AS CANADA'S NATIONAL PUBLIC BROADCASTER AND A CROWN CORPORATION, CBC|RADIO-CANADA IS RESPONSIBLE TO PARLIAMENT AND TO CANADIANS.

THE FINANCIALS

THE 2005–2006 YEAR PROVED TO BE AN ACTIVE AND CHALLENGING ONE FOR CBC | RADIO-CANADA. SEVERAL SIGNIFICANT FINANCIAL TRANSACTIONS AND ISSUES WERE COMPLETED OR RESOLVED DURING THE YEAR.

THE YEAR IN REVIEW

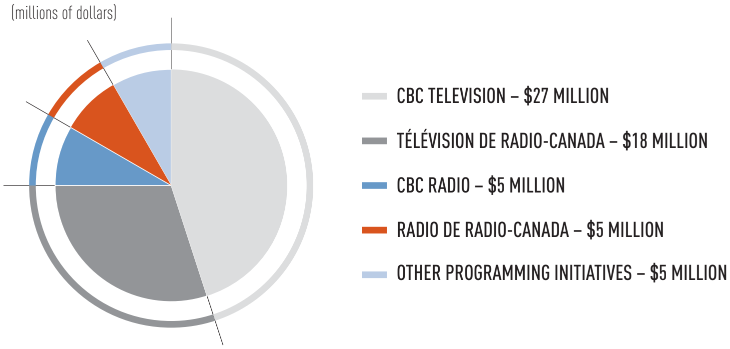
AMONG THE MOST SIGNIFICANT, IN JUNE 2005 THE **CRTC APPROVED SIRIUS CANADA'S APPLICATION** FOR A SUBSCRIPTION SATELLITE RADIO LICENSE TO BROADCAST IN CANADA. CBC | RADIO-CANADA PARTNERED WITH TWO MAJOR BROADCASTERS, SIRIUS SATELLITE RADIO INC. (USA) AND STANDARD RADIO INC., TO BRING CANADIANS AN UNPARALLELED MUSIC SELECTION AND AN UNMATCHED LINEUP OF SPORTS, NEWS, TALK, AND ENTERTAINMENT VIA SATELLITE. LISTENERS THROUGHOUT NORTH AMERICA ARE ABLE TO ENJOY SIX CHANNELS PRODUCED BY CBC | RADIO-CANADA: *CBC RADIO ONE*, *CBC RADIO 3*, *PREMIÈRE PLUS*, *INFO PLUS*, AND *BANDE À PART*; AND THE BEST OF RADIO CANADA INTERNATIONAL ON THE NEW MULTILINGUAL STATION, *RCI PLUS*.

During the month of February 2006, CBC | Radio-Canada broadcast the **Torino Olympic Winter Games** and millions of Canadians watched or listened to medal-winning moments on more platforms than ever before. From a financial perspective, the Games produced excellent results, as expected.

THE GOVERNMENT OF CANADA ONCE AGAIN RENEWED THE $60 MILLION in one-time funding for 2005–2006. This funding, which we have received for five consecutive years, allowed the Corporation to further strengthen and revitalise English and French Television and Radio programming, and to reflect the ever-increasing diversity of Canadian society. Examples of programs produced and aired thanks to this funding include: *Grande Ourse, Les Bougon – c'est aussi ça la vie!, Trudeau, China Rises, Lévesque, Random Passage,* and the development of unique bilingual programs and events like the highly acclaimed *Breaking Point/ Point de rupture*.

DISTRIBUTION OF THE 2005–2006 NON-RECURRING FUNDING OF $60 MILLION

(millions of dollars)



In November 2005, THE OFFICE OF THE AUDITOR GENERAL RELEASED ITS SPECIAL EXAMINATION REPORT to CBC | Radio-Canada. The report concluded that during the period under examination, except for performance measurement and reporting, the systems and practices of CBC | Radio-Canada were designed and operated in a way that provided reasonable assurance that assets were safeguarded and controlled, resources were managed economically and efficiently, and operations were carried out effectively. The entire report can be found at *CBC.ca* or *Radio-Canada.ca* (*http://CBC.Radio-Canada.ca/docs/auditor/index.shtml*).

Furthermore, the project to evaluate the EFFECTIVENESS OF CBC | RADIO-CANADA'S INTERNAL CONTROLS continued. The ultimate goal of the project is to provide Senior Management with adequate tools in order to attest to the effectiveness of internal control over financial reporting. This is in line with the recent announcement by the Canadian Securities Administrators (CSA) that they will propose amendments to Multilateral Instrument 52-109, Certification of Disclosure in Issuer's Annual and Interim Filings, to be issued in 2006. The amendments would expand the CEO/CFO certification to require certification with respect to the effectiveness of the internal controls over financial reporting. The internal controls project includes the documentation and evaluation of internal controls over financial statements for 19 financial processes and the documentation and evaluation of financial processes and internal controls over financial statements affected by a project which will provide a single, integrated way to manage contracts and content, program inventory and schedules, broadcast and media management, revenue management, marketing and sales, promotions, and air time analysis for both CBC Television and Télévision de Radio-Canada. The scope of this system implementation involves replacing 45 legacy systems with three new systems: OnAir (broadcast management), Livelink (contracts) and RMS (revenue management). The project team is also documenting and evaluating the Information Technology (IT) general controls. A team of external experts has been assisting the CBC|Radio-Canada team in the different phases of the project. The project is scheduled for completion by March 2007.

As part of the annual business planning process for 2005–2006, media lines and Corporate components identified and ranked their most significant risks to achieving business objectives. Standard risk definitions and evaluation criteria were used to prioritise risks on the basis of inherent risk scores, which are a function of impact and likelihood. In addition, action plans were developed and responsibility assigned for managing key risks. The top risks and associated action plans were presented to the Board of Directors. Some of the more significant risks included uncertainty regarding CBC|Radio-Canada's future government funding levels, distribution technology changes, programming issues, erosion of audience share, and decreased revenues.

THE CBC PENSION PLAN IS HEALTHY and, in fact, as of December 31, 2005, was in a significant surplus position on a going-concern basis. However, under federal regulations, if a federal corporation's (including a Crown Corporation's) pension plan is in a deficit position on a "solvency" basis or on a "going-concern" basis, that corporation is required to make up that deficit through additional contributions to the plan. Like some estimated 80 per cent of Canadian pension plans, as of December 31, 2005 – the valuation date – the CBC Pension Plan had a solvency deficit. This deficit was caused largely by historically low long-term interest rates at that moment of valuation. The deficit was evaluated at $89.1 million. Under federal regulations, corporations in a deficit position are required to repay that deficit with interest over five years. However, the Federal Budget released in May 2006 proposed important measures that will provide temporary relief to corporations like CBC|Radio-Canada by extending, under certain conditions, the timeframe during which solvency payments must be made. When adopted, these measures could reduce the amount (currently estimated at $20.1 million) for the 2006 calendar year by half. For 2005–2006, the cost of the special contribution to the CBC Pension Plan was $5.025 million. The Plan's position will automatically be re-evaluated at the end of calendar year 2006 and if, at that time, the financial position of the Plan has improved to the point where the deficit has been eliminated, the special contributions will be suspended.

ANALYSIS OF 2005–2006 CONSOLIDATED FINANCIAL STATEMENTS

BALANCE SHEET

In 2005, the Corporation adopted Accounting Guideline 15, *Consolidation of Variable Interest Entities*. This adoption resulted in a restatement of some balance sheet elements. More information is provided in the Financial Statements and in Note 3.

The level of cash, cash equivalents and short-term investments decreased from last year mainly due to the $7 million investment in Sirius Canada Inc., a decreased requirement for cash to pay Olympic rights ($34 million paid in 2004–2005 versus $10 million paid in 2005–2006), a $20 million payment for the cost of the results of job evaluation, and the cost of disaffiliation ($9 million).

The increase in accounts receivable is the result of outstanding invoices for the Torino Winter Olympic Games held in February 2006.

The item "Inventory" increased due to the production of such programs as *Hockey: A People's History*, scheduled to be broadcast in the Fall of 2006, and *Street Cents*, which was broadcast in the Spring of 2006.

Long-term investments decreased because the Corporation did not invest in marketable securities with a maturity term longer than one year from the balance sheet date.

Accounts payable and accrued liabilities increased mainly as a result of a rise in municipal taxes and an increase in the level of accruals (or outstanding invoices) related to the purchase of capital equipment for high definition television.

The increase in the item “Employee-related liabilities (long-term)” reflects the impact of the application of rules respecting employee future benefits. Under these rules, actuarial accounting must be used to determine liabilities relative to the Pension Fund and to other employee future benefits.

REVENUES – 2005–2006

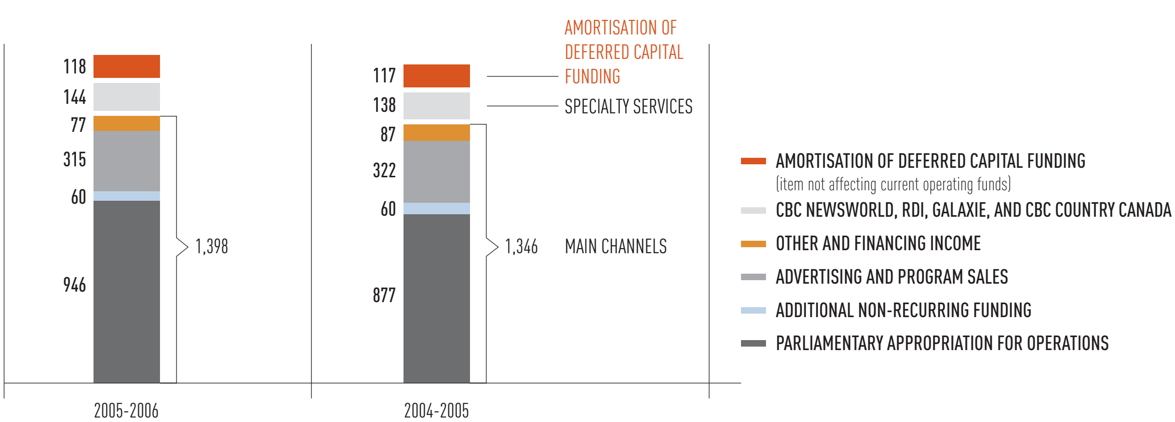
The slight decrease in advertising revenues and program sales is due to a substantial loss of revenue by CBC Television during the National Hockey League (NHL) lockout and its own labour disruption in the late Summer/early Fall 2005. This loss was offset by advertising revenues on replacement programming such as *Movie Night in Canada*. Advertising revenue losses in CBC Television were partially offset by increased revenues generated by Télévision de Radio-Canada due to the remarkable performance of its programming. Revenue generated from the Torino Winter Olympic Games also offset the loss of revenues. In spite of all these events, advertising revenues only reached 85 per cent of the original target set for various media lines in 2005–2006.

The increase in revenues for Specialty Services is mostly attributable to a greater number of subscribers for CBC Newsworld, le Réseau de l’information de Radio-Canada (RDI) and Galaxie. Overall, Specialty Services revenues represent 106 per cent of the targets set at the beginning of the year.

Other income, which surpassed expectations by 11 per cent for 2005–2006, includes revenues generated from the host broadcasting activities during the World Aquatics Championships in Montréal. Increased revenues were also generated by Télévision de Radio-Canada from agreements with independent producers, for programs such as *Véro* and *Le match des étoiles*. On a year-to-year basis, other income was affected negatively by the expiry of the contract to provide programming and services to Newsworld International USA.

REVENUES AND OPERATING SOURCES OF FUNDS – CBC | RADIO-CANADA

(millions of dollars)

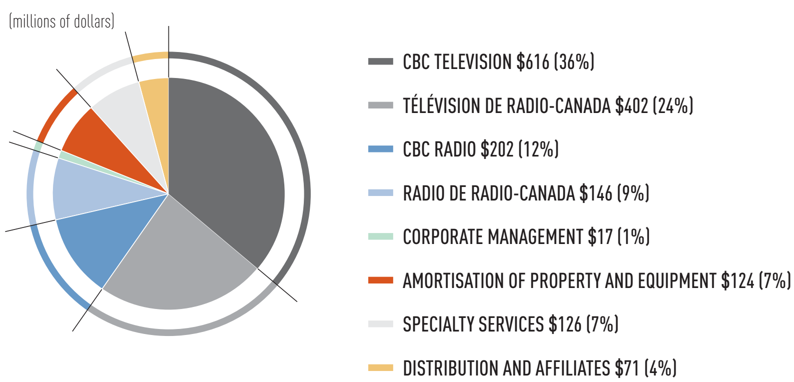


EXPENSES – 2005–2006

On a year-to-year basis, the expenditure reduction reflects the decrease in the cost of the Torino Olympic Winter Games compared to the cost of the Athens Olympic Summer Games and a reduced level of activity during the Canadian Media Guild (CMG) lockout. Also in 2004-2005, the expenditures included the cost of broadcasting World Cup Hockey. Actual expenses for Television and Radio services represent approximately 95 per cent of budgets set at the beginning of the year.

The increase in Specialty Services expenditures represents an investment in new programming initiatives that were in line with budgets for 2005–2006.

2005–2006 OPERATING EXPENDITURES*
1,704 MILLIONS OF $



* Excluding provision of income and large corporation taxes

2006–2007 AND SUBSEQUENT YEARS

In May 2006, the Government of Canada included **one-time funding of $60 million** in the Main Estimates tabled for 2006–2007.

Also in May 2006, **CBC | Radio-Canada and Corus Entertainment Inc.** reached an agreement that saw the Corporation purchase Corus Entertainment's 53 per cent ownership stake in **The Documentary Channel**. Along with the 29 per cent CBC | Radio-Canada currently owns, this will give the Corporation majority ownership and control of the channel. As of the date of this Annual Report, the agreement was subject to the approval of the CRTC.

In 2006–2007, the risk management process will be further enhanced to include a detailed presentation of key risks, action plans and mitigation strategies to the Audit Committee of the Board of Directors. In addition, an update to the Audit Committee on the key risks will be discussed at each of its meetings throughout the year. Furthermore, starting in 2006–2007, Management will be required, as part of the business planning process, to report on the success of their action plans with respect to managing the key risks identified the previous year. CBC | Radio-Canada has adopted an enterprise-wide approach to risk management.

CBC | Radio-Canada operates in one of the world's most competitive broadcasting environments and, despite swelling financial pressures like rising production costs, rising health care costs, aging transmission and production assets, it continues to deliver great value to Canadians. Going forward, the onus remains on us to persevere in advancing our strategic priorities and to continue to provide Canadians with the range and quality of services that they have come to expect from their public broadcaster.

This being said, there is no question that the Corporation ultimately requires stable, multi-year government funding to surmount the many challenges it faces and to truly fulfil its mandate. We will continue to voice this need on behalf of Canadians.

FINANCIAL HIGHLIGHTS FROM THE PAST FIVE YEARS

FOR THE YEAR ENDED MARCH 31	2006	2005	2004	2003	2002
			(MILLIONS OF DOLLARS)		
GOVERNMENT FUNDING					
Parliamentary appropriations	946	877	873	877	780
Non-recurring funding for programming initiatives	60	60	60	60	60
REVENUE					
Advertising and program sales	315	322	283	284	319
Other income	63	73	79	73	82
Specialty Services	144	138	132	123	118
EXPENSES					
Television and Radio services costs	1,367	1,383	1,330	1,198	1,151
Specialty Services	126	121	116	117	104

FINANCIAL RATIOS

FOR THE YEAR ENDED MARCH 31	2006	2005	2004	2003	2002
LIQUIDITY RATIOS					
Current ratio[1]	1.45	1.36	1.64	1.55	1.61
Quick ratio[2]	1.01	0.92	1.25	1.24	1.27

1 *Current assets / current liabilities*

2 *(Current assets-inventory) / current liabilities*

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements and all other information presented in this Annual Report are the responsibility of management and have been reviewed and approved by the Board of Directors of the Corporation. These consolidated financial statements, which include amounts based on management's best estimates as determined through experience and judgement, have been properly prepared within reasonable limits of materiality and are in accordance with Canadian generally accepted accounting principles.

Management of the Corporation maintains books of account, records, financial and management controls, and information systems, which are designed to provide reliable and accurate financial information on a timely basis. These controls provide reasonable assurance that assets are safeguarded, that resources are managed economically and efficiently in the attainment of corporate objectives, that the operations of the Corporation are carried out effectively and that transactions are in accordance with the applicable provisions of Part X of the *Financial Administration Act*, Part III of the *Broadcasting Act* and the by-laws of the Corporation.

The Corporation's Internal Auditor has the responsibility for assessing the Corporation's systems, procedures and practices. The Auditor General of Canada conducts an independent audit of the annual consolidated financial statements and reports on her audit to the Minister of Canadian Heritage and Status of Women.

The Board of Directors' Audit Committee, which consists of five members, none of whom is an officer of the Corporation, reviews and advises the Board on the financial statements and the Auditor General's report thereto. The Audit Committee oversees the activities of Internal Audit and meets with management, the Internal Auditor and the Auditor General on a regular basis to discuss the financial reporting process as well as auditing, accounting and reporting issues.

OTTAWA, CANADA
JUNE 7, 2006

PRESIDENT AND CHIEF EXECUTIVE OFFICER

VICE-PRESIDENT AND CHIEF FINANCIAL OFFICER

AUDITOR'S REPORT

To the Minister of Canadian Heritage and Status of Women

I have audited the consolidated balance sheet of the Canadian Broadcasting Corporation as at March 31, 2006 and the consolidated statements of operations and equity and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied, after giving retroactive effect to the change in the method of accounting for variable interest entities as explained in note 3 to the financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with the applicable provisions of Part X of the *Financial Administration Act*, Part III of the *Broadcasting Act* and the by-laws of the Corporation.

Sheila Fraser

SHEILA FRASER, FCA
AUDITOR GENERAL OF CANADA

OTTAWA, CANADA
JUNE 7, 2006

CONSOLIDATED BALANCE SHEET

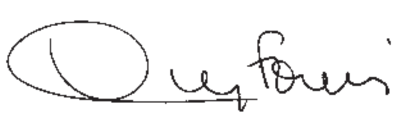
AS AT MARCH 31

	2006	2005 (restated, Note 3)
	(THOUSANDS OF DOLLARS)	
ASSETS		
CURRENT		
Cash and cash equivalents	-	20,487
Short-term investments (NOTE 4)	93,658	82,794
Accounts receivable	181,048	128,318
Inventory (NOTE 5)	145,584	124,951
Prepaid expenses	56,795	56,300
Net investment in sales-type leases (NOTE 6)	1,771	1,685
	478,856	**414,535**
Property and equipment (NOTE 7)	971,649	983,036
Long-term receivables (NOTE 8)	72,016	73,963
Net investment in sales-type leases (NOTE 6)	65,551	66,929
Deferred charges	12,908	13,464
Long-term investments (NOTE 9)	3,924	38,393
	1,604,904	**1,590,320**
LIABILITIES		
CURRENT		
Bank overdraft	2,556	-
Accounts payable and accrued liabilities	142,231	112,934
Employee-related liabilities (NOTE 10)	167,247	174,943
Bonds payable, including accrued interest (NOTE 12)	17,766	17,462
	329,800	**305,339**
LONG-TERM		
Employee-related liabilities (NOTE 10)	298,230	230,606
Bonds payable (NOTE 12)	342,348	349,216
Deferred capital funding (NOTE 13)	599,541	629,987
	1,240,119	**1,209,809**
EQUITY		
Equity	34,985	75,172
	1,604,904	**1,590,320**

Commitments and contingencies (NOTES 14 AND 15)

The accompanying notes form an integral part of the consolidated financial statements.

APPROVED BY THE BOARD OF DIRECTORS:



DIRECTOR

DIRECTOR

CONSOLIDATED STATEMENT OF OPERATIONS AND EQUITY

FOR THE YEAR ENDED MARCH 31

	2006	2005
	(THOUSANDS OF DOLLARS)	
REVENUES		
Advertising and program sales	314,708	321,670
Specialty Services (NOTE 16)	144,265	138,288
Other income	62,598	73,049
Financing income	14,737	13,699
	536,308	**546,706**
EXPENSES		
Television and Radio service costs	1,366,659	1,383,164
Specialty Services (NOTE 16)	126,348	120,662
Transmission, distribution and collection	63,023	63,748
Payments to private stations	7,997	8,058
Corporate management	16,542	16,525
Amortisation of property and equipment	123,841	122,675
	1,704,410	**1,714,832**
OPERATING LOSS BEFORE GOVERNMENT FUNDING AND TAXES	**(1,168,102)**	**(1,168,126)**
GOVERNMENT FUNDING		
Parliamentary appropriation for operating expenditures (NOTE 17)	1,006,231	936,771
Amortisation of deferred capital funding (NOTE 13)	117,956	116,729
	1,124,187	**1,053,500**
NET RESULTS BEFORE TAXES	**(43,915)**	**(114,626)**
(Provision) recovery of income and large corporations taxes (NOTE 18)	(272)	974
NET RESULTS FOR THE YEAR	**(44,187)**	**(113,652)**
EQUITY, BEGINNING OF YEAR	**75,172**	**184,824**
WORKING CAPITAL FUNDING (NOTE 17)	**4,000**	**4,000**
EQUITY, END OF YEAR	**34,985**	**75,172**

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31

	2006	2005 (restated, Note 3)
	(THOUSANDS OF DOLLARS)	
CASH FLOWS FROM (USED IN)		
OPERATING ACTIVITIES		
Net results for the year	(44,187)	(113,652)
Items not involving cash:		
Loss (gain) on disposal of property and equipment	434	(7,293)
Amortisation of property and equipment	123,841	122,675
Loss (income) from investments in entities subject to significant influence	7,109	(137)
Change in long-term receivables	-	(4,224)
Amortisation of deferred charges	556	472
Amortisation of deferred capital funding	(117,956)	(116,729)
Change in employee-related liabilities [current]	(384)	(1,628)
Change in employee-related liabilities [long-term]	67,624	75,592
Net change in non-cash working capital balances (NOTE 19)	(61,860)	(27,704)
	(24,823)	**(72,628)**
FINANCING ACTIVITIES		
Parliamentary appropriations (NOTE 17)		
Capital funding	87,510	95,757
Working capital funding	4,000	4,000
Repayment of bonds payable	(6,378)	(5,927)
	85,132	**93,830**
INVESTING ACTIVITIES		
Acquisition of property and equipment	(116,067)	(118,404)
Purchase of long-term investments	(7,000)	(34,360)
Maturity of long-term investments	34,360	-
Recovery from salary advances	647	534
Capital recovery from notes receivable	1,575	5,329
Capital recovery from net investment in sales-type leases	1,285	1,198
Proceeds from disposal of property and equipment	1,848	12,298
	(83,352)	**(133,405)**
DECREASE IN CASH AND CASH EQUIVALENTS	**(23,043)**	**(112,203)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**20,487**	**132,690**
(BANK OVERDRAFT) CASH AND CASH EQUIVALENTS, END OF YEAR	**(2,556)**	**20,487**
Consist of:		
Bank overdraft	2,556	-
Cash	-	158
Cash equivalents	-	20,329
Supplementary information		
Interest paid	26,659	27,113
Income tax paid (recovered)	362	(809)

The accompanying notes form an integral part of the consolidated financial statements.

1. AUTHORITY AND OBJECTIVE

CBC | Radio-Canada (the Corporation) was first established by the 1936 *Canadian Broadcasting Act* and continued by the 1958, 1968 and 1991 Broadcasting Acts. The Corporation is an agent of Her Majesty and all property acquired by the Corporation is the property of Her Majesty.

As the national public broadcaster, CBC | Radio-Canada provides Radio and Television services in both official languages incorporating predominantly and distinctively Canadian programs to reflect Canada and its regions to national and regional audiences.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Corporation have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies.

A. Basis of Consolidation

The consolidated financial statements include the accounts of the Corporation and the Broadcast Centre Trust, a variable interest entity (VIE) of which the Corporation is the primary beneficiary.

B. Parliamentary Appropriations and Deferred Capital Funding

The Corporation receives a substantial portion of its funding from the Government of Canada. Parliamentary appropriations for operating expenditures are recorded in the Statement of Operations and Equity. Parliamentary appropriations for property and equipment subject to amortisation are recorded as deferred capital funding on the Balance Sheet, and are amortised on the same basis and over the same periods as the related property and equipment. Parliamentary appropriations for working capital and purchase of lands are recorded in Equity.

C. Cash Equivalents

Cash equivalents, which are carried at cost as they are intended to be held to maturity, are comprised of marketable securities with original maturity dates of less than 90 days.

D. Short-term Investments

Short-term investments, which are carried at cost as they are intended to be held to maturity, consist of marketable securities with original maturity dates in excess of three months and current maturities of less than 12 months from the balance sheet date.

E. Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the exchange rates in effect at the balance sheet date and non-monetary items are translated at rates in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at average exchange rates during the year. All exchange gains or losses are included in determining net results for the year.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Derivative Financial Instruments

The Corporation uses derivative financial instruments such as forward contracts to manage the risk of loss due to adverse movements in foreign exchange. Foreign exchange forwards are contractual obligations in which two counter-parties agree to exchange one currency for another at a specified price for settlement at a predetermined future date. The Corporation's policy is not to utilise derivative financial instruments for trading or speculative purposes.

A derivative must be designated and effective to be accounted for as a hedge. Effectiveness is achieved if the cash flows or fair values of the derivative substantially offset changes in cash flow or fair value of the hedged position and the timing is similar.

The Corporation formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific firm commitments. The Corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Foreign exchange gains or losses related to derivatives that are hedged are recognised at the same time as the related hedged financial instruments are settled. The forward contracts are accounted for as off-balance sheet items and are only recognised when one of the following events occurs: the anticipated transaction is realised; the hedged item is settled; the hedging relationship ceases to be effective; or, the hedging relationship designation is terminated. Any derivative financial instrument held by the Corporation that is not or no longer designated as an eligible hedge is carried at fair value on the balance sheet, and any change in the fair value is charged or credited to the statement of operations and equity.

G. Inventory

(i) Program Inventory

Programs completed and in process of production are stated at cost. Cost includes the cost of materials and services, and labour and overhead expenses applicable to programs. Program costs are charged to operations as the programs are broadcast, deemed unusable, or sold.

The Corporation enters into contracts for independent productions, film and script rights. The payments made under the terms of each contract are recorded as prepaid expenses and recorded as program inventory when the following criteria are met: cost is determined, material is accepted and program is available for broadcast. Cost is charged to operations in accordance with the approved program schedule, when deemed unusable or sold.

(ii) Other Inventory

Independent productions for which a payment is due and which do not meet the program inventory criteria, and various inventory from the Merchandising Division stated at the lower of cost and the net realisable value, are presented as other inventory.

H. Property and Equipment

Property and equipment are recorded at cost. The cost of assets constructed by the Corporation includes material, direct labour and related overhead. Amounts included in uncompleted capital projects are transferred to the appropriate property and equipment classification upon completion, and are then amortised. Amortisation is calculated on the straight-line method using rates based on the estimated useful life of the property and equipment, as follows:

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUILDINGS	33 YEARS
TECHNICAL EQUIPMENT	
TRANSMITTERS AND TOWERS	20 YEARS
OTHER	5 YEARS
FURNISHINGS AND OFFICE EQUIPMENT	10 YEARS
COMPUTERS	
MAINFRAME COMPUTERS (HARDWARE AND SOFTWARE)	5 YEARS
MICROCOMPUTERS (HARDWARE AND SOFTWARE)	3 YEARS
AUTOMOTIVE	
AUTOMOBILES, CARS AND MINIVANS	5 YEARS
UTILITY VEHICLES, VANS	8 YEARS
SNOWMOBILES, ALL-TERRAIN VEHICLES	10 YEARS
TELEVISION AND RADIO NEWS TRUCKS, 5-TON AND 10-TON HEAVY TRUCKS	12 YEARS
SPECIALISED VEHICLES	20 YEARS

Leasehold improvements are capitalised and amortised over the terms of the respective leases.

I. Net Investment in Sales-type Leases

Assets leased under terms that transfer substantially all of the benefits and risks of ownership to the lessee are accounted for as sales-type leases.

Finance income from sales-type leases is recognised in a manner that produces a constant rate of return on the investment in the leases. The investment in the leases for purposes of income recognition is composed of net minimum lease payments and unearned finance income.

J. Deferred Charges

Initial costs incurred as a result of an operating lease are amortised over the period of the lease. Other deferred charges are amortised over the period of the respective agreements.

K. Long-term Investments

Investments in entities over which the Corporation does not exercise significant influence are recorded using the cost method. Investments in entities over which the Corporation exercises significant influence are accounted for using the equity method. Under this method, the Corporation's investment is initially recorded at cost and adjusted thereafter to include the Corporation's pro rata share of earnings of the investee. The amount of the adjustment is included in other income.

Long-term investments also include marketable securities and bonds with original maturity dates in excess of 12 months from the balance sheet date.

L. Pension Cost and Obligation

The Corporation provides pensions based on length of service and final average earnings as classified under defined benefit retirement pension arrangements.

The cost of pension benefits earned by employees is determined on an actuarial basis using the projected benefit method pro-rated on service and Management's best assumptions such as the expected long-term rate of return on plan assets, rate of compensation, inflation, retirement ages of employees, and mortality of members.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The pension costs are determined using the cost of employee pension benefits for the current year's service, the interest cost on the accrued benefit obligation, the expected investment return on the actuarial value of plan assets, the amortisation of the transitional asset, the amortisation of net actuarial gains and losses, and the amortisation of past service costs. The market-related value of plan assets is used for the purpose of calculating the expected return on plan assets. The method used to determine the market-related value consists of spreading a given year's realised and unrealised capital gains and losses uniformly over that year and the three subsequent years.

Actuarial gains (losses) on plan assets arise from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period. Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. The net accumulated actuarial gains (losses) are amortised over the average remaining service period of active employees. The average remaining service period of the active employees covered by the pension plans is between 9.3 and 13.5 years (2005 – between 9 and 13.5 years).

On April 1, 2000, the Corporation adopted the new accounting standard on employee future benefits using the prospective application method. The Corporation is amortising the transitional pension asset on a straight-line basis over 13.5 years, which was the average remaining service period of the active employees expected to receive benefits under the Pension Plan as of April 1, 2000.

Past service costs arising from plan amendments are deferred and amortised on a straight-line basis over the average remaining service period of employees active at the date of amendment.

M. Employee Future Benefits Other than Pensions

The Corporation provides employee future benefits such as termination and other benefits including continuation of benefits coverage for employees on long-term disability, post-retirement life insurance and workers' compensation.

The cost of these benefits is determined on an actuarial basis using the projected benefit method pro-rated on service and Management's best assumptions such as salary increases, inflation, retirement ages of employees, mortality of members, and expected health care costs.

For employee termination benefits and post-retirement life insurance, the transitional obligation and the net actuarial gains or losses are amortised over the average remaining service period of the employee group. The transitional obligation and the net actuarial gains or losses for continuation of benefits for employees on long-term disability and workers' compensation are amortised over the expected average remaining duration of payments. The amortisation periods used for these plans are between 7.6 and 13.5 years (2005 – between 4 and 13 years).

Since a major portion of the liabilities for these items represents costs, which will be funded mainly from appropriations received from the Government of Canada in the future, these items do not have an impact on the Corporation's current net results of operations on a government funding basis.

N. Income Taxes

The Corporation follows the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are recognised for the estimated future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The rates used to calculate the future income tax assets and liabilities are the enacted or substantively enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. If realisation of future income tax assets is considered more unlikely than likely, a valuation allowance is provided.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Revenue Recognition

(i) Advertising and Program Sales

Revenues from the sale of advertising airtime are recognised when the advertisement has been broadcast. Revenues from the sale of programs by the Main Channels to third-party broadcasters are recognised when the sale of goods or the rendering of services is completed.

(ii) Specialty Services

Revenues from Specialty Services include the sale of advertising airtime, subscriber revenues, and the sale of programs by the Specialty channels to third-party broadcasters. Revenues from the sale of advertising airtime are recognised when the advertisement has been broadcast. Revenues from program sales and subscriber fees are recognised when the sale of goods or the rendering of services is completed.

(iii) Other Income

Other income includes revenues from the leasing of space, facilities and services; activities such as host broadcaster; commercial productions sales; and gains from disposal of property and equipment. These are recognised when the sale of goods or the rendering of services is completed. Other income also includes changes in equity from investments in companies subject to significant influence.

(iv) Financing Income

Financing income includes interest revenues from bank accounts, short-term investments, investments in sales-type leases, and notes receivable.

P. Measurement Uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the year. Employee-related liabilities, estimated useful lives of property and equipment and contingent liabilities are the most significant items where estimates are used. Actual results could significantly differ from those estimated.

Q. Future Accounting Changes

In January 2005, the Canadian Institute of Chartered Accountants (CICA) issued the following three accounting standards, which will become effective in 2007–2008:

Section 3855: Financial Instruments – Recognition and Measurement – This standard sets out criteria for the recognition, derecognition, measurement and classification of financial instruments. The Corporation will be required to categorise its financial assets as held for trading, held to maturity, available for sale, or as loans and receivables. The related accounting treatment will be dependent on the classification. Financial assets categorised as held for trading or available for sale are to be measured at fair value while financial assets held to maturity, loans and receivables are measured at amortised cost.

Section 3865: Hedges – Derivatives will be classified as held for trading unless designated as hedging instruments. All derivatives, including embedded derivatives that are not closely related to the host contract, will be measured at fair value. For derivatives that hedge the changes in fair value of an asset or liability, changes in the derivatives' fair value will be reported in the net results and offset by changes in the fair value of the hedged asset or liability. For derivatives that hedge variability in cash flows, the effective portion of changes in the derivatives' fair value will be initially recognised in the new category, *Other Comprehensive Income*, and will subsequently be reclassified to net results in the periods affected by the variability in the cash flows of the hedged item.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Section 1530: Comprehensive Income – This standard requires certain gains and losses, that would otherwise be recorded as part of net results, to be presented in other comprehensive income until it is considered appropriate that they be recognised in net results. The Corporation may be required to present a new financial statement titled *Comprehensive Income* to record such amounts until they are realised.

The Corporation is in the process of determining the impact these standards will have on its financial reporting.

3. CHANGE IN ACCOUNTING POLICY

On April 1, 2005, the Corporation adopted the Accounting Guideline 15, Consolidation of Variable Interest Entities. This guideline requires the application of consolidation principles to certain entities that are subject to control on a basis other than ownership of voting interests (NOTE 11).

This change in accounting policy has been applied retroactively but did not result in any adjustment to the opening equity. The impacts are as follows:

	2006	2005 restated (THOUSANDS OF DOLLARS)	2005 as previously stated
CONSOLIDATED BALANCE SHEET			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	142,231	112,934	124,016
Obligation under capital lease	-	-	6,380
Bonds payable, including accrued interest	17,766	17,462	-
LONG-TERM LIABILITIES			
Obligation under capital lease	-	-	349,216
Bonds payable	342,348	349,216	-
CONSOLIDATED STATEMENT OF CASH FLOWS			
Repayment of capital lease obligation	-	-	(5,927)
Repayment of bonds payable	(6,378)	(5,927)	-
NOTE 7: PROPERTY AND EQUIPMENT			
Property under capital lease	-	-	327,656
Buildings	459,089	481,841	154,185

4. SHORT-TERM INVESTMENTS

The average yield to maturity of the portfolio held as at March 31, 2006, is 3.18 per cent (2005 – 2.56 per cent). The average term to maturity is 158 days (2005 – 227 days).

The Corporation invests in the short-term money market and securities. These investments are limited to securities that are 100 per cent guaranteed by the Government of Canada.

5. INVENTORY

	2006	2005
	(THOUSANDS OF DOLLARS)	
Program inventory	141,505	120,709
Other inventory	4,079	4,242
	145,584	124,951

6. NET INVESTMENT IN SALES-TYPE LEASES

The Corporation's net investment in sales-type leases includes the following:

	(THOUSANDS OF DOLLARS)
Total minimum lease payments receivable	130,154
Unearned income	(62,832)
	67,322
Current portion	(1,771)
LONG-TERM PORTION	**65,551**

Future minimum lease payments receivable under the sales-type leases are as follows:

2007	6,050
2008	6,050
2009	6,050
2010	6,050
2011	6,050
2012 to 2027	99,904
TOTAL FUTURE MINIMUM LEASE PAYMENTS RECEIVABLE	**130,154**

These sales-type leases bear a fixed interest rate of 7.15 per cent annually. The interest revenues generated from these sales-type leases represent $4.8 million in 2006 (2005 – $4.8 million).

7. PROPERTY AND EQUIPMENT

			2006	2005 (restated, Note 3)
	COST	ACCUMULATED AMORTISATION	NET BOOK VALUE	
		(THOUSANDS OF DOLLARS)		
Land	21,727	-	21,727	21,006
Buildings	888,995	(429,906)	459,089	481,841
Technical equipment	1,293,932	(972,624)	321,308	328,805
Furnishings, office equipment and computers	137,354	(91,354)	46,000	41,320
Automotive	50,294	(36,477)	13,817	13,721
Leasehold improvements	44,231	(9,958)	34,273	34,998
Uncompleted capital projects	75,435	-	75,435	61,345
	2,511,968	**(1,540,319)**	**971,649**	**983,036**[1]

1 *Cost and accumulated amortisation of property and equipment as at March 31, 2005, amounted to $2,430.3 million and $1,447.3 million respectively.*

8. LONG-TERM RECEIVABLES

A. Notes Receivable

The Corporation has two long-term notes receivable following the sales of lands. These notes bear a fixed interest rate of 7.15 per cent annually.

8. LONG-TERM RECEIVABLES (CONTINUED)

Future minimum payments receivable under the term of the notes are as follows:

	(THOUSANDS OF DOLLARS)
2007	5,567
2008	5,567
2009	5,567
2010	5,567
2011	5,567
2012 to 2027	90,007
TOTAL FUTURE MINIMUM PAYMENTS – NOTES RECEIVABLE	**117,842**
Deduct: imputed interest	(56,328)
NOTES RECEIVABLE	**61,514**
Less: current portion (included in accounts receivable)	(1,659)
NOTES RECEIVABLE LONG-TERM	**59,855**

B. Salary Advances – Change in Payroll

The implementation of a new payroll system in fiscal year 1998-1999 required a change in the payroll schedule of the Corporation. To adjust to this schedule without compromising the bi-weekly payments to employees, the Corporation issued a salary advance to be recovered upon termination of employment. This salary advance represents $12.2 million in 2006 (2005 – $12.8 million).

9. LONG-TERM INVESTMENTS

During the 2006 fiscal year, the Corporation acquired ownership interests in Sirius Canada Inc., an investment in two types of shares: class A shares, an investment over which the Corporation exercises significant influence and is accounted for using the equity method; and class C shares, an investment presented at cost.

	2006			2005		
(THOUSANDS OF DOLLARS)	SIGNIFICANT INFLUENCE	OTHER	TOTAL	SIGNIFICANT INFLUENCE	OTHER	TOTAL
ARTV – participation at 37%	3,753	-	3,753	4,016	-	4,016
The Documentary Channel – participation at 29%[1]	-	-	-	-	-	-
Sirius Canada Inc.[2–3]	(6,846)	7,000	154	-	-	-
Marketable securities and bonds[4]	-	-	-	-	34,360	34,360
Portfolio investments	-	17	17	-	17	17
Total	(3,093)	7,017	3,924	4,016	34,377	38,393

1 *The Corporation has not recorded a portion of The Documentary Channel's losses since the Corporation does not assume any financial risk relating to The Documentary Channel.*

2 *The Corporation has invested $25.05 in class A shares, which represents a 25.05 per cent participation. Those shares are entitled to receive dividends in equal amounts per share.*

3 *The Corporation invested $7 million in class C shares, which are entitled to a preferential cumulative dividend of 8 per cent per annum on the redemption price. These shares may be redeemed at any time by Sirius Canada Inc.*

4 *This year there is no investment of this type. The Corporation could invest in the long-term money market and securities. These investments would be limited to securities and bonds that are 100 per cent guaranteed by the Government of Canada.*

10. PENSION PLANS AND EMPLOYEE-RELATED LIABILITIES

Employee-related liabilities are as follows:

	2006	2005	2006	2005
	CURRENT		LONG-TERM	
	(THOUSANDS OF DOLLARS)			
Accrued pension benefit liability (NOTE A)	-	-	154,836	97,321
Employee future benefits other than pensions (NOTE A)	-	-	143,140	133,007
Vacation pay	56,634	51,708	-	-
Workforce reduction (NOTE B)	23,536	16,232	-	-
Salary-related liabilities	87,077	107,003	254	278
	167,247	**174,943**	**298,230**	**230,606**

A. CBC | Radio-Canada Pension Plans and Other Employee Future Benefits

The Corporation maintains a contributory defined benefit pension plan, the CBC/Radio-Canada Pension Plan, covering substantially all employees of the Corporation. Retirement benefits are based on the length of pensionable service and on the average of the best five consecutive years of pensionable salary in the last ten years of employment. Employees are required to contribute a percentage of their pensionable salary to the Plan, with the Corporation providing the balance of the funding, as required, based on actuarial valuations, which are made at least on a triennial basis (latest evaluation made in December 2005) and the next required valuation will be as of December 2006. The Corporation also maintains unfunded non-contributory defined benefit pension arrangements. The measurement date for the pension plan assets and the accrued benefit obligation is March 31.

	2006	2005
ASSUMPTIONS – ANNUAL RATES		
Expected long-term rate of return on plan assets	6.75%	6.75%
Discount rate – beginning of year	5.00%	4.75%
Discount rate – end of year	5.00%	5.00%
Long-term rate of compensation increase, excluding merit and promotion	3.45%	4.00%
Health care cost trend rate	8.5% for 5 years; 4.5% thereafter	8.5% for 5 years; 4.5% thereafter
Indexation of pensions in payment	2.7%	2.7%
	2006	**2005**
	(THOUSANDS OF DOLLARS)	
ANNUAL AMOUNT		
Employee contributions	36,689	37,517
Benefit payments for the year – pension plans	181,649	175,718
Benefit payments for the year – other employee future benefits	12,007	9,172

10. PENSION PLANS AND EMPLOYEE-RELATED LIABILITIES (CONTINUED)

	2006		2005	
	CBC | RADIO-CANADA PENSION PLANS	OTHER EMPLOYEE FUTURE BENEFITS	CBC | RADIO-CANADA PENSION PLANS	OTHER EMPLOYEE FUTURE BENEFITS
	(THOUSANDS OF DOLLARS)			
Fair value of plan assets, end of year	4,154,560	-	3,753,550	-
Accrued benefit obligation, end of year	(4,138,509)	(161,626)	(4,250,824)	(174,141)
SURPLUS (DEFICIT), END OF YEAR	**16,051**	**(161,626)**	**(497,274)**	**(174,141)**
Unamortised past service costs	71,978	(4,187)	81,575	(4,606)
Unamortised net actuarial losses	455,400	933	1,109,639	20,377
Unamortised transitional (asset) obligation	(698,265)	21,740	(791,261)	25,363
ACCRUED BENEFIT LIABILITY, END OF YEAR	**(154,836)**	**(143,140)**	**(97,321)**	**(133,007)**
ACCRUED BENEFIT LIABILITY, BEGINNING OF YEAR	**(97,321)**	**(133,007)**	**(35,367)**	**(118,423)**
EMPLOYEE FUTURE BENEFITS REVENUES (COSTS)				
Current service cost	(82,185)	(8,314)	(93,680)	(8,969)
Interest on accrued benefit obligation	(210,972)	(8,450)	(200,870)	(8,558)
Expected return on actuarial value of assets	236,162	-	236,538	-
Amortisation of past service costs	(9,597)	419	(9,597)	-
Amortisation of transitional asset (obligation)	92,996	(3,607)	92,996	(3,618)
Amortisation of actuarial losses	(134,473)	(2,188)	(135,293)	(2,611)
EMPLOYEE FUTURE BENEFITS COSTS FOR THE YEAR	**(108,069)**	**(22,140)**	**(109,906)**	**(23,756)**
Corporation pension plan contributions	49,638	-	47,060	-
Benefit payments for unfunded plans	916	12,007	892	9,172
TOTAL CASH PAYMENTS	**50,554**	**12,007**	**47,952**	**9,172**
ACCRUED BENEFIT LIABILITY, END OF YEAR	**(154,836)**	**(143,140)**	**(97,321)**	**(133,007)**

As at March 31, 2006, the accrued benefit obligation for the CBC | Radio-Canada Pension Plan and for the unfunded benefit pension arrangements represented respectively $4,089.1 million (2005 – $4,204.6 million) and $49.5 million (2005 – $46.2 million).

ASSET CATEGORY	2006	2005
	PERCENTAGE OF PLAN ASSETS (BASED ON FAIR VALUES)	
Fixed income	51%	34%
Canadian equities	15%	29%
Global equities	21%	26%
Strategic	13%	11%
	100%	100%

10. PENSION PLANS AND EMPLOYEE-RELATED LIABILITIES (CONTINUED)

B. Workforce Reduction

The Corporation decided to cease most of its Design Operations in the Toronto Production Centre. These staff reductions represent a liability of $8 million. The balance of the liability is for various reductions throughout the Corporation.

11. VARIABLE INTEREST ENTITIES

Under the Canadian Institute of Chartered Accountants' Accounting Guideline 15 (AcG-15), Variable Interest Entities (VIE) are defined as entities that do not have sufficient equity at risk to finance their activities without additional subordinated financial support, or where the equity holders lack the overall characteristics of a controlling financial interest. The guideline requires that a VIE be consolidated with the financial results of the entity deemed to be the primary beneficiary of the majority of the VIEs' expected losses and its expected residual returns, or both.

The Corporation is deemed to be the primary beneficiary of the Broadcast Centre Trust (the Trust) and has implemented AcG-15 retroactively with restatement of the prior period. The Trust is a charitable trust that is a lessee under a long-term lease with the Corporation for the land on which the Canadian Broadcasting Centre (the building) is located in Toronto. The rent during the term is the sum of one dollar, paid on October 1, 1988. The Trust is also a lessor under a long-term sublease with the Corporation for the Canadian Broadcasting Centre. In order to finance the construction of the building, the Trust issued $400 million of bonds on January 30, 1997. The rent payable by the Corporation to the Trust covers all interest and principal on the bonds, all other payments on the bonds and all operating expenses and liabilities of the Trust. The impact of consolidating the Trust in the Corporation's financial statements is on the presentation of property and equipment (NOTE 7), where the costs related to the Canadian Broadcasting Centre are shown under the buildings category rather than property under capital lease. There is also an impact on the balance sheet where the obligation under capital lease is replaced by bonds payable (NOTE 12).

The Corporation holds a variable interest in Sirius Canada Inc., also a VIE, but the Corporation is not deemed to be the primary beneficiary. The Corporation's maximum exposure to losses includes its initial investment of $7 million plus a commitment to invest an additional $6.4 million; and an amount of $2.1 million of licensing revenues annually. This investment is accounted for using the equity method for class A shares and the cost method for class C shares (NOTE 9).

The investment the Corporation holds in The Documentary Channel also qualifies as a variable interest in a VIE, but the Corporation is not the primary beneficiary. The Corporation's maximum exposure to losses is $644,000 in amounts receivable. This investment is accounted for using the equity method (NOTE 9).

12. BONDS PAYABLE

The Corporation, through its relationship with the Broadcast Centre Trust (NOTE 11), guarantees the bonds payable with its rent payments for the premises occupied by the Corporation in Toronto. The Trust issued $400 million in secured bonds on January 30, 1997. These bonds bear a fixed interest rate of 7.53 per cent annually and require blended semi-annual payments of $16,519,398, which will retire the following principal amounts:

	(THOUSANDS OF DOLLARS)
2007 (including accrued interest of $10,896)	17,766
2008	7,397
2009	7,964
2010	8,575
2011 to 2027	318,412
	360,114
Less: current portion	17,766
	342,348

The fair value of the bonds (NOTE 21) approximates $459 million (2005 – $454 million). Interest expense included in current year's expense is $26.6 million (2005 – $27 million).

13. DEFERRED CAPITAL FUNDING

	2006	2005
	(THOUSANDS OF DOLLARS)	
BALANCE, BEGINNING OF YEAR	**629,987**	**650,959**
Government funding for capital expenditures (NOTE 17C)	87,510	95,757
Amortisation of deferred capital funding	(117,956)	(116,729)
BALANCE, END OF YEAR	**599,541**	**629,987**

14. COMMITMENTS

A. Program-related and Other

As at March 31, 2006, commitments for sports rights amounted to $202.6 million (2005 – $267.9 million); procured programs, film rights and co-productions amounted to $61.5 million (2005 – $71.0 million) and property and equipment amounted to $13.4 million (2005 – $14.1 million) for total commitments of $277.5 million (2005 – $353.0 million). Substantially, payments under these contracts are expected to be made over the next five years.

14. COMMITMENTS (CONTINUED)

B. Operating Leases

The operating leases consist mainly of property leases, network distribution leases and equipment leases. Future annual payments related to operating leases as of March 31, 2006, are as follows:

	(THOUSANDS OF DOLLARS)
2007	108,917
2008	77,971
2009	47,677
2010	41,595
2011	39,279
2012 to 2027	207,353
TOTAL FUTURE PAYMENTS	**522,792**

15. CONTINGENCIES

Various claims and legal proceedings have been asserted or instituted against the Corporation. Some demand large monetary damages or other relief and they could result in significant expenditures. Litigation is subject to many uncertainties and the outcome of individual matters is not predictable. A provision for these expenditures has been recorded based on Management's best estimate. It is reasonably possible that the Corporation may have to settle some of these claims for amounts in excess of established provisions in the near term. Any such costs will be expensed when known.

16. SPECIALTY SERVICES

The Corporation operates CBC Newsworld, the Réseau de l'information de Radio-Canada (RDI), Galaxie, and CBC Country Canada under license conditions that require the reporting of incremental costs and revenues. Subscriber revenues generated by the Specialty Services are subject to the subscriber rate regulation established by the Canadian Radio-television and Telecommunications Commission (CRTC).

	2006				2005			
(THOUSANDS OF DOLLARS)	REVENUES	EXPENSES	REPAYMENTS TO MAIN SERVICE[1]	NET	REVENUES	EXPENSES	REPAYMENTS TO MAIN SERVICE[1]	NET
CBC Newsworld[2]	76,139	(72,982)	(3,262)	(105)	74,281	(67,261)	(1,665)	5,355
RDI[2]	44,907	(44,000)	(1,591)	(684)	44,271	(43,550)	(2,143)	(1,422)
Galaxie	20,235	(6,717)	(64)	13,454	17,217	(6,644)	-	10,573
CBC Country Canada	2,984	(2,649)	-	335	2,519	(3,207)	-	(688)
	144,265	**(126,348)**	**(4,917)**	**13,000**	**138,288**	**(120,662)**	**(3,808)**	**13,818**

1 Capital expenditures for the acquisition of equipment to introduce, maintain and expand the Specialty Services are made by the Corporation from its capital appropriation with an approved Corporate repayment plan for recovery from the Specialty Services' revenues. Those repayments are funded from the accumulated excess revenues over expenses.

2 CBC Newsworld and RDI use previous years' accumulated excess revenues over expenses to fund current activities.

17. PARLIAMENTARY APPROPRIATIONS

A. Parliamentary Appropriations Approved and Received

Parliamentary appropriations approved and the amounts received by the Corporation during the year are as follows:

	2006	2005
	(THOUSANDS OF DOLLARS)	
OPERATING FUNDING		
Approved annual funding	946,231	895,659
Additional non-recurring funding for programming initiatives (NOTE 17D)	60,000	60,000
Transfer from capital funding – Supplementary Estimates B[1]	-	1,112
Frozen allotment reprofiled to future years	(20,000)	(20,000)
Frozen allotment used	20,000	-
OPERATING FUNDING RECEIVED	**1,006,231**	**936,771**
CAPITAL FUNDING		
Approved annual funding	91,510	102,869
Transfer to operating funding – Supplementary Estimates B[1]	-	(1,112)
Frozen allotment reprofiled to future years	(10,000)	(6,000)
Frozen allotment used	6,000	-
CAPITAL FUNDING RECEIVED	**87,510**	**95,757**
WORKING CAPITAL FUNDING	**4,000**	**4,000**

1 *In the event that significant changes in current year requirements occur, appropriations are transferred from one vote to another or reprofiled from one fiscal year to another through Appropriation Acts approved by Parliament.*

17. PARLIAMENTARY APPROPRIATIONS (CONTINUED)

B. Reconciliation of Net Results of Operations to Government Funding Basis

The Corporation receives a significant portion of its funding through Parliamentary appropriations, based primarily on cash flow requirements. Expenses recognised in the Statement of Operations and Equity in one year may be funded through Parliamentary appropriations in other years. Accordingly, the Corporation's net results of operations for the year on a government funding basis differ from those on a Canadian generally accepted accounting principles basis. The differences are outlined as follows:

	2006	2005
	(THOUSANDS OF DOLLARS)	
NET RESULTS FOR THE YEAR	**(44,187)**	**(113,652)**
ITEMS NOT GENERATING OPERATING FUNDS		
Amortisation of deferred capital funding	(117,956)	(116,729)
Loss (Gain) on disposal of property and equipment	434	(7,293)
Other	177	(3,631)
	(117,345)	**(127,653)**
ITEMS NOT REQUIRING OPERATING FUNDS		
Amortisation of property and equipment	123,841	122,675
CBC | Radio-Canada pension plans and other employee future benefits	67,648	75,592
Vacation pay	(253)	(1,760)
Program inventory costs	(8,301)	(5,852)
Loss (income) from investments in companies subject to significant influence	7,109	(137)
Other	(567)	668
	189,477	**191,186**
RESULTS OF OPERATIONS ON A GOVERNMENT FUNDING BASIS	**27,945**	**(50,119)**
Less: Interest generated from the disposal of joint business ventures	(890)	(1,012)
Add: Use of proceeds, generated in a previous fiscal year, from the sale of lands	-	5,194
Add: Use of proceeds, generated in a previous fiscal year, from the sale of joint business venture	546	42,718
NET RESULTS OF OPERATIONS ON A GOVERNMENT FUNDING BASIS	**27,601**	**(3,219)**
GOVERNMENT FUNDING SURPLUS, BEGINNING OF YEAR	**32,033**	**35,252**
GOVERNMENT FUNDING SURPLUS, END OF YEAR	**59,634**	**32,033**

C. Net Results for Capital Funding

The purchase of property and equipment is financed by Parliamentary appropriations and proceeds from the disposal of property and equipment. Additions and proceeds, relating to property and equipment, recorded in the current year under Canadian generally accepted accounting principles may be funded/recognised on a government funding basis in different years. The differences are outlined as follows:

17. PARLIAMENTARY APPROPRIATIONS (CONTINUED)

	2006	2005
	(THOUSANDS OF DOLLARS)	
Capital funding received (NOTE 17A)	87,510	95,757
Capital recovery from notes receivable	1,575	5,329
Capital recovery from net investment in sales-type leases	1,285	1,198
Proceeds from the disposal of property and equipment	1,848	12,298
TOTAL CAPITAL FUNDING FOR THE YEAR	**92,218**	**114,582**
Acquisition of property and equipment	(116,067)	(118,404)
Capital portion of bond payments	(6,378)	(5,927)
CAPITAL DEFICIT BEFORE ADJUSTMENTS FOR CONSIDERATIONS AFFECTING CAPITAL FUNDS	**(30,227)**	**(9,749)**
Add (deduct): Considerations affecting capital funds	196	(1,707)
CAPITAL FUNDING DEFICIT FOR THE YEAR	**(30,031)**	**(11,456)**
CAPITAL FUNDING SURPLUS, BEGINNING OF YEAR, GOVERNMENT FUNDING BASIS	**10,187**	**21,643**
CAPITAL FUNDING (DEFICIT) SURPLUS, END OF YEAR, GOVERNMENT FUNDING BASIS[1]	**(19,844)**	**10,187**

1 *Transfers between operating and capital are accomplished through Supplementary Estimates B in the fiscal year to which they relate. Due to the fact that Parliament was dissolved on November 29, 2005, for a general election, planned transfers in the amount of $31.1 million in fiscal year 2005–2006 did not take place.*

D. Additional Non-recurring Funding for Programming Initiatives

On April 3, 2003, the Government of Canada approved additional non-recurring funding of $60 million for the Corporation for the 2004–2005 fiscal year. This funding was again approved in February 2005 for the 2005–2006 fiscal year. These funds are being used across all media for the enhancement of programming initiatives in particular.

18. INCOME AND LARGE CORPORATIONS TAXES

The Corporation is a prescribed Federal Crown Corporation under Part LXXI of the Income Tax Regulations and is subject to the provisions of the *Income Tax Act* (Canada). The Corporation's activities are not subject to provincial taxes. The (provision for) recovery of income and large corporations taxes is comprised of:

	2006	2005
	(THOUSANDS OF DOLLARS)	
Current income tax (provision) recovery	(272)	974

The (provision for) recovery of income and large corporations taxes differs from the amount that would be computed by applying the Federal statutory income tax rate of 32.5 per cent (2005 – 32.5 per cent) to net results before taxes. The reasons for the differences are as follows:

	2006	2005
	(THOUSANDS OF DOLLARS)	
Income tax provision at Federal statutory rate	(14,281)	(37,276)
Increase (decrease) resulting from:		
Non-deductible (non-taxable) portion of capital losses (gains)	1,025	(1,422)
Other net amounts	423	385
Change in valuation allowance	12,833	38,313
Large corporations tax (provision) recovery	(272)	974
	(272)	**974**

18. INCOME AND LARGE CORPORATIONS TAXES (CONTINUED)

The tax effects of temporary differences that gave rise to significant portions of the future tax assets and future liabilities as at March 31, 2006 and 2005 are presented below:

	2006	2005
	(THOUSANDS OF DOLLARS)	
Future tax assets		
Accrued liabilities	6,010	9,312
Pension plan asset	50,353	31,649
Employee-related liabilities	46,632	43,344
Loss carry-forward	6,995	16,421
Long-term investments	1,163	8
	111,153	100,734
Less: valuation allowance	(66,205)	(53,372)
	44,948	**47,362**
Future tax liabilities		
Program inventory	1,499	1,066
Net investment in sales-type leases	18,513	18,868
Property and equipment	21,248	21,896
Notes receivable	3,688	5,532
	44,948	**47,362**
Net future tax liabilities (assets)	-	-

As at March 31, 2006, the Corporation had a loss carry-forward for tax purposes of $21.5 million (2005 – $42.3 million), which expires as follows: 2010 – $3.1 million, 2014 – $5.6 million, 2015 – $12.8 million.

19. NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES

	2006	2005
	(THOUSANDS OF DOLLARS)	
CASH FLOWS PROVIDED BY (USED FOR)		
Short-term investments	(10,864)	(26,470)
Accounts receivable[1]	(53,005)	1,953
Inventory[2]	(19,302)	(14,758)
Prepaid expenses	(495)	10,518
Net investment in sales-type leases[3]	7	7
Accounts payable and accrued liabilities	29,297	(9,923)
Employee-related liabilities[4]	(7,312)	11,180
Bonds payable, including accrued interest[5]	(186)	(211)
	(61,860)	**(27,704)**

1 *Excluding $0.3 million (2005 – $3.8 million) of notes receivable from the sale of lands.*
2 *Excluding $1.3 million (2005 – $2.0 million) of amortisation of property and equipment.*
3 *Excluding capital recovery of $0.09 million (2005 – $0.09 million).*
4 *Excluding items not involving cash of $0.4 million (2005 – $1.6 million).*
5 *Excluding repayment of bonds payable of $0.5 million (2005 – $0.5 million).*

20. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to other government departments, agencies and Crown Corporations and to private companies over which the Corporation has significant influence (NOTE 9). The Corporation enters into transactions with these related parties in the normal course of business, on normal trade terms applicable to all individuals and enterprises and measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The Corporation recorded the following amounts in the financial statements for transactions with related parties:

	GOVERNMENT	PRIVATE COMPANIES
	(THOUSANDS OF DOLLARS)	
Revenues	6,331	4,652
Receivables	1,091	1,838
Expenses	11,679	101
Payables	130	-

During the year, the Corporation also received funding from the Government of Canada as described in Note 17.

21. FINANCIAL INSTRUMENTS

The carrying amounts for the bank overdraft, short-term investments, accounts receivable, current portion of net investment in sales-type leases, accounts payable and accrued liabilities, and accrued bonds payable interest, approximate fair value due to the short-term nature of these instruments. The fair values of the long-term portion of net investment in sales-type leases and long-term portion of notes receivable, and the bonds payable are listed below.

INSTRUMENT	FAIR VALUES		METHOD
	2006	2005	
	(MILLIONS OF DOLLARS)		
Long-term portion of net investment in sales-type leases	70.3	70.1	Valuation technique
Long-term portion of notes receivable	64.1	63.9	Valuation technique
Bonds payable	459.0	454.0	Quoted market prices for Government of Canada bonds maturing at approximately May 1, 2027, and adjusted by a spread based on the credit rating for the bonds.

The Corporation uses derivative financial instruments such as forward contracts to manage the risk of loss due to adverse movements in foreign exchange. Foreign exchange forward contracts with a notional principal amount of $55.9 million (2005 – $81.8 million) were outstanding at the end of the year. The fair value, based upon market quotations, represents $60.2 million (2005 – $87.4 million) at March 31, 2006. The remaining term to maturity of these contracts is under three years.

If the daily bank balance is in an overdraft position, interest charges are accumulated at prime less 0.25 per cent.

22. COMPARATIVE FIGURES

Some of the 2005 comparative figures have been reclassified to conform to the current year's presentation.

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