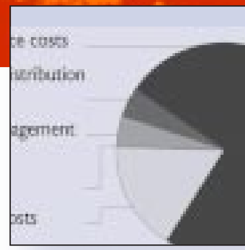


MANAGEMENT DISCUSSION AND ANALYSIS

FOREWORD

In 1996–1997, the Corporation focused on implementing its restructuring plan, a result of lower resource levels arising from reduced government funding, the impact of new cost increases and an anticipated reduction in commercial revenues resulting from the continued fragmentation of television audiences.

The Corporation has concentrated on streamlining its administrative operations, identifying operating efficiencies, and negotiating new collective agreements with its English unions; these new agreements permit a more flexible and efficient use of human resources through the multi-skilling of the workforce and a realignment of jurisdictional boundaries.

Other reductions required to meet the lower resource levels forecast for future years will be implemented in 1997–1998 and 1998–1999, and will have a greater impact on the "on air" product of the Corporation.

Since 1994–1995, the Financial Statements have shown that costs related to the Corporation's major downsizing initiatives have amounted to $223.5 million. To date, $148 million ($50 million of which is a repayable advance) has been received from the government to help fund these downsizing costs.

Broadcast Centre Trust finalized long-term financing on the CBC's Broadcast Centre in Toronto in January of 1997, with the issue of $400 million of 30 year fully amortizing bonds, at an interest rate of 7.53 %. Since the Corporation's rental payments are tied to the cost of financing, the annual lease payments have now been set at $33 million over the 30 year life of the bonds.

In December 1996, the government renewed its commitment to Radio Canada International and guaranteed one year of funding for the service beginning April 1, 1997. In February 1997, the government announced $10 million of additional annual funding for CBC's French and English language radio services effective April 1, 1997. In keeping with the Corporation's strategic priorities for its radio services, this new funding will be directed towards talent development, regional reflection and future growth into new media.

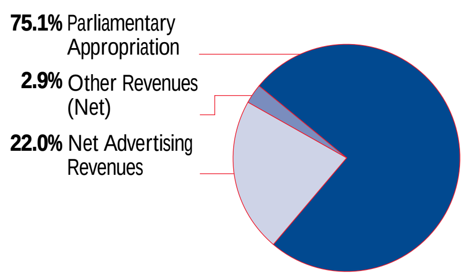
Overall, for 1996–1997, the Corporation met its planned financial reduction targets, and was able to advance other reductions which were planned for subsequent years. This contributed to the operating surplus of $34.5 million which will be carried forward into 1997–1998, and used to manage any slippage in the implementation of its incremental 1997–1998 funding reduction of $118 million.

SOURCES OF FUNDS

The Corporation's total sources of funds, including the $36.1 million transfer from capital funds, decreased by $120.4 million or 9.6% over last year.

SOURCES OF FUNDS	1996–1997	1995–1996	$ Change	% Change
	(in thousands of dollars)			
Parliamentary Operating Appropriation The net operating appropriation decreased by $108.8 million from last year's level due to planned government funding reductions.	854,449	963,229	(108,780)	(11.3)
Other Net Sources of Revenues (Note 4):				
Net advertising revenues – Main service (excluding net Olympic and World Cup revenues) Advertising revenues have decreased due to a weakening of the television market.	250,522	261,467	(10,945)	(4.2)
Miscellaneous revenues – Main service These revenues include such items as the rental of facilities, and have remained stable.	39,837	39,537	300	0.8
Special programming events Net incremental costs/revenues of the Atlanta Olympic Games and World Cup Hockey are included here for 1996–1997.	2,916	N/A	2,916	N/A
Net incremental specialty services Previous years' surplus carryforwards are accumulated to fund current year activities.	(145)	(1,049)	904	N/A
Net programming sales Net program sales to outside broadcasters decreased this year.	891	1,555	(664)	(42.7)
Radio Canada International funding shortfall The Federal Government reduced its funding of RCI activities below the 1995–1996 level.	(10,505)	(6,368)	(4,137)	65.0
Total Other Net Sources of Revenues	*283,516*	*295,142*	*(11,626)*	*(3.9)*
Total Sources of Funds	***1,137,965***	***1,258,371***	***(120,406)***	***(9.6)***

SOURCES OF OPERATING FUNDS
AS OF MARCH 31, 1997

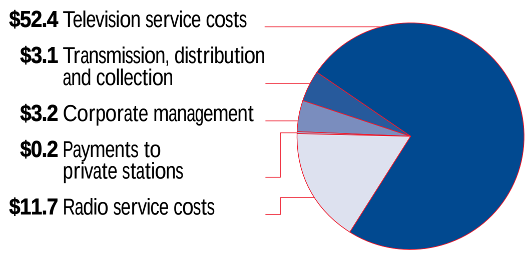


APPLICATION OF FUNDS

Total operating expenditures, excluding items netted out of revenues and before tax, decreased by $257.2 million, or 18.2%, over last year.

APPLICATION OF FUNDS	1996–1997	1995–1996	$ Change	% Change
	(in thousands of dollars)			
Items requiring current operating funds As expected, and in line with the expense reduction program, the level of expenditures has decreased in comparison with last year.	1,116,924	1,187,480	(70,556)	(5.9)
Items not requiring current operating funds (Note 3b) This change is primarily attributable to a decrease in the amortization of items funded from the capital appropriation, and to an increase in the deferred pension contributions.	102,336	128,177	(25,841)	(20.2)
Total Expenses, before downsizing expense and tax	*1,219,260*	*1,315,657*	*(96,397)*	*(7.3)*
Downsizing program The majority of the downsizing costs relating to the workforce reduction program were recorded last year.	18,991	110,592	(91,601)	N/A
CBC Pension Plan curtailment The 1995–1996 expense reflects the estimated cost of the impact on the CBC Pension Plan resulting from the major workforce reduction. As actual results varied from expected, the 1996–1997 credit to expense reflects a reduction to the 1995–1996 estimate.	(38,303)	94,909	(133,212)	N/A
Parliamentary appropriation for downsizing A total of $148 million in government funding has been received to-date, of which $50 million is a repayable advance.	(41,975)	(106,025)	64,050	N/A
Total Expenses, before tax	***1,157,973***	***1,415,133***	***(257,160)***	***(18.2)***

$70.6 MILLION REDUCTION IN OPERATING EXPENDITURES*
(in millions of dollars)

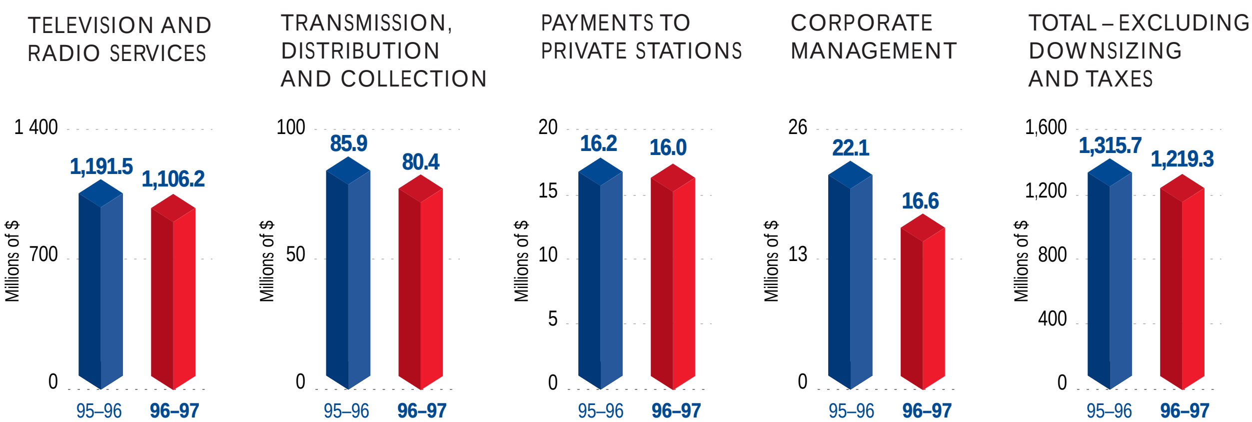


* *Before downsizing and taxes*

OPERATING EXPENSE

The Corporation's total operating expenditures, excluding items netted out of revenue, downsizing costs, and taxes, decreased by $96.4 million, or 7.3%, over last year.

This decrease in expenditures results primarily from the streamlining of administrative operations and the achievement of other operating efficiencies.



The transmission, distribution and collection of our television and radio services include satellite and terrestrial line costs, transmitter maintenance and the amortization of transmitters and equipment. Many of these costs are not variable in the short-term, as such costs relate to rates set by regulatory bodies or to contracts negotiated over the long-term. In previous years, media activities involving the preparation and packaging of programs for distribution, were reflected in this category of expense. For 1996–1997 (with 1995–1996 figures revised accordingly), these costs are more appropriately included in the media areas.

TOTAL EXPENSES, EXCLUDING ITEMS NETTED OUT OF REVENUE, DOWNSIZING AND TAXES

	1996–1997	1995–1996	$ Change	% Change
		(in thousands of dollars)		
Television and radio service costs	1,106,231	1,191,529	(85,298)	(7.2)
Transmission, distribution and collection	80,388	85,858	(5,470)	(6.4)
Payments to private stations	16,019	16,185	(166)	(1.0)
Corporate management	16,622	22,085	(5,463)	(24.7)
Total	***1,219,260***	***1,315,657***	***(96,397)***	***(7.3)***

DOWNSIZING PROGRAM

Downsizing costs recorded in the financial statements over the past three years total $223.5 million.

DOWNSIZING EXPENSE

	1996–1997	1995–1996	1994–1995	Total
		(in thousands of dollars)		
Downsizing program	18,991	110,592	33,274	162,857
CBC Pension Plan curtailment	(38,303)	94,909	4,000	60,606
Downsizing expense				***223,463***

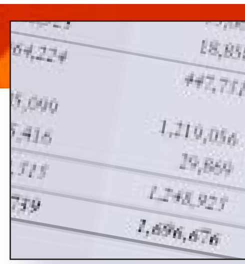
As explained in the notes to the financial statements, the CBC is held accountable to government on a funding basis rather than a financial statement basis, and the cost of the downsizing program on that funding basis has so far amounted to $246.4 million.

The Federal Government has thus far funded $148 million of the downsizing program cost ($50 million of which is a repayable advance). The Corporation has requested further assistance from the Government of Canada to fund the balance of costs relating to this program.

BALANCE SHEET ITEMS

The increase in current assets over the previous year is primarily related to cash funds associated with the downsizing program. This is partly offset by a decrease in prepaid items relating to the prepayment of rights for the Atlanta Olympic Games in 1995–1996, and a reduction in program inventory levels. For long-term assets, the decrease in levels is attributable to the reduced capital spending levels and the write-off of goodwill related to the purchase, in 1994–1995, of television station CBAT in Saint John, New Brunswick.

The reduced level of current liabilities results mainly from a reduction in income taxes payable and a decrease in employee termination benefits due to the significant workforce reduction. Long-term liabilities have decreased mainly due to a reduction in pension liabilities, also related to the workforce reduction, and to a decrease in the capital lease obligation for the Broadcast Centre in Toronto.



FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The financial statements and all other information presented in the annual report are the responsibility of management and have been reviewed and approved by the Board of Directors of the Corporation. These 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 generally accepted accounting principles.

Management of the Corporation maintains books of account, records, financial and management control, and information systems, which are designed for the provision of 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 operations are carried out effectively and that transactions are in accordance with 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 financial statements and reports on his audit to the Canadian Broadcasting Corporation and the Minister of Canadian Heritage.

The Board of Directors' Audit Committee, which consists of four 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 16, 1997

PRESIDENT AND CEO

SENIOR VICE-PRESIDENT, RESOURCES

AUDITOR'S REPORT

To the Board of Directors of the
Canadian Broadcasting Corporation
and the Minister of Canadian Heritage

I have audited the balance sheet of the Canadian Broadcasting Corporation as at March 31, 1997 and the statements of operations, proprietor's equity account and cash flow 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 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 financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Broadcasting Act*, I report that, in my opinion, these principles have been applied 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 financial statements have, in all significant respects, been in accordance with Part III of the *Broadcasting Act* and the by-laws of the Corporation.

Ottawa, Canada
June 16, 1997

L. DENIS DESAUTELS, FCA
AUDITOR GENERAL OF CANADA

STATEMENT OF OPERATIONS

For the year ended March 31, 1997

	1997	1996
	(thousands of dollars)	
REVENUE		
Parliamentary appropriations (Note 3a)	854,449	963,229
Other revenue, net (Note 4)	283,516	295,142
	1,137,965	*1,258,371*
EXPENSE		
Television and radio service costs	1,106,231	1,191,529
Transmission, distribution and collection	80,388	85,858
Payments to private stations	16,019	16,185
Corporate management	16,622	22,085
Total expense before downsizing expense and taxes	*1,219,260*	*1,315,657*
Net operating loss before downsizing expense and taxes	(81,295)	(57,286)
Downsizing program (Note 5)	(19,312)	205,501
Parliamentary appropriation for downsizing program (Note 3a)	(41,975)	(106,025)
Provision for income and large corporations taxes (Note 6)	2,959	3,041
Net operating loss for the year	*(22,967)*	*(159,803)*
Reconciliation to government funding basis:		
Deduct: Net items not requiring current operating funds (Note 3b)	63,921	153,018
Operating fund surplus (deficit) for the year	40,954	(6,785)
Operating fund (deficit) surplus, beginning of year	(6,429)	356
Operating fund surplus (deficit), end of year	***34,525***	***(6,429)***

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

BALANCE SHEET

As at March 31, 1997

	1997	1996
	(thousands of dollars)	
ASSETS		
Current		
Cash and short-term investments	216,137	181,055
Accounts receivable	109,686	108,620
Program inventory	96,517	105,552
Prepaid expenses	21,361	33,666
Deferred income tax	20,523	18,858
	464,224	*447,751*
Capital assets (Note 7)	1,185,099	1,219,056
Deferred charges and other assets (Note 8)	15,416	29,869
	1,200,515	*1,248,925*
	1,664,739	***1,696,676***
LIABILITIES		
Current		
Accounts payable and accrued liabilities	185,919	191,579
Accrued vacation pay	40,088	37,730
Employee termination benefits	112,104	153,293
Obligations under capital leases (Note 11)	15,827	14,193
	353,938	*396,795*
Long-term		
Employee termination benefits	65,824	66,684
Deferred pension liability (Note 10)	97,748	155,314
Obligations under capital leases (Note 11)	389,276	397,672
	552,848	*619,670*
PROPRIETOR'S EQUITY		
Proprietor's equity account	757,953	680,211
	1,664,739	***1,696,676***

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

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:

SENIOR VICE-PRESIDENT, RESOURCES

DIRECTOR

DIRECTOR

STATEMENT OF PROPRIETOR'S EQUITY ACCOUNT

For the year ended March 31, 1997

	1997	*1996*
	(thousands of dollars)	
Balance, beginning of year	*680,211*	*738,599*
Add (deduct):		
Parliamentary appropriations (Note 3a):		
For capital fund	96,709	97,415
For working capital fund	4,000	4,000
Net operating loss for the year	(22,967)	(159,803)
Balance, end of year	***757,953***	***680,211***

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

STATEMENT OF CASH FLOW

For the year ended March 31, 1997

	1997	1996
	(thousands of dollars)	
Operating Activities		
Net operating loss for the year	(22,967)	(159,803)
Gain on disposal of capital assets	(202)	(2,611)
Items not involving cash:		
Amortization of capital assets	117,303	137,411
Amortization of deferred charges and other assets	14,453	7,418
Employee termination benefits	(860)	(37,409)
Deferred pension contribution	(57,566)	85,382
Net change in working capital balances excluding cash and short-term investments (Note 15)	(24,208)	85,719
	25,953	*116,107*
Financing Activities		
Parliamentary appropriations (Note 3a):		
For capital fund	96,709	97,415
For working capital fund	4,000	4,000
Proceeds on disposal of capital assets/ financing from other organizations	2,690	4,560
	103,399	*105,975*
Investing Activities		
Acquisition of capital assets	(85,874)	(81,438)
Capital portion of lease payments	(13,188)	(17,836)
Refinancing of capital lease	4,792	–
Deferred charges	–	(394)
Other assets	–	33
	(94,270)	*(99,635)*
Increase in cash and short-term investments	*35,082*	*122,447*
Cash and short-term investments, beginning of year	181,055	58,608
Cash and short-term investments, end of year	***216,137***	***181,055***

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