the employees expected to receive benefits under the plans as of September 1, 2000. Gains or losses arising from the settlement of a pension plan are only recognized once responsibility for the pension obligation has been relieved. The average remaining service period of employees covered by the pension plans is 14 years (2004 – 15 years). The average remaining service period of the employees covered by the post retirement defined benefit plans is 15 years (2004 – 15 years). The Company also maintains post retirement defined benefit plans for certain of its employees, the cost of which is expensed as benefits are earned by the employees. 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 10. The Company utilizes the fair value approach to account for stock options issued subsequent to August 31, 2003. The fair value of share-based compensation is recorded as a charge to net earnings based on the vesting period with a credit to contributed surplus. No compensation expense was recorded for stock options issued prior to August 31, 2003. The Company's proforma results, reflecting the fair value based method of accounting for stock-based compensation, are disclosed in note 10.

### ***Derivative financial instruments***

Derivative financial instruments, up to the principal balance of the hedged item, are used to reduce foreign currency and interest rate risk on the Company's debt. Derivative financial instruments in excess of the principal balance of the hedged item are accounted for at fair value. 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 at the time the Company enters into the derivative financial instrument. In the event of early extinguishment of the debt obligations, the Company may continue to hold the related derivative financial instruments. The realized or unrealized gain or loss from these swaps is recognized in earnings, and the swaps are recorded on the balance sheet at fair value. Subsequent changes in the fair value of overhanging swaps are recognized in earnings.

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 cross currency interest rate swaps at the current rate and also records the effect of the foreign currency exchange 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 over the remaining term of the underlying debt as an adjustment to interest expense.

#### ***Reclassification of prior year amounts***

Certain prior year amounts have been reclassified to conform with the financial statement presentation adopted in the current year.

#### ***Changes in accounting policies***

##### **Consolidation of variable interest entities**

Effective September 1, 2004 the Company has adopted AcG-15. The Company has determined that it is the primary beneficiary of TEN Group, a variable interest entity. Accordingly, as required by AcG-15, the Company has consolidated the results of TEN Group. AcG-15 has been adopted on a retroactive basis with restatement of prior periods. Previously, the Company accounted for its investment in TEN Group using the equity method. As at August 31, 2005 the Company holds a 56.4% (56.6% at August 31, 2004) economic interest in TEN Group. The interest held by the 43.6% (43.4% at August 31, 2004) minority is classified in minority interests. The change had no impact on net earnings or shareholders' equity.

In addition, as a result of the adoption of AcG-15, the Company determined that an immaterial entity should not be consolidated in its results, and accordingly the results of the entity have been excluded from the consolidation on a retroactive basis.

A summary of the changes to other components of the financial statements is presented below:

**2004**

**Consolidated Statements of Earnings (Loss)**

Revenue	798,366
Operating income	251,940

**Consolidated Statements of Cash Flows**

Cash flows generated (utilized) by:

Operating activities	82,171
Investing activities	(9,483)
Financing activities	(73,790)

**Consolidated Balance Sheets**

Current assets	232,271
Non-current assets	402,463
Current liabilities	183,364
Non-current liabilities	453,683
Shareholders' equity	(2,313)

**Proposed accounting policies**

The Accounting Standards Board of the Institute of Chartered Accountants of Canada issued CICA 3855, *Financial Instruments - Recognition and Measurement*, CICA 3865, *Hedges*, and CICA 1530, *Comprehensive Income*, which must be applied by the Company for its fiscal years beginning on September 1, 2007. CICA 3855 prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet and the measurement of such amount. It also specifies how financial instrument gains and losses are to be presented. CICA 3865 is applicable for designated hedging relationships and builds on existing Canadian GAAP guidance by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. CICA 1530 introduces new standards for the presentation and disclosure of components of comprehensive income. Comprehensive income is defined as the change in net assets of an enterprise during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes in net assets during a period except those resulting from investments by owners and distributions to owners. The Company is currently considering the impacts of the adoption of such standards.

The Emerging Issues Committee ("EIC") of the Accounting Standards Board of the Institute of Chartered Accountants of Canada has issued EIC 157, *Implicit Variable Interests under AcG-15*, ("EIC 157") which must be applied by the Company in the first interim period beginning subsequent to October 17, 2005. EIC 157 prescribes that an implicit variable interest, which is an implied pecuniary interest in an entity that changes with changes in the fair value of that entity's net assets, exclusive of variable interests, be evaluated in accordance with AcG-15 to determine if consolidation is appropriate. The Company is currently considering the impact of the adoption of such standards.

## 2. ACQUISITIONS AND DIVESTITURES

### *Acquisitions*

- (a) On September 1, 2004, Eye Corp acquired the remaining 50% of Eye Shop Pty Limited (formerly Eye Village Joint Venture). In addition, on July 1, 2005, Eye Corp acquired 100% of Eye Drive Melbourne Pty Limited (formerly Southcoast Pty Limited). The total purchase price was \$19.5 million (AUS\$21.2 million). The principal business activities of these companies is the sale of outdoor advertising.

Eye Corp accounted for these acquisitions using the purchase method. As such, the results of operations reflect revenue and expenses of the acquired operations since the date of acquisition. A summary of the fair value of the assets and liabilities acquired is as follows:

Current assets	5,872
Property, plant and equipment	5,224
Site licences	3,931
Goodwill	9,633
Liabilities	<u>(1,607)</u>
	<u>23,053</u>

Consideration:

Cash	19,487
Carrying value of investment at date of acquisition	<u>3,566</u>
	<u>23,053</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.

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. As a result of the inability to resolve disagreements with Hollinger regarding amounts owing, the Company has referred a claim of \$86.5 million to arbitration. When finalized, the working capital adjustment payable or refundable will increase or decrease the amount of goodwill recorded on the acquisition.

### *Divestitures*

- (a) In July 2004, through a series of transactions, the Company transferred its net assets and the operations of its New Zealand media operations to CanWest MediaWorks (NZ) Limited for a 70% interest in the ordinary shares of CanWest Mediaworks (NZ) Limited and repayment of inter-company debt. Concurrent with the transfer of the net assets and operations, CanWest MediaWorks (NZ) Limited completed an Initial Public Offering for 30% of its ordinary shares for NZ\$104.0 million, net of costs of NZ\$4.0 million (net proceeds of NZ\$83.3 million). In addition, CanWest MediaWorks (NZ) Limited entered into a term bank loan of NZ\$200.0 million. In preparation of these consolidated financial statements, the transfer of the net assets to CanWest MediaWorks (NZ) Limited has been accounted for at their carrying values. As a result of the reduction in the Company's interest in the New Zealand media operations, the Company recorded a gain of \$65.5 million in the year ended August 31, 2004.

### 3. OTHER INVESTMENTS

	<b>2005</b>	<b>2004</b>
Investments in private companies – at cost	12,715	12,998
Investments – on an equity basis	<u>10,344</u>	<u>13,832</u>
	<u><u>23,059</u></u>	<u><u>26,830</u></u>

In June 2004, the Company sold its investment in Ulster Television for proceeds of \$143.8 million, resulting in an investment gain of \$51.7 million in the year ended August 31, 2004.

In November 2004, the Company received proceeds of \$2.2 million from the liquidation of an investment in a private company, resulting in an investment gain of \$2.2 million as the investment was previously written off as a result of an impairment.

### 4. PROPERTY, PLANT AND EQUIPMENT

	<b>2005</b>		
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net</b>
Land	62,421	-	62,421
Buildings	203,368	40,511	162,857
Machinery and equipment	944,219	482,000	462,219
Leasehold and land improvements	<u>41,424</u>	<u>19,699</u>	<u>21,725</u>
	<u><u>1,251,432</u></u>	<u><u>542,210</u></u>	<u><u>709,222</u></u>
	<b>2004</b>		
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net</b>
Land	65,259	-	65,259
Buildings	206,408	35,520	170,888
Machinery and equipment	875,099	423,477	451,622
Leasehold and land improvements	<u>38,214</u>	<u>17,672</u>	<u>20,542</u>
	<u><u>1,184,980</u></u>	<u><u>476,669</u></u>	<u><u>708,311</u></u>

The net book value of property, plant and equipment located in Canada was \$587.5 million (2004 - \$586.0 million) and in foreign jurisdictions was \$121.7 million (2004 - \$122.3 million).

During 2005, the Company had no additions related to assets under capital leases. In 2004, the Company recorded additions of \$19.2 million related to assets under capital leases, of which \$15.4 million was added to buildings, and \$3.8 million was added to machinery and equipment.

The Company has assets under capital leases with original cost of \$19.2 million (2004 – \$15.4 million) and accumulated amortization of \$1.0 million (2004 – \$0.3).

## 5. GOODWILL

	2004	Additions	Divestitures	Other	2005
<b>Operating segment</b>					
Publishing and Online					
- Canada	1,707,595	-	-	(41,803) <sup>(2),(3)</sup>	1,665,792
Television – Canada	510,876	-	-	(535) <sup>(3)</sup>	510,341
Television – Network					
TEN	32,395	-	-	(1,384) <sup>(4)</sup>	31,011
Television – New					
Zealand	44,868	-	-	(1,975) <sup>(4)</sup>	42,893
Television – Ireland	4,280	-	-	(264) <sup>(4)</sup>	4,016
Radio – New Zealand	105,823	-	-	(5,950) <sup>(4)</sup>	99,873
Outdoor – Australia	63,853	9,633 <sup>(1)</sup>	-	(2,545) <sup>(4)</sup>	70,941
Total	<u>2,469,690</u>	<u>9,633</u>	<u>-</u>	<u>(54,456)</u>	<u>2,424,867</u>

	2003	Additions	Divestitures	Other	2004
<b>Operating segment</b>					
Publishing and Online					
- Canada	1,707,595	-	-	-	1,707,595
Television – Canada	510,876	-	-	-	510,876
Television – Network					
TEN	31,300	-	-	1,095 <sup>(4)</sup>	32,395
Television – New					
Zealand	43,672	-	-	1,196 <sup>(4)</sup>	44,868
Television – Ireland	4,280	-	-	-	4,280
Radio – New Zealand	100,353	-	-	5,470 <sup>(4)</sup>	105,823
Outdoor – Australia	61,972	-	-	1,881 <sup>(4)</sup>	63,853
Total	<u>2,460,048</u>	<u>-</u>	<u>-</u>	<u>9,642</u>	<u>2,469,690</u>

<sup>(1)</sup> Increase in goodwill related to TEN Group's acquisitions of Eye Shop Pty Limited and Eye Drive Melbourne Pty Limited (note 2).

<sup>(2)</sup> Decrease in goodwill of the Publishing and Online segment related to the National Post. Through its annual goodwill impairment testing the Company determined that the fair value of the National Post was less than its book value. As a result the Company recorded a goodwill impairment of \$41.4 million. In addition, the value of intangible assets related to National Post circulation was determined to be impaired (see note 6). The impairments resulted from the incurrence of successive years of operating losses in this business unit and its failure to achieve the profitability targets set out in its business plans.

<sup>(3)</sup> Decrease in goodwill related to an adjustment to reflect the reversal of certain unutilized restructuring provisions (note 9).

<sup>(4)</sup> Increase (decrease) in goodwill was related to fluctuations in currency translation rates.

## 6. INTANGIBLE ASSETS

	2005		
	Cost	Accumulated Amortization	Net
Finite life:			
Circulation and other	126,766	78,099	48,667
Broadcast and site licences	<u>44,750</u>	<u>5,336</u>	<u>39,414</u>
	<u>171,516</u>	<u>83,435</u>	<u>88,081</u>
Indefinite life:			
Broadcast licences			717,332
Newspaper mastheads			<u>338,886</u>
			<u>1,056,218</u>
<b>Total intangible assets</b>			<u>1,144,299</u>

	2004		
	Cost	Accumulated Amortization	Net
Finite life:			
Circulation and other	137,466	61,732	75,734
Broadcast and site licences	<u>40,758</u>	<u>2,444</u>	<u>38,314</u>
	<u>178,224</u>	<u>64,176</u>	<u>114,048</u>
Indefinite life:			
Broadcast licences			726,531
Newspaper mastheads			<u>338,886</u>
			<u>1,065,417</u>
<b>Total intangible assets</b>			<u>1,179,465</u>

The Australian Outdoor Advertising segment acquired site licences during the year in the amount of \$3.9 million (note 2). The New Zealand Radio Broadcast segment purchased broadcast licences during the year in the amount of \$2.2 million. These acquisitions are classified as broadcast and site licences in the note above.

An impairment loss of \$9.6 million (net of accumulated amortization of \$1.1 million) relating to finite-lived intangible assets classified as circulation and other was recorded during the year (note 5<sup>(2)</sup>). The impairment relates to the Publishing and Online – Canada segment.

Amortization of intangible assets of \$20.3 million was recorded in 2005 (2004 -\$18.2 million).

## 7. LONG TERM DEBT

	Interest Rate <sup>(1)</sup>	2005	Interest Rate <sup>(1)</sup>	2004
Senior secured credit facility <sup>(2)</sup>	6.9%	346,100	8.6%	665,011
Senior unsecured notes <sup>(3)</sup>	6.3%	237,420	6.3%	263,340
Senior subordinated notes <sup>(4)</sup>	7.5%	549,632	7.3%	608,373
Senior subordinated notes – exchange offer <sup>(5)</sup>	6.9%	936,967		-
Term and demand loan €8,368 (2004 - €13,678) <sup>(6)</sup>	3.2%	12,270	3.4%	21,943
Term bank loan NZ\$187,802 (2004 – NZ\$200,000) <sup>(7)</sup>	6.9%	154,824	6.2%	173,120
Unsecured bank loan AUS\$180,000 (2004 – AUS\$175,000) <sup>(8)</sup>	5.7%	160,794	5.7%	163,048
Senior unsecured notes US\$125,000 (2004 – US\$125,000) <sup>(9)</sup>	6.4%	148,609	6.7%	164,585
Junior subordinated notes <sup>(10)</sup>		-	12.1%	881,116
Other		4,250		-
		<u>2,550,866</u>		<u>2,940,536</u>
Effect of foreign currency swap		356,241		275,127
Long term debt		<u>2,907,107</u>		<u>3,215,663</u>
Less portion due within one year		<u>(21,017)</u>		<u>(29,908)</u>
Long term portion		<u><u>2,886,090</u></u>		<u><u>3,185,755</u></u>

<sup>(1)</sup> The weighted average interest rate gives effect to interest rate swaps.

<sup>(2)</sup> Credit facilities provide for revolving and term loans in the maximum amounts of \$413.1 million and \$346.1 million, respectively as at August 31, 2005. At August 31, 2005 the Company had drawn on availabilities under its term facilities, including U.S. dollar loans of US\$278.9 million, Canadian dollar loans of \$15.0 million, and had nil drawn under revolving facilities. The revolving credit facility matures in November 2006. The amount of credit available under the \$346.1 million term facilities decreases periodically based on scheduled repayments until maturity in August 2009. This credit facility is collateralized by substantially all the Canadian assets of the Company. The Canadian dollar debt bears interest at CDOR plus a margin and the US dollar debt bears interest at LIBOR plus a margin. During 2005, the Company repaid US\$209.6 million under this credit facility which resulted in a foreign exchange gain of \$68.3 million, which has been included in foreign exchange gains on the income statement. In October 2005 these credit facilities were extinguished, see note 24.

The Company has entered into an interest rate swap in the notional amount of \$250 million to fix the interest payments on this revolving facility and subsequent revolving facilities until November 2009, resulting in an effective interest rate of 6.7% plus a margin. As a result of the revolving facility not being drawn upon, the notional amount of \$250 million was overhanging as at August 31, 2005 (2004 –\$250 million) and its fair value was recognized in earnings. The Company has entered into an interest rate swap to fix the interest payments on its Canadian dollar term loans, until maturity, with a notional value of \$197.8 million (2004 - \$278.3 million) resulting in an effective interest rate of 6.3% plus a margin. As a result of debt repayments and the reduction of notional amounts, a notional amount of \$182.8 million was overhanging as at August 31, 2005 (2003 - \$256.5 million) and its fair value was recognized in earnings. The Company has also entered into a cross currency interest rate swap to fix its payments on its U.S. dollar term loans, until maturity, with a notional amount of \$1,050.5 million (2004 - \$1,061.5 million) resulting in an effective interest rate of 6.7% and a fixed currency exchange rate of US\$1:\$1.5485. As a result of debt repayments a notional amount of \$618.6 million was overhanging as at August 31, 2005 (2004 - \$305.0 million) and its fair value was recognized in earnings. For the year ended August 31, 2005, total overhanging swap losses of \$186.1 million (2004 - \$110.9 million) were charged to earnings. The resulting overhanging swap liability as at August 31, 2005 was \$212.8 million (2004 - \$120.3 million). In November 2005, \$525.3 million of the notional amount cross currency interest rate swaps were settled, see note 24.

<sup>(3)</sup> The US\$200.0 million senior unsecured notes mature in April 2013 and bear interest at 7.625%. The notes are redeemable at the Company's option, in whole at any time or in part from time to time, on or after April 15, 2008. The Company has entered into a US\$200 million cross-currency interest rate swap resulting in floating interest rates on its senior unsecured notes at interest rates based on CDOR plus a margin and a fixed currency exchange rate of US\$1:\$1.4735 until May 2013. In October 2005, US\$199.8 million of these notes were settled and in November 2005, the cross-currency interest rate swaps were settled, see note 24.

<sup>(4)</sup> The senior subordinated notes include loans of US\$425.0 million, \$4.6 million and loans held by the majority shareholder of the Company in the amount of US\$41.9 million (2004 – US\$41.9 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. The notes are redeemable at the Company's option, in whole at any time or in part from time to time, on or after May 15, 2006. The Company has entered into a US\$425.0 million cross-currency interest rate swap resulting in floating interest rates on its senior subordinated notes at interest rates based on CDOR plus a margin and a fixed currency exchange rate of US\$1:\$1.5505. In October 2005, US\$419.9 million and \$0.7 million of the notes, and all of the loans held by the majority shareholder were settled. In addition, in November 2005, the cross-currency interest rate swap was settled, see note 24.

<sup>(5)</sup> On November 18, 2004, the Company completed an exchange offer to exchange a new series of 8% Senior Subordinated notes due 2012 for the outstanding 12.125% Senior notes due 2010 issued by the Hollinger Participation Trust. In the exchange offer, the holders of the trust notes received US\$1,240 principal amount of new notes in exchange for each US\$1,000 of trust notes. In addition, the Company completed a concurrent offer of notes, proceeds of which were used to retire the 12.125% junior subordinated notes held by Hollinger, which had not been participated to the Hollinger Participation Trust. The effect of these transactions replaced the Company's existing \$903.6 million 12.125% junior subordinated notes (including accrued interest to November 18, 2004) with new \$908.1 million (US\$761.1 million) 8% senior subordinated notes.

The issuance of the new notes was recorded at their fair value at November 18, 2004 of \$944 million. The difference between the fair value of the new notes and the book value of the junior subordinated notes together with certain other costs of settling the debt totaling \$44 million, was charged to earnings as a loss on debt extinguishment.

The new senior subordinated notes include loans of US\$761.1 million mature on September 15, 2012 and bear interest at 8.0%. The notes rank junior to the Company's senior credit facility and are guaranteed by certain subsidiaries of the Company. The notes are redeemable at the Company's option on or after September 15, 2009. The Company has entered into a US\$761.1 million cross-currency interest rate swap resulting in floating interest rates on its senior subordinated notes at interest rates based on CDOR plus a margin and a fixed currency exchange rate of US\$1:\$1.1932 until September 2012.

<sup>(6)</sup> These credit facilities provide for demand bank loans maturing December 2005 in the maximum amount of €36.5 million (2004 - €38.5 million). This facility is expected to be renewed annually. The debt bears interest at floating rates. The Company has entered into an interest rate swap to fix the interest payments on €10.0 million of its loan resulting in an effective interest rate of 3.23% until March 2008.

<sup>(7)</sup> These credit facilities provide for revolving working capital and revolving term loans in the amount of NZ\$25.0 million and NZ\$200.0 million respectively, and are subject to a negative pledge deed. The working capital facility matures July 2007 and the term facility matures July 2009. At August 31, 2005 NZ\$1.0 million (August 31, 2004 – nil) and NZ\$186.8 million (August 31, 2004 – NZ\$200.0 million) were drawn under the working capital and revolving term loan facilities, respectively. The debt bears interest at floating rates. The Company has entered into an interest rate swap to fix the interest payments on NZ\$165.0 million of its New Zealand term bank loan resulting in an effective interest rate of 6.17% until July 2006.

<sup>(8)</sup> Credit facility provides for a maximum of \$625.3 million (AUS\$700.0 million) in advances. At August 31, 2005 the TEN Group had drawn AUS\$180.0 million against this facility leaving an availability of AUS\$520.0 million. This facility matures in December 2008. The TEN Group entered into interest rate swap contracts with a notional amount of AUS\$250.0 million to fix the interest on this facility and subsequent facilities with maturities to 2011. The swap contracts are not designated as hedging instruments and accordingly, the fair value of \$2.3 million were charged to net earnings (2004 - \$0.1 million) and a corresponding liability of \$2.3 million (2004 - \$0.1 million) was recorded. The effective interest rate of this debt is approximately 5.7%.

<sup>(9)</sup> The US\$125.0 million unsecured notes mature in March 2013. The TEN Group has entered into a US\$125.0 million cross currency interest rate swap resulting in floating rates and a fixed currency exchange rate of US\$1:AUS\$1.6807. The effective interest rate of this debt is approximately 6.9%.

<sup>(10)</sup> The 12.125% junior subordinated notes due November 2010 were settled through the exchange offer (see note 7<sup>(5)</sup>). Under the terms of the notes interest obligations were satisfied by the issuance of additional notes. In 2005, the related interest was \$22.5 million (2004 - \$98.0 million).

Under its Senior Secured Credit facility the Company was required to maintain a fair value of its interest rate swaps and foreign currency and interest rate swaps above a prescribed minimum liability (\$600.0 million as at August 31, 2005). There were also prescribed minimum liabilities with individual counterparties, which have two-way recouping provisions. The Company was required to make net recouping payments of \$97.0 million during 2005 (2004 – \$28.0 million), \$55.3 million of this recouping payment related to overhanging swaps and accordingly was reflected in cash flows from operating activities. Subsequent to August 31, 2005 the Company made further net recouping payments of \$118.5 million. Further strengthening of the Canadian currency and/or declining interest rates may result in further payments to counterparties.

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, 2005 over the next five years, are:

Year ending August 31,	2006	21,017
	2007	5,339
	2008	4,514
	2009	748,177
	2010	-

Subsequent to August 31, 2005 the Company entered into new senior secured credit facilities, see note 24.

## 8. OBLIGATIONS UNDER CAPITAL LEASES

The Company has entered into capital leases with future minimum lease payments for the years ended August 31 as follows:

2006	2,637
2007	4,890
2008	3,529
2009	3,868
2010	3,654
Thereafter	<u>5,368</u>
Total minimum lease payments	23,946
Amount representing interest (at rates of 5.9% to 9.6%)	<u>(6,646)</u>
Present value of minimum capital lease payments	17,300
Less current portion of obligations under capital leases	<u>(1,199)</u>
	<u><u>16,101</u></u>

Interest expense recorded on the obligations under capital leases was \$1.4 million (2004 – \$0.2 million).

## 9. RESTRUCTURING ACCRUALS

As at August 31, 2003, the Company had restructuring accruals of \$15.2 million related to its acquisition and restructuring of WIC Western International Communications Ltd. ("WIC"), its publishing properties, as well as a result of operating restructuring activities undertaken in its Canadian Media and Entertainment operations.

In 2004, the Company restructured certain other Canadian broadcast operations including the centralization of traffic and master control operations. The \$2.4 million cost consisted of employee severance.

For the year ended August 31, 2005, expenditures charged to the restructuring accruals were \$3.6 million (August 31, 2004 - \$11.2 million).

In 2005, the Company reversed unutilized restructuring accruals in the amount of \$1.4 million. The reversals of \$0.8 million related to the Canadian Television segment and \$0.6 million related to the Canadian Publishing and Online segment with related tax effects of \$0.3 million and \$0.2 million, respectively, were recorded as reductions of goodwill.

	<b>Severance</b>	<b>Lease/ contract termination</b>	<b>Integration</b>	<b>Other</b>	<b>Total</b>
Balance August 31, 2003	10,203	2,428	250	2,340	15,221
Canadian television	2,445	-	-	-	2,445
Expenditures – 2004	<u>(7,630)</u>	<u>(2,269)</u>	<u>-</u>	<u>(1,341)</u>	<u>(11,240)</u>
Balance August 31, 2004	5,018	159	250	999	6,426
Expenditures – 2005	(3,208)	(143)	(250)	-	(3,601)
Reversal – 2005	<u>(594)</u>	<u>(16)</u>	<u>-</u>	<u>(800)</u>	<u>(1,410)</u>
Balance August 31, 2005	<u>1,216</u>	<u>-</u>	<u>-</u>	<u>199</u>	<u>1,415</u>

## 10. 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 with certain limitations. Under certain conditions, the series 1 preference shares carry preferential voting rights pertaining to the election of up to two directors of the Company. Each series 1 preference shares is convertible, at the option of the holder, into 0.15 subordinate voting or non-voting shares.

Series 2 preference shares are not eligible to vote, and at the option of the Company, are 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.

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.

At August 31, 2005, and August 31, 2004, there were no series 1 or series 2 preference shares outstanding.

<i>Issued</i>	<b>2005</b>	<b>2004</b>
76,785,976 (2004 – 76,785,976) multiple voting shares	3,199	3,199
98,813,655 (2004 – 98,667,438) subordinate voting shares	824,543	820,625
1,795,092 (2004 – 1,825,718) non-voting shares	<u>22,167</u>	<u>24,804</u>
	<u>849,909</u>	<u>848,628</u>

Changes in outstanding share capital during the two years ended August 31, 2005 were as follows:

	<b>Number of shares</b>	<b>\$</b>
<b>Multiple voting share capital:</b>		
Balance – August 31, 2004 and 2005	<u>76,785,976</u>	<u>3,199</u>
<b>Subordinate voting share capital:</b>		
Balance – August 31, 2003	98,280,291	815,545
Changes pursuant to:		
Share purchase plans	32,561	446
Exercise of stock options	114,056	1,358
Conversion from non-voting shares – net	<u>240,530</u>	<u>3,276</u>
Balance – August 31, 2004	98,667,438	820,625
Changes pursuant to:		
Share purchase plans	25,711	371
Exercise of stock options	89,242	901
Redeemed fractions	(4)	-
Conversion from non-voting shares – net	<u>31,268</u>	<u>2,646</u>
Balance – August 31, 2005	<u>98,813,655</u>	<u>824,543</u>
<b>Non-voting share capital:</b>		
Balance – August 31, 2003	2,066,248	28,080

Changes pursuant to:		
Conversion to subordinate voting shares – net	<u>(240,530)</u>	<u>(3,276)</u>
Balance – August 31, 2004	1,825,718	24,804
Changes pursuant to:		
Share purchase plans	642	9
Conversion to subordinate voting shares – net	<u>(31,268)</u>	<u>(2,646)</u>
Balance –August 31, 2005	<u>1,795,092</u>	<u>22,167</u>

### ***Share Compensation Plans***

The Company's board of directors has approved share compensation plans, the purpose of which is to provide employees 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. Except as described below 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 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 compensation expense and a credit to contributed surplus of \$2.5 million for the year ended August 31, 2005 (2004 - \$1.0 million). The fair value of the options granted during the year ended August 31, 2005 was estimated using the Black-Scholes option pricing model with the assumptions of no dividend yield (2004 – nil), an expected volatility of 42% (2004 – 52%), risk free interest rates of 4.2% (2004 – 4.4% to 4.9%) and an expected life of 7 years (2004 – 7 to 9 years).

The total fair value of 1,177,500 stock options granted by the Company in the year ended August 31, 2005 with an average exercise price of \$12.06 per option was \$6.4 million, a weighted average fair value per option of \$5.44. During 2004, 523,000 stock options were granted with a total fair value of \$4.0 million, and a weighted average fair value per option of \$7.58. During the year, the Company agreed to issue approximately 187,000 shares, which vest in two years, for no consideration. The fair value of the shares at the time of issuance was \$10.40 per share. During the year ended August 31, 2005, the Company recorded compensation expense, and a credit to contributed surplus, of \$0.6 million related to these shares.

The proforma cost of share compensation expense if the Company had adopted the fair value method retroactively for the year ended August 31, 2005 would be \$1.3 million (2004 –\$1.6 million). A value of \$1.6 million would 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 year ended August 31, 2005 would have been \$19.2 million, \$0.11 and \$0.11 respectively (2004 - \$192.7 million, \$1.09, and \$1.09). The resulting proforma net earnings (loss), basic and diluted earnings per share for the year ended August 31, 2005 would have been \$9.0 million, \$0.05 and \$0.05 respectively (2004 – (\$15.0) million, (\$0.09), and (\$0.09)).

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

	2005		2004	
	Options	Average Price \$	Options	Average Price \$
Options outstanding, beginning of year	2,360,483	13.74	2,075,561	13.95
Changes pursuant to:				
Options granted	1,177,500	12.06	523,000	12.85
Options exercised	(89,242)	10.10	(114,056)	11.91
Options expired	(583,113)	13.74	(5,798)	15.22
Options forfeited	<u>(371,426)</u>	11.25	<u>(118,224)</u>	15.21
Options outstanding, end of year	<u>2,494,202</u>	13.45	<u>2,360,483</u>	13.74
Options exercisable as at August 31	1,725,914	15.10	1,314,380	15.45

The following options to purchase subordinate voting shares or non-voting shares were outstanding and exercisable as at August 31, 2005:

Range of exercise prices \$	Number outstanding	Weighted average remaining life years	Weighted average exercise price \$	Number exercisable	Weighted average exercise price \$
5 – 10	259,410	7.1	7.21	56,810	7.19
10 – 15	1,581,144	8.5	12.29	885,843	12.43
15 – 20	402,397	4.6	16.24	498,785	16.48
20 – 25	246,558	2.5	22.63	279,783	22.54
25 and over	<u>4,693</u>	2.3	25.67	<u>4,693</u>	25.67
	<u>2,494,202</u>	7.1	13.45	<u>1,725,914</u>	15.10

## 11. 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.

	<b>2005</b>	<b>2004</b>
Net earnings from continuing operations	20,422	194,299
Net loss from discontinued operations	<u>(10,132)</u>	<u>(207,777)</u>
Net earnings (loss) available to common shareholders	<u>10,290</u>	<u>(13,478)</u>
Basic weighted average shares outstanding during the year	177,319,675	177,235,944
Dilutive effect of options	<u>328,915</u>	<u>158,074</u>
Diluted weighted average shares outstanding during the year	<u>177,648,590</u>	<u>177,394,018</u>
Options outstanding that would have been anti-dilutive	<u>859,609</u>	<u>1,930,283</u>

## 12. 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 U.S. currencies relative to the Canadian currency, and changes in the Company's net investment in the book values of international operations.

Changes in this account were as follows:

	<b>2005</b>	<b>2004</b>
Deferred loss, beginning of year	13,821	30,646
Deferred foreign currency gain during the year	(2,506)	(9,802)
Realization of translation gains (losses) due to distributions and divestitures	<u>622</u>	<u>(7,023)</u>
Deferred loss, end of year	<u>11,937</u>	<u>13,821</u>

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

	<b>2005</b>	<b>2004</b>
Australian dollar	9,880	8,242
New Zealand dollar	1,498	(1,102)
Euro	559	1,032
United States dollar	<u>-</u>	<u>5,649</u>
	<u>11,937</u>	<u>13,821</u>

### 13. INCOME TAXES

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

	<b>2005</b>	<b>2004</b>
Income taxes at combined Canadian statutory rate of 34.9% (2004 – 35.2%)	47,054	111,382
Non-taxable portion of capital gains	(521)	(36,733)
Effect of valuation allowance on future tax assets	2,853	2,200
Effect of foreign income tax rates differing from Canadian income tax rates	(16,001)	(40,883)
Incremental taxes on debt extinguishment	5,652	-
Large corporation tax and withholding tax	2,839	7,721
Effect of change in tax rates	(2,896)	9,398
Non-deductible expenses	4,126	3,389
Goodwill impairment	14,546	-
Prior period temporary differences not previously tax effected	(6,644)	-
Effect of resolved tax dispute	(10,299)	(19,667)
Change in Australian tax consolidation legislation	(17,710)	-
Other	<u>(2,527)</u>	<u>678</u>
Provision for income taxes	<u>20,472</u>	<u>37,485</u>

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

	<b>2005</b>	<b>2004</b>
Canada	(183,627)	(85,551)
Foreign	<u>318,453</u>	<u>401,976</u>
Net earnings before tax	<u>134,826</u>	<u>316,425</u>

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

	<b>2005</b>	<b>2004</b>
Current income taxes		
Canada	(1,588)	9,704
Foreign	<u>96,409</u>	<u>36,091</u>
	<u>94,821</u>	<u>45,795</u>
Future income taxes		
Canada	(55,710)	(23,149)
Foreign	<u>(18,639)</u>	<u>14,839</u>
	<u>(74,349)</u>	<u>(8,310)</u>
Provision for income taxes	<u>20,472</u>	<u>37,485</u>

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

	2005	2004
<b><i>Future tax assets</i></b>		
Non-capital loss carryforwards	186,933	154,831
Provision for write down of investments	11,337	12,442
Accounts payable, other accruals and interest rate and foreign currency swap liability	90,402	60,575
Post retirement benefits	14,402	9,028
Less: Valuation allowance	<u>(102,573)</u>	<u>(96,351)</u>
Total future tax assets	<u>200,501</u>	<u>140,525</u>
<b><i>Future tax liabilities</i></b>		
Capital cost allowances in excess of book amortization	86,059	85,038
Pension assets - net	3,505	2,428
Broadcast rights	38,590	42,008
Intangible assets	116,466	131,201
Other assets	<u>19,848</u>	<u>15,623</u>
Total future tax liabilities	<u>264,468</u>	<u>276,298</u>
Net future tax liability	63,967	135,773
Current portion of future tax asset	3,893	6,166
Long term portion of future tax asset	54,058	45,826
Current portion of future tax liability	(44,663)	(48,080)
Discontinued operations' future tax liability	<u>-</u>	<u>(405)</u>
Net long term future tax liability	<u>77,255</u>	<u>139,280</u>

The provision for income taxes for the year ended August 31, 2005, includes adjustments for prior period temporary differences not previously tax effected aggregating to \$6.6 million (\$5.8 million future income tax, and \$0.8 million current income tax). The Company has determined these adjustments are not material to the previously reported and current year results, accordingly, the adjustments have been included in the current year's earnings. These adjustments have the effect of increasing basic and diluted earnings per share for the year ended August 31, 2005, by \$0.04 per share.

As at August 31, 2005, the Company had non-capital loss carry forwards for income tax purposes of \$672.8 million, that expire as follows: 2006 - \$2.0 million, 2007 - \$6.8 million, 2008 - \$22.1 million, 2009 - \$87.3 million, 2010 - \$53.9 million, thereafter - \$500.7 million.

The recognition and measurement of the current and future tax assets and liabilities involves dealing with uncertainties in the application of complex tax regulations in a number of jurisdictions and in the assessment of the recoverability of future tax assets. Actual income taxes could vary from these estimates as a result of future events, including changes in income tax laws or the outcome of tax reviews by tax authorities and related appeals. To the extent that the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax provision in the period in which the determination is made.

#### 14. INVESTMENT GAINS, LOSSES AND WRITE-DOWNS

The Company has recorded the following investment gains, losses and writedowns.

	<b>2005</b>	<b>2004</b>
Gain on sale of other investment (note 3)	2,171	-
Gain on sale of investment in UTV (note 3)	-	51,717
Dilution gain – CanWest MediaWorks (NZ) Limited (note 2)	-	65,515
Dilution gain – TEN Group	660	1,889
Other losses and write-downs	<u>(1,304)</u>	<u>(3,335)</u>
	<u><u>1,527</u></u>	<u><u>115,786</u></u>

#### 15. DISCONTINUED OPERATIONS

In the year ended August 31, 2004 the Company commenced a process to sell its Fireworks Entertainment Division. As a result, the results of operations of Fireworks were classified as a loss from discontinued operations in the consolidated statements of earnings, the net cash flows were classified as operating, investing and financing activities from discontinued operations in the consolidated statements of cash flows and the assets and liabilities were classified on the consolidated balance sheets as assets and liabilities of discontinued operations. Prior to the classification as a discontinued operation, these results were reported within the Canadian Entertainment segment. In July 2005, a subsidiary of the Company sold certain assets and operations which comprise its film and television program operations for net proceeds of \$16.1 million. \$2.3 million of these proceeds are recorded in accounts receivable as they have been held in escrow to be released over a 30 month period. In September 2005, a subsidiary of the Company completed the sale of its remaining film and television program rights for net proceeds of \$2.9 million. Certain remaining accounts receivable and accounts payable will be settled by the Company.

The loss from discontinued operations of Fireworks is summarized as follows:

	<b>2005</b>	<b>2004</b>
Revenue	<u>56,748</u>	<u>115,852</u>
Loss from discontinued operations before tax expense	(9,428)	(207,078)
Income tax expense	<u>(704)</u>	<u>(699)</u>
Loss from discontinued operations	<u><u>(10,132)</u></u>	<u><u>(207,777)</u></u>
Loss from discontinued operations per share:		
Basic and diluted	(\$0.06)	(\$1.18)

The carrying values of the net assets related to the discontinued Fireworks Entertainment division are as follows:

	<b>2005</b>	<b>2004</b>
Accounts receivable	329	85,269
Investment in film and television programs	2,521	-
Other current assets	-	<u>3,825</u>
Total current assets	<u>2,850</u>	<u>89,094</u>
Investment in film and television programs	-	37,971
Other assets	-	<u>405</u>
Total non current assets	-	<u>38,376</u>
Debt	-	(23,571) <sup>(1)</sup>
Other current liabilities	-	<u>(46,145)</u>
Total current liabilities	-	<u>(69,716)</u>
Net assets	<u><u>2,850</u></u>	<u><u>57,754</u></u>

(1) This included a three year revolving facility collateralized by certain assets of Fireworks Entertainment Inc. This loan was fully repaid and effective December 21, 2004, the facility has been terminated.

## 16. STATEMENTS OF CASH FLOWS

The following amounts comprise the net change in non-cash operating accounts included in the statements of cash flows excluding non-cash operating accounts related to discontinued operations:

	<b>2005</b>	<b>2004</b>
CASH GENERATED (UTILIZED) BY:		
Accounts receivable	30,664	(1,787)
Investment in film and television programs	12,448	(3,781)
Inventory	(84)	1,060
Other current assets	(6,726)	(5,052)
Other assets	(26,605)	(6,086)
Accounts payable and accrued liabilities	24,550	(21,638)
Income taxes payable	20,721	(26,101)
Deferred revenue	2,556	4,151
Film and television program accounts payable	<u>3,581</u>	<u>(21,490)</u>
	<u><u>61,105</u></u>	<u><u>(80,724)</u></u>

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

	<b>2005</b>	<b>2004</b>
Interest	216,198	226,702
Income taxes	76,445	71,371

## 17. RETIREMENT ASSETS AND OBLIGATIONS

The Company has a number of funded and unfunded defined benefit plans, as well as defined contribution plans, that provide pension, other retirement and post retirement benefits to its employees. Its defined benefit pension plans are based on years of service and final average salary. Information on the Company's pension and post retirement benefit plans follows:

	<u>Pension benefits</u> <sup>(1)</sup>		<u>Post retirement benefits</u> <sup>(2)</sup>	
	2005	2004	2005	2004
<b>Plan Assets</b>				
Fair value – beginning of year	276,707	250,877	-	-
Divestiture	-	(25)	-	-
Actual return on plan assets	32,184	19,538	-	-
Employer contributions	15,913	13,883	249	277
Employee contributions	6,153	6,125	-	-
Benefits paid and administrative expenses	<u>(14,109)</u>	<u>(13,691)</u>	<u>(249)</u>	<u>(277)</u>
Fair value – end of year	<u>316,848</u>	<u>276,707</u>	<u>-</u>	<u>-</u>
<b>Plan Obligations</b>				
Accrued benefit obligation – beginning of year	366,149	337,436	34,985	30,724
Accrued interest on benefits	24,440	22,413	2,346	2,334
Current service costs	18,002	17,078	1,329	1,260
Benefits paid	(12,770)	(13,064)	(249)	(277)
Actuarial losses	<u>49,967</u>	<u>2,286</u>	<u>7,177</u>	<u>944</u>
Accrued benefit obligation – end of year	<u>445,788</u>	<u>366,149</u>	<u>45,588</u>	<u>34,985</u>

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

Accrued benefit obligations	445,788	366,149	45,588	34,985
Fair value of plan assets	<u>316,848</u>	<u>276,707</u>	<u>-</u>	<u>-</u>
Plan deficits	(128,940)	(89,442)	(45,588)	(34,985)
Unamortized net actuarial losses (gains)	118,858	82,609	(395)	(7,930)
Unamortized transitional obligations	5,353	5,786	2,723	3,026
Unamortized past service costs	<u>13,730</u>	<u>14,936</u>	<u>838</u>	<u>973</u>
Accrued plan asset (liability)	9,001	13,889	(42,422)	(38,916)
Valuation allowance	<u>(572)</u>	<u>(722)</u>	<u>-</u>	<u>-</u>
Accrued net plan asset (liability), net of valuation allowance	<u>8,429</u>	<u>13,167</u>	<u>(42,422)</u>	<u>(38,916)</u>

The accrued plan asset of \$27.2 million (2004 - \$27.9 million) is included in long term other assets, the accrued plan liability of \$18.8 million (2004 - \$14.8 million) and the accrued post retirement plan liability is included in other long term liabilities in the consolidated balance sheet.

Plan assets consist of:	<u>Actual</u>	<u>Target</u>
Equity securities	54%	53%
Debt securities	41%	42%
Other	<u>5%</u>	<u>5%</u>
Total	<u>100%</u>	<u>100%</u>

The pension plans have no investment in securities of CanWest entities.

The Company measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at June 30 of each year. The most recent actuarial valuation for the most significant of our pension plans, which make up over half of our accrued benefit obligation, was as of December 31, 2003. The valuation indicated that the plan had an unfunded liability. As a result, the Company is required to make additional contributions of \$1.0 million annually for fifteen years. The next required valuation will be as of December 31, 2004 with an expected completion date of December 2005. The investment strategy for pension plan assets is to utilize a balanced mix of equity and fixed income portfolios, with limited additional diversification, to earn a long-term investment return that meets our pension plan obligations. Active management strategies and style diversification strategies are utilized in anticipation of realizing investment returns in excess of market indices.

Total cash payments for 2005, consisting of cash contributed by the Company to its funded pension plans, cash payments to beneficiaries for its post-retirement plans, and cash contributed to its defined contribution plans, was \$25.1 million (2004 - \$22.6 million)

The Company's pension benefit expense is determined as follows:

	Year ended August 31, 2005			Year ended August 31, 2004		
	Incurring in year	Matching adjustments <sup>(3)</sup>	Recognized In year	Incurring in year	Matching adjustments <sup>(3)</sup>	Recognized In year
Current service cost	18,002	-	18,002	17,078	-	17,078
Employee contributions	(6,153)	-	(6,153)	(6,125)	-	(6,125)
Accrued interest on benefits	24,440	-	24,440	22,413	-	22,413
Return on plan assets	(32,184)	11,881	(20,303)	(19,538)	1,227	(18,311)
Administrative expenses	1,339	(1,339)	-	627	(627)	-
Transitional obligation	-	433	433	-	434	434
Past service costs	-	1,206	1,206	-	1,206	1,206
Net actuarial loss	49,967	(46,782)	3,185	2,286	1,227	3,513
Changes in valuation allowance	-	(150)	(150)	-	(48)	(48)
Benefit expense	55,411	(34,751)	20,660	16,741	3,419	20,160
Employer contribution to the defined contribution plan	8,973	-	8,973	8,488	-	8,488
Total pension benefit expense	64,384	(34,751)	29,633	25,229	3,419	28,648

The Company's post retirement benefit expense is determined as follows:

	Year ended August 31, 2005			Year ended August 31, 2004		
	Incurring in year	Matching adjustments <sup>(3)</sup>	Recognized In year	Incurring in year	Matching adjustments <sup>(3)</sup>	Recognized In year
Current service cost	1,329	-	1,329	1,260	-	1,260
Accrued interest on benefits	2,346	-	2,346	2,334	-	2,334
Transitional obligation	-	303	303	-	303	303
Past service costs	-	135	135	-	137	137
Net actuarial loss	7,177	(7,535)	(358)	944	(941)	3
Total post retirement benefit expense	10,852	(7,097)	3,755	4,538	(501)	4,037

	<u>Pension benefits</u>		<u>Post retirement benefits</u>	
	2005	2004	2005	2004
Significant actuarial assumptions in measuring the Company's accrued benefit obligations as at June 30 are as follows:				
Discount rate	5.35%	6.50%	5.35%	6.50%
Rate of compensation increase	3.00%	3.50%	-	-

Significant actuarial assumptions in measuring the Company's benefit costs as at June 30 are as follows:

Discount rate	6.50%	6.50%	6.50%	6.50%
Expected long-term rate of return on pension plan assets	7.25%	7.25%	-	-
Rate of compensation increase	3.50%	3.50%	-	-

The discount rate was estimated by applying Canadian corporate AA zero coupon bonds to the expected future benefit payments under the plans. For fiscal 2006, the expected long-term rate of return on plan assets will continue to be 7.25%, based on the investment mix, current yields and experience. In 2006, the Company expects to contribute \$16.5 million to its defined benefit pension plans and \$0.3 million to its other postretirement benefit plans.

Benefit payments, which reflect expected future service, are expected to be paid as follows for the years ending August 31:

Year ending August 31,	2006	14,189
	2007	16,210
	2008	18,028
	2009	20,329
	2010	22,249
	2011 – 2015	151,266

- (1) As at August 31, 2005 the Company has defined benefit pension plans that are not fully funded. These plans have aggregate plan assets of \$309.9 million (2004 - \$196.7 million) and aggregate benefit obligations of \$439.1 million (2004 - \$291.0 million)
- (2) Post retirement plans are non-contributory and include health, dental, and life insurance benefits. The assumed health care cost trend rates for the next year used to measure the expected cost of benefits covered for the post retirement health and life plans were 9.0% for medical and 7.0% for dental, decreasing to an ultimate rate of 5.0% for medical and 6.0% for dental in 2009 and 2013, respectively. A one percentage point increase in assumed health care cost trend rates would have increased the service and interest costs and obligation by \$0.6 million and \$6.8 million, respectively. A one percentage point decrease in assumed health care cost trends would have lowered the service and interest costs and the obligation by \$0.5 million and \$5.3 million, respectively.
- (3) Accounting adjustments to allocate costs to different periods so as to recognize the long-term nature of employee future benefits.

## 18. FINANCIAL INSTRUMENTS

Financial instruments consist of the following:

	2005		2004	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Short term assets	516,426	516,426	585,689	585,689
Other investments	23,059	25,619	26,830	32,978
Short term liabilities	599,183	599,183	491,652	491,652
Long term debt	2,550,866	2,774,648	2,940,536	3,100,279
Obligations under capital leases	17,300	17,300	18,400	18,400
Other long term accrued liabilities	83,344	83,344	125,725	125,725
Interest rate and cross currency swap liabilities	516,175	634,828	377,979	465,127

The fair values of short-term assets and liabilities, which include cash, accounts receivable, accounts payable and accrued liabilities, income taxes payable 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 and comparable valuations for non-listed securities.

The fair value of long term debt subject to floating interest rates approximates its 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 the obligations under capital leases approximate their carrying values as interest rates for similar leases have not changed significantly.

The fair values of other long term liabilities, including film and television program accounts payable, approximate their carrying values.

The fair values of 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 7.

## 19. JOINTLY CONTROLLED ENTERPRISES

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

	2005	2004
<b>Balance sheets</b>		
Assets		
Current assets	10,304	11,140
Long term assets	<u>10,205</u>	<u>9,695</u>
	<u>20,509</u>	<u>20,835</u>
Liabilities		
Current liabilities	23,488	28,902
Long term liabilities	<u>958</u>	<u>-</u>
	<u>24,446</u>	<u>28,902</u>
 <b>Statements of earnings</b>		
Revenue	37,002	31,634
Expenses	<u>31,284</u>	<u>27,591</u>
Net earnings	<u>5,718</u>	<u>4,043</u>
 <b>Statements of cash flows</b>		
Cash generated (utilized) by:		
Operating activities	6,271	7,633
Investing activities	(688)	117
Financing activities	<u>(8,144)</u>	<u>(5,230)</u>
Net increase (decrease) in cash	<u>(2,561)</u>	<u>2,520</u>

## 20. RELATED PARTY TRANSACTIONS

Senior subordinated notes held by CanWest Communications Corporation, the Company's parent, totaled \$49.7 million (US\$41.9 million) at August 31, 2005 (2004 - \$55.0 million). This debt matures on May 15, 2011 and bears interest at 10.625%. During 2005, interest expense related to this debt totaled \$6.0 million (2004 - \$6.3 million). In October 2005, these notes were settled by the Company under the same terms offered to the unrelated senior subordinated note holders for \$55.4 million.

A company which is owned by CanWest Communications Corporation owns CanWest Global Place in Winnipeg, Manitoba, a building in which the Company is a tenant. During 2005, rent paid to this company amounted to \$1.1 million (2004 - \$1.1 million) and is included in selling, general and administrative expenses. The obligations under these operating leases continue until August 2010.

All the related party transactions have been recorded at the exchange amounts, which are representative of market rates.

## 21. CONTRACT TERMINATION

Effective April 2005, the Company terminated the agreement under which the Company received management services from The Ravelston Corporation Limited ("Ravelston"). The agreement provided for annual payments of \$6.0 million to Ravelston as well as the payment of a fee upon termination. In August 2005, the Company and RSM Richter Inc., in its capacity as interim receiver, receiver manager and monitor of Ravelston, received Court approval for a termination payment in the amount of \$12.8 million, which was paid in September 2005. This charge was recorded in operating expenses for year ended August 31, 2005.

## 22. COMMITMENTS, CONTINGENCIES and GUARANTEES

### COMMITMENTS

(a) 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 approximately \$335 million.

(b) The Company's future minimum payments under the terms of its operating leases are as follows:

2006	72,828
2007	57,475
2008	47,519
2009	32,084
2010	24,496
Thereafter	120,766

(c) As part of the joint venture agreement with Metro International S.A. and Torstar Corporation, the Company has agreed to fund its proportionate share of capital requirements and operating losses up to a prescribed limit per city. Currently, the Company has agreed to the launch of *Metro* in four cities with the aggregate amount of the commitment being \$8.8 million.

### CONTINGENCIES

(d) The Company has requested arbitration related to \$86.5 million owed by Hollinger International Inc., Hollinger Inc. and certain related parties (collectively "Hollinger") related to certain unresolved adjustments and claims related to its November 15, 2000 acquisition of certain newspaper assets from Hollinger. Hollinger disputes this claim and claims that it and certain of its affiliates are owed \$45 million by the Company. The outcome and recoverability of this claim is not determinable.

- (e) 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 shareholders 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 action was stayed on the basis that the Ontario courts have no jurisdiction to try the claim. In April 2004, a statement of claim was filed in Manitoba by the same minority shareholders, which was substantially the same as the previous claim, seeking damages of \$405 million. In June 2005, the Company filed a Statement of Defence and Counterclaim. In its Counterclaim, the Company is seeking a declaration of the fair value of the former minority shareholders' interest in CBL and repayment of the difference between the fair value and the redemption amount paid by the Company to the former shareholders. The Company believes the allegations in the Statement of Claim are substantially without merit and not likely to have a material adverse effect on its business, financial condition or results of operation. The outcome of this claim is not determinable and the Company intends to vigorously defend this lawsuit.
- (f) The Company is one of several defendants to a claim by a proposed class of freelance writers instituted in July 2003 in respect of works that they provided to newspapers and other print publications in Canada. The total amount claimed (by all plaintiffs against all defendants) is \$500 million in compensatory damages and \$250 million in exemplary and punitive damages. The outcome of this claim is not determinable.

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.

## **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.

## **23. 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 operates as a strategic business unit with separate management. Segment performance is measured primarily upon the basis of segment operating profit. Segmented information and a reconciliation from segment operating profit to earnings before income taxes are presented below:

	<u>Revenue</u>		<u>Segment Operating profit</u>		<u>Total assets</u>		<u>Capital expenditures</u>	
	2005	2004	2005	2004	2005	2004	2005	2004
<b>Operating Segments</b>								
Publishing and Online – Canada	1,228,851	1,193,629	254,875	267,343	2,669,128	2,813,850	21,765	28,197
<b>Television</b>								
Canada	698,644	690,302	124,699	147,430	1,379,495	1,397,175	21,431	22,840
Australia – Network TEN	783,315	721,247	293,528	256,033	604,369	642,342	9,065	7,009
New Zealand	122,995	108,236	30,713	23,291	115,991	120,196	5,953	2,962
Ireland	<u>37,519</u>	<u>34,152</u>	<u>13,254</u>	<u>10,591</u>	<u>22,775</u>	<u>20,920</u>	<u>939</u>	<u>255</u>
	1,642,473	1,553,937	462,194	437,345	2,122,630	2,180,633	37,388	33,066
Radio – New Zealand	93,428	86,717	26,994	27,488	138,584	142,136	4,508	3,231
Outdoor – Australia	107,790	77,117	23,173	14,477	147,443	116,730	7,036	2,380
Corporate and other	-	-	(34,249)	(27,110)	247,783	192,824	28,494	11,880
Discontinued operations	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,850</u>	<u>127,470</u>	<u>-</u>	<u>-</u>
	<u>3,072,542</u>	<u>2,911,400</u>	<u>732,987</u>	<u>719,543</u>	<u>5,328,418</u>	<u>5,573,643</u>	<u>99,191</u>	<u>78,754</u>
Restructuring expenses <sup>(1)</sup>			-	(2,445)				
Ravelston management contract termination			<u>(12,750)</u>	<u>-</u>				
			720,237	717,098				
Amortization of intangibles			20,341	18,182				
Amortization of property, plant and equipment			91,868	89,067				
Other amortization			<u>5,291</u>	<u>5,035</u>				
Operating income			602,737	604,814				
Interest expense			(251,853)	(338,528)				
Interest income			2,631	9,141				
Amortization of deferred financing costs			(12,708)	(12,641)				
Interest rate and foreign currency swap losses			(188,506)	(110,858)				
Foreign exchange gains			76,025	44,973				
Investment gains, losses and write-downs			1,527	115,786				
Goodwill impairment			(41,406)	-				
Asset impairment			(9,629)	-				
Loss on debt extinguishment			(43,992)	-				
Dividend income			-	<u>3,738</u>				
Earnings before income taxes			<u>134,826</u>	<u>316,425</u>				

(1) Canadian television restructuring expenses.

## 24. SUBSEQUENT EVENTS

- (a) In October 2005, the Company transferred its investment in its newspaper and interactive operations (excluding the National Post) and certain shared service operations, which provide customer support and administrative services to the Company (the "Publications Group") to a new entity, CanWest MediaWorks Limited Partnership (the "Limited Partnership"). In exchange, the Company received units of the Limited Partnership representing a 74.2% ownership interest and notes receivable of \$1,339.5 million.

Concurrently, the CanWest MediaWorks Income Fund (the "Fund") closed its initial public offering ("IPO") of units and invested the proceeds for units of the Limited Partnership representing a 25.8% interest. Total proceeds for the offering were \$550 million and costs of the offering were approximately \$33 million and were paid by the Limited Partnership.

In addition, the Limited Partnership obtained credit facilities in the amount of \$1 billion consisting of an \$825 million non-revolving term credit facility and a \$175 million revolving term credit facility. The revolving facility matures in five years, is subject to certain restrictions and bears interest at the prevailing prime rate, U.S. base rate, banker's acceptance rate or LIBOR plus, in each case, an applicable margin. The non-revolving facility matures in five years, and bears interest at the prevailing prime rate, U.S. base rate, banker's acceptance rate or LIBOR plus, in each case, an applicable margin. On closing of the IPO, the Limited Partnership drew \$830.0 million on its credit facilities. The Limited Partnership has entered into five year interest rate swap contracts to fix the interest payments on a notional amount of \$825.0 million for the first three years and \$660.0 million for the remaining two years resulting in an effective interest rate of 5%.

The Limited Partnership utilized the proceeds of the issuance of the units to the Fund and \$822.5 million drawings under its new credit facilities to repay the \$1,339.5 million note payable to the Company.

In conjunction with these transactions, the Limited Partnership entered into agreements with the Company that will entitle it to recover certain costs from the Company's Canadian television and radio broadcasting operations and the *National Post* and also require the Limited Partnership to make payments for certain services provided by the Company.

As a result of the transaction, the Company will record a dilution gain or loss on the sale of a 25.8% interest in the operations transferred to the Limited Partnership. The amount of the gain or loss has not been determined. The Company will continue to consolidate the results of the Publications Group with a minority interest charge to reflect the ownership interest of the Fund. Approximately 36% of the Company's units of the Limited Partnership are subordinated in the payment of distributions if the Limited Partnership does not have adequate resources on a quarterly basis to fund distributions.

- (b) In October 2005, the Company obtained a new \$500 million revolving term credit facility. The revolving facility matures in five years, is subject to certain restrictions and bears interest at the prevailing prime rate, U.S. base rate, banker's acceptance rate or LIBOR plus, in each case, an applicable margin. This facility is secured by substantially all of the Company's directly held assets including the assets of its Canadian broadcast operations and the National Post as well as by its other investments.

- (c) The net proceeds from the IPO and the Limited Partnership debt as well as proceeds of \$400.6 million from the new credit facility (note 24 (b)) were utilized to retire certain debt and interest rate and cross currency interest rate contracts as follows:
- i. In October 2005, the Company completed a tender offer for its 10.125% senior subordinated notes payable due in 2011 and its 7.625% senior unsecured notes payable due in 2013. Substantially all of the notes under these facilities were settled. Debt with a book value of \$772.4 million, and related deferred financing costs of \$27.7 million were retired for cash of \$849.3 million. The transaction resulted in a loss on debt retirement of \$71.1 million, net of tax of \$33.5 million. As a result of the repayment of these notes the Company will record a swap loss of \$21.8 million, net of tax of \$12.1 million related to the associated cross currency interest rate swaps.
  - ii. In October 2005, the Company retired its senior credit facility. Debt with a book value of \$526.4 million and deferred financing costs of \$6.0 million were settled for cash of \$526.4 million. The transaction resulted in a loss on debt retirement of \$3.9 million, net of tax of \$2.1 million. In addition, as a result of the settlement of this debt, the Company will record a loss of \$48.2 million, net of tax of \$26.7 million related to the associated interest rate and cross currency interest rate swaps.
  - iii. In November 2005, the Company retired interest rate and cross currency interest rate swap contracts relating to the 7.625% notes, the 10.625% notes and 50% of the cross currency interest rate swap related to the senior secured credit facilities for cash of \$364.8 million.
- (d) Subsequent to year end, the Company announced its successful bids to acquire interests in two radio stations in Turkey. On September 21, 2005, the Company announced that it acquired an equity interest in CGS Televizyon Ve Radyo Yayıncılığı Ticaret Anonim Sirketi ("CGS") that in turn was successful in its bid to acquire the assets of *Super FM* for consideration of US\$33 million, which will be payable upon completion of the transaction. On September 22, 2005, the Company announced that Pasifik Televizyon Ve Radyo Yayıncılığı Ticaret A.S. ("Pasifik") was successful in its bid to acquire the assets of *Metro FM* for consideration of US\$23 million, which will be payable upon completion of the transaction. In exchange for the payment of \$US 42.0 million, the Company will acquire a 75% economic interest in both CGS and Pasifik. These transactions, which are subject to regulatory approvals by certain Turkish authorities, are expected to be completed within 90 days of the announcement. Subject to a relaxation of foreign ownership restrictions and the receipt of all necessary regulatory approvals, the Company has the right to convert its interest to a 75% equity interest in *Metro FM* and *Super FM*.

## 25. 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. Amounts are in thousands of Canadian dollars, unless otherwise noted.

### Principal differences affecting the Company

#### (a) 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 currently no similar requirement under Canadian GAAP, however upon adoption of CICA 1530, Comprehensive Income, no such GAAP difference will exist.

**(b) 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. The U.S. GAAP reconciliation reflects the expensing of amounts which were deferred for Canadian GAAP of: 2005 - \$3,568 (2004 - \$1,748), with related tax recoveries of: 2005 - \$1,273 (2004 - \$305) and the reversal of amortization of pre-operating costs of: 2005 - \$2,297 (2004 - \$1,471), with related tax provisions of 2005 - \$820 (2004 - \$646). The balance sheet effect of these adjustments was: other assets reduced by \$7,769 (2004 - \$6,498), long term future tax liability reduced by 2005 - \$2,781 (2004 - \$2,328) and shareholder's equity reduced by the net amount of: 2005 - \$4,988 (2004 - \$4,170).

**(c) 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 occurs 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. The U.S. GAAP reconciliation reflects the reversal of realization of cumulative translation adjustments resulting in a decrease in net earnings of: 2005 - \$622 (2004 - increase in net earnings of \$4,526). The balance sheet effect of these adjustments was: increase retained earnings by: 2005 - \$9,412 (2004 - \$10,034) and decrease accumulated other comprehensive income by: 2005 - \$9,412 (2004 - \$10,034).

Under Canadian GAAP cumulative currency translation adjustments are presented as a separate component of shareholder's equity. Under US GAAP it is a component of accumulated other comprehensive income. The US GAAP reconciliation reflects this reclassification.

**(d) Programming commitments**

Under Canadian GAAP, certain programming commitments imposed by regulatory requirements related to an acquisition, completed prior to January 1, 2001, were accrued in the purchase equation resulting in additional goodwill. Under U.S. GAAP, these costs were expensed as incurred. The U.S. GAAP reconciliation reflects the expensing of these programming costs as incurred of: 2005 - \$6,463 (2004 - \$6,012), with related tax recoveries of 2005 - \$2,321 (2004 - \$1,683). The balance sheet effect of these adjustments was to reduce goodwill by: 2005 and 2004 - \$18,639, increase long term future tax liability by: 2005 - \$2,500 (2004 - \$7,372), reduce other long term accrued liabilities by: 2005 - \$7,558 (2004 - \$14,021), and reduce shareholders' equity by: 2005 - \$13,581 (2004 - \$11,052).

**(e) Investment in a broadcasting operation on an equity basis**

Under Canadian GAAP, the Company's investment in a broadcasting operation 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 U.S. GAAP, the investment was initially accounted for on a cost basis; then, as a result of receiving approval to complete the purchase of the broadcasting operation, the Company changed its method of accounting for the investment 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*, to the date that the Company initially acquired its investment. Effective July 6, 2000, the Company consolidated this investment for both Canadian and U.S. GAAP purposes. The U.S. GAAP reconciliation had no effect on earnings for the periods presented. The effect on the balance sheet was to increase goodwill by: 2005 and 2004 - \$ 38,503 and increase shareholder's equity by: 2005 and 2004 - \$38,503.

**(f) Intangible assets**

Under Canadian GAAP, certain costs related to the development of broadcast licences, other than through a business combination, were recorded as intangible assets. Under U.S. GAAP such costs are expensed as incurred. The U.S. GAAP reconciliation had no effect on earnings for the periods presented. The balance sheet effect was to reduce intangible assets by: 2005 and 2004 - \$2,325 to reduce long term future tax liability by: 2005 and 2004 - \$860 and to reduce shareholders equity by: 2005 and 2004 - \$1,465.

**(g) Investment in marketable securities**

For U.S. GAAP, investment assets classified as "available for sale" are carried at market, and unrealized temporary gains and losses are included, net of tax, in other comprehensive income. In accordance with Canadian GAAP, the Company carries its investment in marketable securities at cost. For the Company's other investments, fair value is not readily determinable and are accordingly carried at cost. The effect of the U.S. GAAP reconciliation was to decrease other comprehensive income by: 2005 - nil (2004 - (\$16,834)), to increase other investments by: 2005 and 2004 - nil, and to increase shareholder's equity by: 2005 and 2004 - nil.

**(h) Pension valuation allowances**

Under Canadian GAAP a valuation allowance against pension assets is the excess of the adjusted benefit asset over the expected future benefit. Changes in the valuation allowance are recorded as adjustments to pension expense. Under U.S. GAAP valuation allowances are not recorded. The U.S. GAAP reconciliation reflects the elimination of pension valuation allowances resulting in reduced earnings of: 2005 - \$150 (2004 - \$48), with related tax recoveries of: 2005 - \$52 (2004 - \$19). The balance sheet effect was to increase long term other assets by: 2005 - \$572 (2004 - \$722), increase long term future tax liability by: 2005 - \$214 (2004 - \$266) and increase shareholders' equity by: 2005 - \$358 (2004 - \$456).

**(i) Proportionate consolidation**

Canadian GAAP requires the accounts of jointly controlled enterprises to be proportionately consolidated. Under U.S. GAAP, investments in jointly controlled entities are accounted as equity investments. This accounting difference applies to the Company's investment in TV3 Ireland, Mystery, and Metro. The proportionate interest is disclosed in note 19. Accordingly, under accommodation provided by the SEC this difference is not included in the following reconciliation.

**(j) 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 derivatives are included in the statement of earnings. Under Canadian GAAP hedge accounting is applied for derivatives that are eligible for hedge accounting if certain criteria are met and non-hedging derivatives are recognized at their fair value as either assets or liabilities. As a result of adopting FAS 133 on September 1, 2001, the Company discontinued hedge accounting. The fair values of derivatives designated as hedges before August 31, 2000 have been included in a transitional adjustment and are included in income over the term of the hedged transaction. The U.S. GAAP reconciliation reflects the recording of gains on interest rate and cross-currency swaps of: 2005 - \$3,315 (2004 - \$77,770), with related tax provision of: 2005 - \$18,624 (2004 - \$31,875) and the recording of minority interests share of gains (losses) on interest rate and cross-currency swaps and translation of foreign denominated debt of: 2005 - \$809 (2004 - (\$2,032)). The balance sheet effect was to increase long term swap liabilities by: 2005 - \$65,776 (2004 - \$69,586), reduce future tax liabilities by: 2005 - \$19,981 (2004 - \$38,781) and decrease minority interests by: 2005 - \$1,393 (2004 - \$584), and reduce shareholders' equity by: 2005 - \$44,402 (2004 - \$30,221).

**(k) Integration costs related to the acquisition of the publishing properties**

Under Canadian GAAP certain integration costs related to the acquisition of the Company's publishing properties were accrued in the purchase equation. Under U.S. GAAP, these costs are expensed as incurred. The U.S. GAAP reconciliation had no effect on earnings for the periods presented. The balance sheet effect was to decrease goodwill by: 2005 and 2004 - \$1,663 and reduce shareholders' equity by: 2005 and 2004 - \$1,663.

**(l) Resolution of acquired tax contingencies**

Under U.S. GAAP, the settlement of tax contingencies acquired through a business acquisition result in an adjustment to the purchase equation. In accordance with Canadian GAAP, the resolution of such tax contingencies is included in earnings once the purchase price allocation is finalized. The U.S. GAAP reconciliation reflects the reduction of earnings related to the reversal of tax recoveries of: 2005 - nil (2004 - \$7,000). The balance sheet effect was to reduce goodwill and shareholder's equity by: 2005 and 2004 - \$7,000.

### **(m) Future income taxes**

Under U.S. GAAP, the changes to future tax balances upon the adoption of FAS 142, Goodwill and Other Intangible Assets, in 2001, were reflected as a future income tax recovery in the year FAS 142 was adopted. In accordance with Canadian GAAP, the adjustment was recorded as a reduction in goodwill. The related U.S. GAAP balance sheet effect would be to increase goodwill by: 2005 and 2004 - \$160,500 and increase retained earnings by: 2005 and 2004 - \$160,500.

### **(n) Additional minimum liability**

Under FAS 87, Employers' Accounting for Pensions, the Company recognizes an additional minimum pension liability when the accumulated benefit obligation exceeds the fair value of plan assets to the extent that such excess is greater than accrued pension costs otherwise recorded. For the purposes of determining the additional minimum pension liability, the accumulated benefit obligation does not incorporate projections of future compensation increases in the determination of the obligation. No such adjustment is required under Canadian GAAP. The effect on the U.S. GAAP reconciliation was to decrease other comprehensive income by \$28,674 with related tax recovery of \$10,323. The balance sheet effect was to increase other long term liabilities by \$84,274, increase intangible assets by \$13,558, increase other assets by \$3,015, decrease future tax liabilities by \$24,372, and decrease shareholders equity by \$43,329.

The minimum pension liability for the year ended August 31, 2005, includes a comprehensive income adjustment for the current year of \$18,351, net of tax of \$10,323. Comprehensive income adjustments for 2004 and prior years of \$24,978, net of tax of \$14,049 are included in the comprehensive income (loss) - accumulated balances. The Company has determined these adjustments are not material to the previously reported results, accordingly, the adjustments have been included in the current year's comprehensive income (loss) - accumulated balances.

### **Proposed accounting policies**

#### **Share-Based Payments**

In December 2004, The Financial Accounting Standards Board issued the Statement of Financial Accounting Standards No. 123 (Revised 2004), *Share Based Payment*, which requires the Company to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). FAS 123 (Revised 2004) is applicable for as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. The Company utilizes a similar approach under Canadian GAAP and does not expect the adoption of this accounting policy to have a material impact on its results.

## Adopted Accounting Pronouncements

### Consolidating Variable Interest Entities

For its year ended August 31, 2004, for U.S. GAAP, the Company was required to apply the Financial Accounting Standards Board (FASB) Interpretation No. 46(R) ("FIN 46(R)", Consolidation of Variable Interest Entities). The Company had determined that it is the primary beneficiary of Network TEN Group, a variable interest entity. Accordingly, for U.S. GAAP, as required by FIN 46(R) the Company consolidated its investment in TEN Group effective May 31, 2004. This was applied on a prospective basis. As explained in Note 1, effective September 1, 2004, under Canadian GAAP, the Company adopted AcG-15 and consolidated its investment in the TEN Group on a retroactive basis and restated the prior years' financial statements of the Company. There are no material differences between the consolidation principles under FIN 46(R) and AcG-15. With the adoption of AcG-15, the Company changed the transition method previously adopted for US GAAP purposes by restating previously issued US GAAP financial information as permitted under paragraph 40 of FIN 46(R). Management is of the opinion that this change in method is preferable as it presents comparable information for all periods of the consolidation of the TEN Group which was encouraged in FIN 46(R).

### Comparative Reconciliation of Net Earnings (Loss)

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

	2005	2004
Net earnings in accordance with Canadian GAAP		
from continuing operations	20,422	194,299
Pre-operating costs incurred (b)	(3,568)	(1,748)
Amortization of pre-operating costs (b)	2,297	1,471
Realization of currency translation adjustments (c)	(622)	4,526
Programming costs imposed by regulatory requirement (d)	(6,463)	(6,012)
Pension valuation allowances (h)	(150)	(48)
Gain on interest rate and cross currency swaps and translation of foreign denominated debt (j)	3,315	77,770
Resolution of acquired tax contingencies (l)	-	(7,000)
Minority interests effect of adjustments	809	(2,032)
Tax effect of adjustments	<u>(13,408)</u>	<u>(30,514)</u>
Net earnings for the year from continuing operations in accordance with U.S. GAAP	2,632	230,712
Loss from discontinued operations	<u>(10,132)</u>	<u>(207,777)</u>
Net earnings (loss) for the year in accordance with U.S. GAAP	<u>(7,500)</u>	<u>22,935</u>
<b>Earnings per share from continuing operations</b>		
Basic	\$0.01	\$1.30
Diluted	\$0.01	\$1.30
<b>Earnings (loss) per share</b>		
Basic	(\$0.04)	\$0.13
Diluted	(\$0.04)	\$0.13
<b>Loss from discontinued operations per share:</b>		
Basic	(\$0.06)	(\$1.18)
Diluted	(\$0.06)	(\$1.18)

## Consolidated Statements of Comprehensive Income (Loss)

### Comprehensive income (loss) – current periods

	<b>2005</b>	<b>2004</b>
Net earnings (loss) in accordance with U.S. GAAP	(7,500)	22,935
Unrealized foreign currency translation gain (c)	2,506	9,802
Realized foreign currency translation loss (c)	-	2,497
Foreign currency translation gain	2,506	12,299
Unrealized gains (losses) on securities available for sale net of tax of nil (h)	-	34,883
Realized (gains) losses on securities available for sale net of tax of nil (h)	-	(51,717)
Transition adjustment on swaps net of tax of \$176 (2004 - \$177) (k)	316	313
Additional minimum liability net of tax of \$10,323 (n)	(18,351)	-
	<u>(15,529)</u>	<u>(4,222)</u>
Comprehensive income (loss)	<u>(23,029)</u>	<u>18,713</u>

### Comprehensive income (loss) – accumulated balances

	<b>Foreign currency translation</b>	<b>Unrealized gains (losses) on securities</b>	<b>Transition adjustment on swaps</b>	<b>Additional minimum liability</b>	<b>Total</b>
Accumulated other comprehensive income (loss) – August 31, 2003	(36,154)	16,834	(2,230)	-	(21,550)
Change during the year	<u>12,299</u>	<u>(16,834)</u>	<u>313</u>	-	<u>(4,222)</u>
Accumulated other comprehensive income (loss) – August 31, 2004	(23,855)	-	(1,917)	-	(25,772)
Change during the year	<u>2,506</u>	-	<u>316</u>	<u>(43,329)</u>	<u>(40,507)</u>
Accumulated other comprehensive income (loss) – August 31, 2005	<u>(21,349)</u>	<u>-</u>	<u>(1,601)</u>	<u>(43,329)</u>	<u>(66,279)</u>

## Comparative Reconciliation of Shareholders' Equity

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

	<b>2005</b>	<b>2004</b>
Shareholders' equity in accordance with Canadian GAAP	1,195,948	1,179,420
Pre-operating costs incurred (b)	(7,769)	(6,498)
Goodwill adjustment related to retroactive equity accounting of WIC upon regulatory approval (e)	38,503	38,503
Goodwill adjustment related to programming costs incurred (d)	(25,142)	(18,679)
Goodwill adjustment related to integration costs (k)	(1,663)	(1,663)
Historical amortization of goodwill related to future programming costs imposed by regulatory requirement on business combination (d)	938	938
Costs to develop intangible assets expensed (f)	(2,325)	(2,325)
Pension valuation allowance (h)	572	722
Goodwill adjustment related to resolution of acquired tax contingencies (l)	(7,000)	(7,000)
Future income taxes (m)	160,500	160,500
Adjustment to reflect losses on interest rate and cross-currency swaps (j)	(63,210)	(66,525)
Transition adjustment on interest rate swaps (j)	(2,566)	(3,058)
Additional minimum liability (n)	(67,701)	-
Minority interests effect of adjustments	1,393	584
Tax effect of adjustments	<u>59,180</u>	<u>48,392</u>
Shareholders' equity in accordance with U.S. GAAP	<u><u>1,279,658</u></u>	<u><u>1,323,311</u></u>

## Other

The following amounts are included in accounts receivable:

	<b>2005</b>	<b>2004</b> (Revised note 1)
Allowance for doubtful accounts – beginning of year	17,074	18,860
Bad debt expense	6,813	5,634
Write offs during the year	(8,092)	(7,513)
Foreign exchange	<u>(186)</u>	<u>93</u>
	<u><u>15,609</u></u>	<u><u>17,074</u></u>

The following amounts are included in operating expenses:

	<b>2005</b>	<b>2004</b> (Revised note 1)
Rent expense	68,141	53,297

The following amounts are included in accrued liabilities:

	<b>2005</b>	<b>2004</b> (Revised note 1)
Employment related accruals	88,000	75,000

Amortization expense related to existing finite life intangibles will be \$11.5 million per year in 2006 and \$4.2 million in 2007 to 2010.