

**CANWEST MEDIA INC. (formerly 3815668 Canada Inc.)**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE AND NINE MONTHS ENDED MAY 31, 2005 AND 2004**

**(UNAUDITED)**

July 13, 2005

**To the Audit Committee of CanWest Media Inc.**

In accordance with our engagement letter dated March 22, 2005, we have reviewed the accompanying interim consolidated balance sheet of **CanWest Media Inc.** (the “Company”) as of May 31, 2005 and the related interim consolidated statements of earnings, retained earnings and cash flows for the three and nine months period then ended. These interim consolidated financial statements are the responsibility of the Company’s management.

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

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

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

*PricewaterhouseCoopers LLP*

**Chartered Accountants**

**CANWEST MEDIA INC. (formerly 3815668 Canada Inc.)**  
**CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)**  
**(UNAUDITED)**  
(In thousands of Canadian dollars except as otherwise noted)

	<u>For the three months ended</u>		<u>For the nine months ended</u>	
	May 31, 2005	May 31, 2004 Revised (note 1)	May 31, 2005	May 31, 2004 Revised (note 1)
Revenue	809,722	783,941	2,371,005	2,246,410
Operating expenses	428,302	413,285	1,206,468	1,157,490
Selling, general and administrative expenses	<u>183,806</u>	<u>168,289</u>	<u>528,622</u>	<u>492,659</u>
	197,614	202,367	635,915	596,261
Amortization of intangibles	4,988	4,552	14,885	13,640
Amortization of property, plant and equipment	23,483	23,946	68,206	69,360
Other amortization	<u>1,291</u>	<u>1,281</u>	<u>3,788</u>	<u>3,670</u>
Operating income	167,852	172,588	549,036	509,591
Interest expense	(59,043)	(85,346)	(193,451)	(258,851)
Interest income	927	245	2,804	6,068
Amortization of deferred financing costs	(3,093)	(2,043)	(8,414)	(6,060)
Interest rate and foreign currency swap gains (losses)	(12,584)	7,004	(79,790)	(9,099)
Foreign exchange gains (losses)	4,262	(1,362)	23,871	3,768
Loan impairment (note 7)	(6,182)	-	(6,182)	(418,746)
Investment gains, losses and write-downs (note 6)	285	354	231	2,055
Loss on debt extinguishment (note 5)	-	-	(43,992)	-
Dividend income	<u>-</u>	<u>2,323</u>	<u>-</u>	<u>3,738</u>
	92,424	93,763	244,113	(167,536)
Provision for income taxes (note 4)	<u>18,200</u>	<u>19,603</u>	<u>54,697</u>	<u>47,149</u>
Earnings before the following	74,224	74,160	189,416	(214,685)
Minority interests	(22,251)	(16,691)	(78,626)	(62,290)
Interest in earnings (loss) of equity accounted affiliates	504	(207)	1,551	(556)
Realized currency translation adjustments	<u>392</u>	<u>(5,011)</u>	<u>(456)</u>	<u>(1,885)</u>
<b>Net earnings (loss) for the period</b>	<u><u>52,869</u></u>	<u><u>52,251</u></u>	<u><u>111,885</u></u>	<u><u>(279,416)</u></u>

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

**CANWEST MEDIA INC. (formerly 3815668 Canada Inc.)**  
**CONSOLIDATED BALANCE SHEETS**  
**(UNAUDITED)**  
(In thousands of Canadian dollars)

	As at May 31, 2005	As at August 31, 2004 Revised (note 1)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	66,931	93,958
Accounts receivable	570,624	487,536
Inventory	12,480	13,449
Investment in film and television programs	232,145	194,099
Future income taxes	5,793	6,166
Other assets	<u>24,138</u>	<u>22,574</u>
	912,111	817,782
Other investments	23,119	26,828
Investment in film and television programs	27,184	35,157
Due from parent and affiliated companies (note 7)	116,880	135,172
Property, plant and equipment	683,759	694,633
Future income taxes	13,176	5,580
Other assets	156,468	90,199
Intangible assets	1,175,593	1,182,145
Goodwill	<u>2,477,693</u>	<u>2,465,248</u>
	<u>5,585,983</u>	<u>5,452,744</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable	138,125	153,591
Accrued liabilities (note 3)	261,154	240,021
Income taxes payable	29,472	20,153
Film and television program accounts payable	95,624	65,270
Deferred revenue	40,439	34,218
Future income taxes	6,072	6,072
Current portion of long term debt	<u>22,285</u>	<u>33,204</u>
	593,171	552,529
Long term debt and related foreign currency swap liability (note 5)	3,145,836	3,201,051
Interest rate and foreign currency swap liability	137,363	120,341
Other accrued liabilities	93,284	110,672
Future income taxes	133,023	136,123
Minority interests	<u>112,755</u>	<u>77,456</u>
	<u>4,215,432</u>	<u>4,198,172</u>
Contingencies (note 9)		
<b>SHAREHOLDER'S EQUITY</b>		
Capital stock	438,838	438,838
Contributed surplus	132,953	132,953
Retained earnings	802,838	690,953
Cumulative foreign currency translation adjustments	<u>(4,078)</u>	<u>(8,172)</u>
	<u>1,370,551</u>	<u>1,254,572</u>
	<u>5,585,983</u>	<u>5,452,744</u>

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

**CANWEST MEDIA INC. (formerly 3815668 Canada Inc.)**  
**CONSOLIDATED STATEMENTS OF RETAINED EARNINGS**  
**(UNAUDITED)**  
(In thousands of Canadian dollars)

	<u>For the three months ended</u>		<u>For the nine months ended</u>	
	May 31, 2005	May 31, 2004	May 31, 2005	May 31, 2004
Retained earnings - beginning of period	749,969	578,544	690,953	910,211
Net earnings (loss) for the period	<u>52,869</u>	<u>52,251</u>	<u>111,885</u>	<u>(279,416)</u>
Retained earnings - end of period	<u><u>802,838</u></u>	<u><u>630,795</u></u>	<u><u>802,838</u></u>	<u><u>630,795</u></u>

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

**CANWEST MEDIA INC. (formerly 3815668 Canada Inc.)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

(In thousands of Canadian dollars)

	<b>For the three months ended</b>		<b>For the nine months ended</b>	
	<b>May 31,</b>	<b>May 31,</b>	<b>May 31,</b>	<b>May 31,</b>
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
		<b>Revised</b>		<b>Revised</b>
		<b>(note 1)</b>		<b>(note 1)</b>
<b>CASH GENERATED (UTILIZED) BY:</b>				
<b>OPERATING ACTIVITIES</b>				
Net earnings (loss) for the period	52,869	52,251	111,885	(279,416)
Items not affecting cash				
Amortization	32,855	31,822	95,293	92,730
Non-cash interest expense	2,710	25,059	29,233	71,593
Future income taxes	4,797	6,791	(12,127)	6,857
Realized currency translation adjustments	(392)	5,011	456	1,885
Interest rate and foreign currency swap losses (gains) net of settlements	7,597	(7,004)	24,919	9,099
Loss on debt extinguishment	-	-	43,992	-
Loan impairment	6,182	-	6,182	418,746
Investment gains, losses and write-downs	(285)	(354)	(231)	(2,055)
Amortization and write-down of film and television programs	1,546	3,875	6,856	5,074
Pension expense	3,646	3,241	9,613	7,736
Minority interests	22,251	16,691	78,626	62,290
Other	1,038	1,191	(1,409)	(3,182)
Investment in film and television programs	-	-	(4,178)	(14,077)
	<u>134,814</u>	<u>138,574</u>	<u>389,110</u>	<u>377,280</u>
Changes in non-cash operating accounts	<u>(61,255)</u>	<u>(81,271)</u>	<u>(121,740)</u>	<u>(162,175)</u>
Cash flows from operating activities	<u>73,559</u>	<u>57,303</u>	<u>267,370</u>	<u>215,105</u>
<b>INVESTING ACTIVITIES</b>				
Other investments	134	(42)	426	-
Investment in broadcast licences	(722)	-	(2,265)	(5,813)
Acquisition (note 2)	-	-	(12,493)	-
Proceeds from sales of other investments	-	-	2,171	-
Proceeds from sale of property, plant and equipment	-	-	3,383	7,426
Purchase of property, plant and equipment	(16,964)	(15,970)	(56,101)	(45,776)
Advances to parent and affiliated companies	7,620	(5,020)	9,302	(40,153)
	<u>(9,932)</u>	<u>(21,032)</u>	<u>(55,577)</u>	<u>(84,316)</u>
<b>FINANCING ACTIVITIES</b>				
Issuance of long term debt	-	-	161,321	-
Repayment of long term debt	(25,880)	(16,248)	(290,549)	(74,843)
Advances (repayments) of revolving facilities	(82,953)	(49,000)	(4,947)	(50,656)
Swap recouping (payments) receipts	2,190	-	(60,359)	(27,957)
Issuance of share capital of TEN Group	-	1,353	5,317	14,310
Payment of dividends to minority interests	(2,517)	-	(50,274)	(60,446)
	<u>(109,160)</u>	<u>(63,895)</u>	<u>(239,491)</u>	<u>(199,592)</u>
Foreign exchange gain on cash denominated in foreign currencies	<u>(271)</u>	<u>(326)</u>	<u>671</u>	<u>2,349</u>
<b>Net change in cash</b>	<u>(45,804)</u>	<u>(27,950)</u>	<u>(27,027)</u>	<u>(66,454)</u>
<b>Cash – beginning of period</b>	<u>112,735</u>	<u>95,881</u>	<u>93,958</u>	<u>134,385</u>
<b>Cash – end of period</b>	<u>66,931</u>	<u>67,931</u>	<u>66,931</u>	<u>67,931</u>

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

**CANWEST MEDIA INC. (formerly 3815668 Canada Inc.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE AND NINE MONTHS ENDED MAY 31, 2005 AND 2004**  
**(UNAUDITED)**  
**(In thousands of Canadian dollars except as otherwise noted)**

**1. SIGNIFICANT ACCOUNTING POLICIES**

On November 18, 2004, 3815668 Canada Inc. amalgamated with its wholly-owned subsidiary CanWest Media Inc. (the "Company") and was renamed CanWest Media Inc. CanWest Media Inc. and its two predecessor companies are wholly-owned subsidiaries of CanWest Global Communications Corp. ("CanWest"). This transaction has been accounted for on a "continuity of interests" basis. These financial statements reflect the consolidated financial position and consolidated results of operations of 3815668 Canada Inc. for all periods prior to November 18, 2004.

The Company is an international media company with interests in broadcast television, publishing, radio, specialty cable channels, outdoor advertising, production and distribution of film and television programming 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, various other conventional and specialty channels and Cool FM and The Beat radio stations. The Australian Television Broadcast segment includes the Company's interest in TEN Group Pty Limited ("TEN Group"), which owns and operates Australia's TEN Television Network ("Network TEN"). The Canadian Publishing and Online segment includes the publication of a number of newspapers, including metropolitan daily newspapers and the National Post, as well as operation of the canada.com web portal and other web-based operations. The New Zealand Television Broadcast segment includes CanWest MediaWorks NZ Limited's 3 and C4 Television Networks. The New Zealand Radio Broadcast segment includes CanWest MediaWorks NZ Limited's RadioWorks operation. The Irish Television Broadcast segment includes the Company's 45% interest in the Republic of Ireland's TV3 Television Network. The Australian Outdoor Advertising segment includes the Company's interest in EyeCorp, an outdoor advertising operation which is wholly owned by TEN Group. The Corporate and Other segment includes various investments in media operations.

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

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

### ***Basis of presentation***

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada for interim financial statements and reflect all adjustments which are, in the opinion of management, necessary for fair statement of the results of the interim periods presented. However, these interim financial statements do not include all of the information and disclosures required for annual financial statements. The accounting policies used in the preparation of these interim financial statements are the same as those used in the most recent annual financial statements except as indicated below. These interim statements should be read in conjunction with the most recent annual financial statements of the Company. All amounts are expressed in Canadian dollars unless otherwise noted. A reconciliation to accounting principles generally accepted in the United States is provided in note 11.

### ***Share-based compensation***

The Company has share-based compensation plans under which options of its parent company, CanWest, are issued to certain employees. These options are granted by CanWest with exercise prices equal to the market value of the underlying stock on the date of grant. CanWest adopted the fair value method of accounting recommended by the CICA in Section 3870, "Stock-based compensation and other stock-based payments", prospectively for share-based compensation awards granted after September 1, 2003. Accordingly, in the period, the Company expensed \$2.4 million (2004 - \$0.8 million) and credited due from parent and affiliated companies related to stock options granted by CanWest to the employees of the Company. The fair value of the options granted during the nine months ended May 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 - 4.5% 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 (2004 - 510,500) that were granted by the Company during the nine months ended May 31, 2005, was \$6.4 million (2004 - \$3.9 million), a weighted average fair value per option of \$5.43 (2004 - \$7.64). During the first nine months, 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 nine months ended May 31, 2005, the Company recorded compensation expense of \$0.4 million related to these shares.

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

The proforma cost of share compensation expense for the three and nine months ended May 31, 2005, would be \$0.3 million and \$0.9 million respectively (2004 - \$0.4 million and \$1.2 million). A value of \$1.9 million would be charged to proforma net earnings in future years according to the vesting terms of the options. The resulting proforma net earnings (loss) for the three months ended May 31, 2005, would be \$52.6 million, (2004 - \$51.9 million), and nine months ended May 31, 2005, would be \$110.9 million (2004 - (\$280.6) million).

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

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

### **Reporting circulation revenue on a gross basis**

During the year ended August 31, 2004, the Company retroactively adopted the provisions of the Emerging Issues Committee of the CICA, EIC – 123, “Reporting Revenue Gross as a Principal versus Net as an Agent” which was effective September 1, 2002. Accordingly, circulation revenues are reported on a gross basis. Previously the Company reported circulation revenue net of certain of its distribution contract costs. As a result of the adoption the Company has retroactively revised its results. The impact of the revision was to increase sales and operating expenses by \$11.7 million and \$34.7 million for the three and nine months ended May 31, 2004 respectively. There was no impact on net earnings.

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

Effective September 1, 2004, the Company has adopted the provisions of The Accounting Standards Board of the Institute of Chartered Accountants of Canada, AcG-15, *Consolidation of Variable Interest Entities*. 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 May 31, 2005, the Company holds a 56.4% economic interest in TEN Group (56.6% at August 31, 2004). The interest held by the 43.6% minority is classified in minority interests.

### **Proposed accounting policies**

The Accounting Standards Board of the Institute of Chartered Accountants of Canada has concurrently issued CICA 3855, *Financial Instruments - Recognition and Measurement*, CICA 3865, *Hedges*, and CICA 1530, *Comprehensive Income*, which must be applied by the Company for fiscal years beginning on or after October 1, 2006. 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.

## Consolidated Balance Sheets

The following is a reconciliation of the Company's consolidated balance sheets reflecting the impact of the adoption of AcG-15.

As at August 31, 2004

	As previously reported	Effect of the adoption of AcG-15	As revised
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	77,335	16,623	93,958
Accounts receivable	361,085	126,451	487,536
Distributions receivable from TEN Group	36,567	(36,567)	-
Inventory	13,449	-	13,449
Investment in film and television programs	71,601	122,498	194,099
Future income taxes	6,166	-	6,166
Other assets	<u>18,853</u>	<u>3,721</u>	<u>22,574</u>
	585,056	232,726	817,782
Investment in TEN Group	39,929	(39,929)	-
Other investments	12,024	14,804	26,828
Investment in film and television programs	33,467	1,690	35,157
Due from parent and affiliated companies	135,172	-	135,172
Property, plant and equipment	618,042	76,591	694,633
Future income taxes	-	5,580	5,580
Other assets	86,259	3,940	90,199
Intangible assets	928,787	253,358	1,182,145
Goodwill	<u>2,373,442</u>	<u>91,806</u>	<u>2,465,248</u>
	<u>4,812,178</u>	<u>640,566</u>	<u>5,452,744</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable	62,363	91,228	153,591
Accrued liabilities	196,323	43,698	240,021
Income taxes payable	10,431	9,722	20,153
Film and television program accounts payable	27,966	37,304	65,270
Deferred revenue	31,959	2,259	34,218
Future income taxes	6,072	-	6,072
Current portion of long term debt	<u>31,712</u>	<u>1,492</u>	<u>33,204</u>
	366,826	185,703	552,529
Long term debt and related foreign currency swap liability	2,840,591	360,460	3,201,051
Interest rate and foreign currency swap liability	120,341	-	120,341
Other accrued liabilities	77,583	33,089	110,672
Future income taxes	136,123	-	136,123
Minority interests	<u>16,142</u>	<u>61,314</u>	<u>77,456</u>
	<u>3,557,606</u>	<u>640,566</u>	<u>4,198,172</u>
<b>SHAREHOLDER'S EQUITY</b>			
Capital stock	438,838	-	438,838
Contributed surplus	132,953	-	132,953
Retained earnings	690,953	-	690,953
Cumulative foreign currency translation adjustments	<u>(8,172)</u>	<u>-</u>	<u>(8,172)</u>
	<u>1,254,572</u>	<u>-</u>	<u>1,254,572</u>
	<u>4,812,178</u>	<u>640,566</u>	<u>5,452,744</u>

The following supplemental note disclosure relates to the effect that the consolidation of TEN Group has on certain balances as of and for the year ended August 31, 2004.

**Investment in film and television program rights**

	<b>As at August 31, 2004</b>	
	<b>Current</b>	<b>Long term</b>
Broadcast rights	122,003	1,690
Other	<u>495</u>	<u>-</u>
	<u>122,498</u>	<u>1,690</u>

**Property, plant and equipment**

	<b>As at August 31, 2004</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Land	4,834	-	4,834
Buildings	9,065	(2,105)	6,960
Leasehold improvements	4,931	(935)	3,996
Plant and equipment	173,074	(114,057)	59,017
Plant and equipment under lease	<u>6,351</u>	<u>(4,567)</u>	<u>1,784</u>
	<u>198,255</u>	<u>(121,664)</u>	<u>76,591</u>

**Intangible assets**

	<b>As at August 31, 2004</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Finite Life:			
Site licences	27,485	2,445	25,040
Indefinite Life:			
Broadcast licences	<u>228,318</u>	<u>-</u>	<u>228,318</u>
	<u>255,803</u>	<u>2,445</u>	<u>253,358</u>

Site licences represent outdoor site leases. These licences are amortized on a straight line basis over the term of the leases (approximately 20 to 40 years).

**Goodwill**

As at August 31, 2004 goodwill of \$54 million relates to the Australia – Outdoor advertising segment, and \$38 million relates to the Australia Network TEN segment. There were no changes in the goodwill balances in the year ended August 31, 2004.

**Long term debt**

	<b>As at August 31, 2004</b>
Unsecured Bank Loan <sup>(1)</sup>	163,048
Senior unsecured notes <sup>(2)</sup>	164,585
Other	<u>3,169</u>
	330,802
Effect of foreign currency swap	<u>31,150</u>
Total long term debt	361,952
Less portion due within one year	<u>1,492</u>
Long term portion	<u>360,460</u>

(1) Credit facility provides for a maximum of \$652 million (A\$700 million) in advances. At August 31, 2004 the TEN group had drawn A\$175 million against this facility leaving an availability of A\$525 million. This facility matures in December 2008. The TEN Group entered into interest rate swap contracts with a notional amount of A\$250 million to fix the interest on this facility and subsequent facilities with maturities to 2011. The effective interest rate of this debt is approximately 5.7%.

(2) The US\$125 million unsecured notes mature in March 2013. The TEN Group has entered into a US\$125 million cross currency interest rate swap resulting in floating rates and a fixed currency exchange rate of US\$1:A\$1.6807. The effective interest rate of this debt is approximately 6.4%.

## Commitments

As at August 31, 2004 the TEN Group had the following commitments:

Year ended August 31,	2005	2006	2007	2008	2009	thereafter
Capital expenditures	2,735	464	-	-	-	-
Program expenditures	57,773	28,391	40,205	16,528	6,947	-
Leases	<u>35,254</u>	<u>28,649</u>	<u>22,341</u>	<u>15,174</u>	<u>7,042</u>	<u>39,108</u>
Total	<u>95,762</u>	<u>57,504</u>	<u>62,546</u>	<u>31,702</u>	<u>13,989</u>	<u>39,108</u>

## 2. ACQUISITIONS

In September 2004, TEN Group acquired the remaining 50% interest in Eye Shop not already owned for cash consideration of \$12.5 million (A\$13.4 million). The company's principal activity is the sale of advertising space in shopping centres. A summary of the fair value of assets acquired follows:

Current assets	4,059
Property, plant and equipment	5,071
Goodwill	<u>8,152</u>
Total assets	<u>17,282</u>
Current liabilities	<u>1,223</u>
Total liabilities	<u>1,223</u>
	<u>16,059</u>
Consideration:	
Cash	12,493
Carrying value of Eye Shop at date of acquisition	<u>3,566</u>
	<u>16,059</u>

This purchase equation is preliminary and may be adjusted.

## 3. RESTRUCTURING ACCRUALS

For the nine months ended May 31, 2005, expenditures charged to the restructuring accruals were \$2.7 million. The balance of the restructuring accruals is expected to be substantially disbursed by August 31, 2005.

	Severance	Lease/ contract termination	Integration	Other	Total
Balance August 31, 2004	5,018	159	250	999	6,426
Expenditures	<u>(2,603)</u>	<u>(143)</u>	<u>-</u>	<u>-</u>	<u>(2,746)</u>
Balance May 31, 2005	<u>2,415</u>	<u>16</u>	<u>250</u>	<u>999</u>	<u>3,680</u>

#### 4. INCOME TAXES

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

	<u>For the three months ended</u>		<u>For the nine months ended</u>	
	<u>May 31,</u> <u>2005</u>	<u>May 31,</u> <u>2004</u> <u>Revised</u> <u>(note 1)</u>	<u>May 31,</u> <u>2005</u>	<u>May 31,</u> <u>2004</u> <u>Revised</u> <u>(note 1)</u>
Income taxes at combined Canadian statutory rate of 35.20% (2004 - 35.59%)	32,533	33,370	85,928	(59,626)
Non-taxable portion of capital (gains) and losses	861	-	2,461	-
Effect of valuation allowance on future tax assets	2,176	-	3,703	151,232
Effect of foreign income tax rates differing from Canadian income tax rates	(1,632)	(10,112)	(13,089)	(34,036)
Tax costs of exchange note offer	-	-	5,697	-
Change in expected future tax rates	-	-	(4,338)	-
Large corporations tax	701	800	2,136	2,400
Effect of change in tax rates	-	-	-	4,246
Effect of resolved uncertain tax positions and tax disputes	-	-	(4,899)	(7,000)
Non-deductible expenses and withholding taxes	354	1,221	1,692	4,810
Prior period temporary differences not previously tax effected	-	-	(6,989) <sup>(1)</sup>	-
Utilization of loss carry forwards not previously tax effected	-	(4,946)	-	(12,332)
Change in Australian tax consolidation legislation	(17,710)	-	(17,710)	-
Other	917	(730)	105	(2,545)
Provision for income taxes	<u>18,200</u>	<u>19,603</u>	<u>54,697</u>	<u>47,149</u>

<sup>(1)</sup>The provision for income taxes for the nine months ended May 31, 2005, includes adjustments for prior period temporary differences not previously tax effected aggregating to \$7.0 million (\$6.2 million future income tax, and \$0.8 million current income tax). The Company has determined these adjustments are not material to the reported results, accordingly, the adjustments have been included in the current year's earnings.

## 5. LONG TERM DEBT

	<b>As at May 31, 2005</b>	<b>As at August 31, 2004 Revised (note 1)</b>
Senior Secured Credit facility	537,548	665,011
Senior unsecured notes	251,040	263,340
Senior subordinated notes	581,023	608,373
Senior subordinated notes - exchange offer <sup>(1)</sup>	989,086	-
Bank loan Australian \$170,000 (Aug. 31, 2004 –Australian \$ 175,000)	161,313	163,048
Senior unsecured notes US\$125,000 (Aug. 31, 2004 – US\$125,000)	156,376	164,585
Term and demand loan €8,818 (Aug. 31, 2004 - €13,678)	13,623	21,943
Term bank loan NZ\$198,000 (Aug. 31, 2004 – NZ\$ 200,000)	174,933	173,120
Junior subordinated notes <sup>(1)</sup>	-	881,116
Other	<u>16,813</u>	<u>18,592</u>
	2,881,755	2,959,128
Effect of foreign currency swaps	<u>286,366</u>	<u>275,127</u>
Long term debt	3,168,121	3,234,255
Less portion due within one year	<u>(22,285)</u>	<u>(33,204)</u>
Long term portion	<u><u>3,145,836</u></u>	<u><u>3,201,051</u></u>

Except for the change noted in <sup>(1)</sup>, the terms and conditions of the long term debt are the same as disclosed in the August 31, 2004 consolidated financial statements.

<sup>(1)</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 1/8% 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 1/8% 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 1/8% junior subordinated notes (including accrued interest to November 18, 2004) with new 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, including a premium of \$36 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 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.

Under its Senior Secured Credit facility the Company is required to maintain a fair value of its interest rate swaps and foreign currency and interest rate swaps above a prescribed minimum liability. There are 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 in the nine months ended May 31, 2005 (2004 – \$28.0 million), \$36.6 million of this recouping payment related to overhanging swaps and accordingly was reflected in cash flows from operating activities. Further strengthening of the Canadian currency and/or declining interest rates may result in further payments to counterparties.

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

The Company has recorded the following investment gains and losses.

	<u>For the three months ended</u>		<u>For the nine months ended</u>	
	<u>May 31, 2005</u>	<u>May 31, 2004</u>	<u>May 31, 2005</u>	<u>May 31, 2004</u>
Gain on sale of investments	-	-	2,171	-
Dilution gain – TEN Group	-	172	733	1,873
Other	<u>285</u>	<u>182</u>	<u>(2,673)</u>	<u>182</u>
	<u>285</u>	<u>354</u>	<u>231</u>	<u>2,055</u>

## 7. RELATED PARTY TRANSACTIONS

Due from parent and affiliated companies consist of the following:

	<b>As at May 31, 2005</b>	<b>As at August 31, 2004</b>
Due from parent, CanWest - non-interest bearing	75,828	79,460
Due from various affiliated companies		
CanWest Entertainment Inc. - non-interest Bearing	60,739	60,637
Fireworks Entertainment Inc. - non-interest bearing	405,241	413,821
Provision for loan impairment	<u>(424,928)</u>	<u>(418,746)</u>
Due from parent and affiliated companies	<u>116,880</u>	<u>135,172</u>

These advances have no fixed repayment terms.

The Company has loans due from Fireworks Entertainment Inc. and its parent, CanWest Entertainment Inc., companies controlled by CanWest in the amount of \$466.0 million. Following a period of poor financial performance and increasing concern about the significant decline in the marketability of Fireworks products internationally, in fiscal 2004 CanWest commenced a process to sell its Fireworks Entertainment Division. A comprehensive revaluation of the fair value of the assets and liabilities of Fireworks Entertainment was completed which resulted in the determination of a fair value that was significantly below the book value of the loans, and accordingly, the Company established a provision of \$424.9

million against these loans.

The Company made operating lease payments of \$2.3 million to CanWest and affiliated companies for the nine months ended May 31, 2005 (2004 - \$2.3 million). For the nine months ended May 31, 2005, the Company acquired broadcast rights for television programs from Fireworks in the amount of \$2.1 million (2004 - \$4.2 million).

Senior subordinated notes held by CanWest Communications Corporation, the parent company of CanWest, totaled \$52.7 million (US\$41.9 million) at May 31, 2005 (August 31, 2004 - \$55.0 million (US\$41.9 million)). This debt matures on May 15, 2011 and bears interest at 10.625%. For the nine months ended May 31, 2005, interest expense related to this debt totaled \$4.5 million (2004 - \$4.7 million).

## 8. EMPLOYEE BENEFIT PLANS

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. The measurement date for plans is June 30 of each year. Information regarding the components of net periodic benefit cost for the defined benefit plans is presented below:

	Pension benefits		Post retirement benefits		Pension benefits		Post retirement benefits	
	For the three months ended				For the nine months ended			
	May 31, 2005	May 31, 2004	May 31, 2005	May 31, 2004	May 31, 2005	May 31, 2004	May 31, 2005	May 31, 2004
Current service cost	4,443	4,254	333	315	13,329	12,760	998	945
Employee contributions	(1,540)	(1,515)	-	-	(4,620)	(4,544)	-	-
Accrued interest on benefits	6,108	5,610	587	583	18,323	16,829	1,760	1,750
Expected return on plan assets	(5,056)	(4,585)	-	-	(15,167)	(13,754)	-	-
Amortization of transitional obligation	148	147	-	-	443	442	-	-
Amortization of past service costs	301	301	34	76	904	904	102	229
Amortization of net actuarial loss (gain)	757	839	(14)	34	2,271	2,517	(41)	102
Changes in valuation allowance	(18)	(21)	-	-	(53)	(63)	-	-
Total pension and post retirement benefit expense	<u>5,143</u>	<u>5,030</u>	<u>940</u>	<u>1,008</u>	<u>15,430</u>	<u>15,091</u>	<u>2,819</u>	<u>3,026</u>

## 9. CONTINGENCIES

- (a) On December 17, 2003, the Company filed a statement of claim against Hollinger International Inc., Hollinger Inc. and certain related parties in the amount of \$25.7 million plus interest representing amounts owed to the Company related to its acquisition of 50% of The National Post Company partnership in March 2002. In August 2004, the Company obtained a summary judgment in respect of its claim against Hollinger for \$22.5 million of this claim plus interest. A payment of \$26.5 million was received in November 2004 in satisfaction of this claim. The Company has also requested arbitration related to a further \$83.2 million owed by Hollinger International Inc. and Hollinger Canadian Newspapers Limited Partnership related to certain unresolved matters related to its November 15, 2000 acquisition of certain newspaper assets from Hollinger International Inc. and Hollinger Canadian Newspapers Limited Partnership. Hollinger International disputes this claim and claims that it and certain of its affiliates are owed \$45 million by the Company. The outcome of this arbitration is not determinable.
- (b) The Company entered into a Management Services Agreement with The Ravelston Corporation Limited ("Ravelston"). The agreement provided for annual payments of \$6.0 million. Under the terms of the agreement, either party may terminate the agreement upon six months notice. In the event of termination by Ravelston, a fee in the amount of \$22.5 million is payable. The agreement also provides that either party may terminate the agreement upon notice to the other party if the other party, among other things, ceases to carry on business or is insolvent. No payment is required by CanWest where the agreement is terminated by CanWest pursuant to the provisions related to insolvency.

In May 2005 Ravelston provided notice to terminate in six months, immediately prior to filing under the Canada Creditors' Arrangement Act ("CCAA"). The Company, prior to Ravelston's CCAA filing, provided notice of immediate termination of the agreement on the basis of Ravelston's insolvency. However, the court has imposed a stay of proceedings such that the termination of the agreement by CanWest has been stayed by the CCAA Order.

The outcome of the issues raised by the termination of the agreement by CanWest and the delivery of the notice of termination by Ravelston cannot be determined at this time. Should the Company not be successful in its termination of the agreement, the Company would be required to make an additional payment of \$25.5 million to Ravelston.

- (c) In March 2001, a statement of claim was filed against the Company and certain of the Company's subsidiaries by CanWest Broadcasting Ltd.'s ("CBL's") former minority interests requesting, among other things, that their interests in CBL be purchased without minority discount. In addition, the claim alleges the Company wrongfully terminated certain agreements and acted in an oppressive and prejudicial manner towards the plaintiffs. The 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, which was substantially the same as the previous claim, seeking damages of \$405 million. The Company believes the allegations are substantially without merit and not likely to have a material adverse effect on its business, financial condition or results of operation. The Company intends to vigorously defend this lawsuit.
- (d) The Company is involved in various legal matters arising in the ordinary course of business. The resolution of these matters is not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows.

## 10. SEGMENTED INFORMATION

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

Each segment below operates as a strategic business unit with separate management. Segment performance is measured primarily on the basis of operating profit. The 2004 results have been restated to reflect the consolidation of TEN Group in accordance with AcG-15 (see note 1). Segmented information in Canadian dollars is as follows:

	Revenue		Segment operating profit		Revenue <sup>(1)</sup>		Segment operating profit	
	For the three months ended				For the nine months ended			
	May 31, 2005	May 31, 2004 Revised (note 1)	May 31, 2005	May 31, 2004 Revised (note 1)	May 31, 2005	May 31, 2004 Revised (note 1)	May 31, 2005	May 31, 2004 Revised (note 1)
Publishing and Online-Canada	<u>323,383</u>	<u>311,419</u>	<u>74,956</u>	<u>74,269</u>	<u>938,609</u>	<u>912,822</u>	<u>215,256</u>	<u>213,995</u>
Television								
Canada	200,696	207,483	56,849	61,322	564,695	559,712	138,012	147,450
Australia-Network TEN	194,452	188,766	52,929	55,491	595,876	545,832	231,894	197,628
New Zealand	30,948	26,610	6,023	4,748	89,803	78,554	22,819	17,661
Ireland	<u>10,386</u>	<u>9,423</u>	<u>4,288</u>	<u>2,993</u>	<u>30,168</u>	<u>27,042</u>	<u>11,542</u>	<u>8,879</u>
Total television	436,482	432,282	120,089	124,554	1,280,542	1,211,140	404,267	371,618
Radio – New Zealand	23,054	20,833	5,120	5,927	71,229	65,299	21,115	20,944
Outdoor – Australia	26,803	19,407	5,327	3,737	80,625	57,149	18,024	10,361
Corporate and other	-	-	(7,878)	(6,120)	-	-	(22,747)	(20,657)
Total operating segments	<u>809,722</u>	<u>783,941</u>	<u>197,614</u>	<u>202,367</u>	<u>2,371,005</u>	<u>2,246,410</u>	<u>635,915</u>	<u>596,261</u>

<sup>(1)</sup> Represents revenue from third parties. In addition the following segments recorded intercompany revenues in the nine months ended May 31, 2005: Canadian Television - \$0.7 million (2004 – \$0.7 million), Publishing and Online – Canada – \$0.6 million (2004 - nil).

The following table reconciles segment operating profit to net earnings (loss):

	For the three months ended		For the nine months ended	
	May 31, 2005	May 31, 2004 Revised (note 1)	May 31, 2005	May 31, 2004 Revised (note 1)
Segment operating profit	197,614	202,367	635,915	596,261
Amortization of intangibles	4,988	4,552	14,885	13,640
Amortization of property, plant and equipment	23,483	23,946	68,206	69,360
Other amortization	<u>1,291</u>	<u>1,281</u>	<u>3,788</u>	<u>3,670</u>
Operating income	167,852	172,588	549,036	509,591
Interest expense	(59,043)	(85,346)	(193,451)	(258,851)
Interest income	927	245	2,804	6,068
Amortization of deferred financing costs	(3,093)	(2,043)	(8,414)	(6,060)
Interest rate and foreign currency swap gains (losses)	(12,584)	7,004	(79,790)	(9,099)
Foreign exchange gains (losses)	4,262	(1,362)	23,871	3,768
Loan impairment	(6,182)	-	(6,182)	(418,746)
Investment gains, losses and write-downs	285	354	231	2,055
Loss on debt extinguishment	-	-	(43,992)	-
Dividend income	-	<u>2,323</u>	-	<u>3,738</u>
Provision for income taxes	92,424	93,763	244,113	(167,536)
Earnings before the following	<u>18,200</u>	<u>19,603</u>	<u>54,697</u>	<u>47,149</u>
Minority interests	74,224	74,160	189,416	(214,685)
Minority interests	(22,251)	(16,691)	(78,626)	(62,290)
Interest in earnings (loss) of equity accounted affiliates	504	(207)	1,551	(556)
Realized currency translation adjustments	<u>392</u>	<u>(5,011)</u>	<u>(456)</u>	<u>(1,885)</u>
Net earnings (loss) for the period	<u>52,869</u>	<u>52,251</u>	<u>111,885</u>	<u>(279,416)</u>

## 11. UNITED STATES ACCOUNTING PRINCIPLES

These interim 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. The principal differences affecting the company are disclosed in the annual financial statements.

## Proposed accounting policies

In December 2004, The Financial Accounting Standards Board issued the Statement of Financial Accounting Standards No. 123 (Revised 2004), *Share Based Payment*, which is applicable for the Company. The Company is currently considering the impact of the adoption of this standard and expects that beginning September 1, 2005, it may affect the timing of the commencement of the recognition of the expense of certain share based compensation for U.S. GAAP.

## RECONCILIATION TO US GAAP

### Consolidated Statements of Earnings

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

	<b>For the nine months ended</b>	
	<b>May 31, 2005</b>	<b>May 31, 2004</b>
		<b>Revised (note 1)</b>
Net earnings (loss) in accordance with Canadian GAAP	111,885	(279,416)
Pre-operating costs incurred net of tax of \$926 (2004 - \$230)	(1,647)	(1,027)
Amortization of pre-operating costs net of tax of \$631 (2004 - \$627)	1,124	508
Realization of cumulative translation adjustments net of tax of nil	456	1,885
Programming costs imposed by regulatory requirement net of tax of \$1,752 (2004 - \$1,182)	(3,113)	(3,429)
Pension valuation allowances net of tax of \$19 (2004 - \$23)	(34)	(40)
Gain (loss) on interest rate and cross currency swaps and translation of foreign denominated debt net of tax of \$6,964 (2004 - \$2,813)	3,930	14,944
Settlement of acquired tax contingencies net of tax of nil	<u>-</u>	<u>(7,000)</u>
Net earnings (loss) for the period in accordance with U.S. GAAP	<u>112,601</u>	<u>(273,575)</u>

### 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	<u>112,601</u>	<u>(273,575)</u>
Unrealized foreign currency translation gain	3,638	19,709
Unrealized gains on securities available for sale net of tax of nil	-	60,841
Transition adjustment on swaps net of tax of \$132 (2004 - \$132)	<u>237</u>	<u>237</u>
	<u>3,875</u>	<u>80,787</u>
Comprehensive income (loss)	<u>116,476</u>	<u>(192,788)</u>

Comprehensive income (loss) – accumulated balances

	Foreign currency translation	Unrealized gains (losses) on securities	Transition adjustment on swaps	Total
Accumulated other comprehensive income (loss) - August 31, 2003	(33,001)	16,834	(2,230)	(18,397)
Change during the year	<u>14,795</u>	<u>(16,834)</u>	<u>313</u>	<u>(1,726)</u>
Accumulated other comprehensive income (loss) - August 31, 2004	(18,206)	-	(1,917)	(20,123)
Change during the nine months ended May 31, 2005	<u>3,638</u>	<u>-</u>	<u>237</u>	<u>3,875</u>
Accumulated other comprehensive income (loss) – May 31, 2005	<u>(14,568)</u>	<u>-</u>	<u>(1,680)</u>	<u>(16,248)</u>

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

	As at May 31, 2005	As at August 31, 2004
Shareholder's equity in accordance with Canadian GAAP	1,370,551	1,254,572
Pre-operating costs incurred, net of tax of \$2,623 (2004 – \$2,328)	(4,693)	(4,170)
Goodwill adjustment related to retroactive equity accounting of WIC upon regulatory approval net of tax of nil	38,503	38,503
Goodwill adjustment related to programming costs incurred net of tax of \$8,441 (2004 – \$6,689)	(15,103)	(11,990)
Goodwill adjustment related to integration costs of CanWest Publications net of tax of \$936	(1,663)	(1,663)
Amortization of goodwill related to future programming costs imposed by regulatory requirement on business combination net of tax of nil	938	938
Costs to develop intangible assets expensed net of tax of \$860	(1,465)	(1,465)
Pension valuation allowance net of tax of \$247 (2004 - \$266)	422	456
Goodwill adjustment related to resolution of acquired tax contingencies	(7,000)	(7,000)
Adjustment related to treatment of accounting policy change net of tax of nil	160,500	160,500
Adjustment to reflect losses on interest rate and cross-currency swaps net of tax of \$30,344 (2004 – \$37,308)	(24,371)	(28,301)
Transition adjustment on interest rate swaps, net of tax of \$1,009 (2004 - \$1,141)	<u>(1,680)</u>	<u>(1,917)</u>
Shareholder's equity in accordance with U.S. GAAP	<u>1,514,939</u>	<u>1,398,463</u>