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Baton Broadcasting Incorporated
Annual Report

1981

Baton Broadcasting Incorporated

Baton Broadcasting Incorporated is a diversified Canadian communications company. Its broadcasting subsidiaries hold television licences in Toronto and Saskatoon and radio licences in Saskatoon, Ottawa and Windsor. The printing, business forms, and packaging subsidiaries have plants in St-Hyacinthe, Toronto and Edmonton. The Company has extensive facilities in Toronto for the production of television programs, commercials and movies.

The Company is committed to the long term expansion of its existing business interests and to diversification into related activities. The Company will also consider investment opportunities in non-related activities where it can participate in the affairs of such companies.

Annual Meeting

Shareholders are invited to attend the Annual Meeting being held in the Territories Room at the Royal York Hotel, 100 Front Street, Toronto, Ontario on Tuesday, January 26, 1982 at 11:00 a.m. o'clock.

The Notice of Meeting, Information Circular and Proxy are being mailed to shareholders with this report. Shareholders who are unable to attend the Annual Meeting in person are requested to complete, sign and return to the Registrar the accompanying form of proxy in the envelope provided, postage paid.

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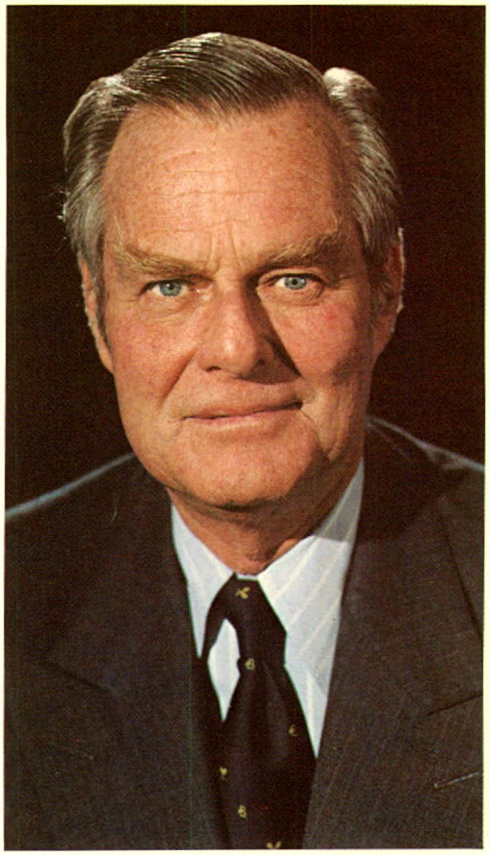
Financial Highlights

for the year ended August 31, 1981

	1981	1980
Operating Summary (000's)		
Revenue	$114,040	$100,105
Consolidated net income		
Before extraordinary items	11,028	9,882
After extraordinary items	8,323	9,882
Per Share Data		
Earnings per share (1)		
Before extraordinary items		
Class A shares	82.5¢	71.5¢
Class B shares	77.5¢	71.5¢
After extraordinary items		
Class A shares	62.8¢	71.5¢
Class B shares	57.8¢	71.5¢
Dividends per share (2)	50.0¢	45.0¢
Shareholders equity per share (1)	$4.53	$4.18
Shares Outstanding (000's)		
Class A shares	6,900	
Class B shares	6,900	
Common shares		6,900
Financial Position at Year-end (000's)		
Working capital	$ 17,422	$ 23,633
Total assets	102,509	99,630
Long term debt	2,472	7,058
Shareholders equity	62,488	57,615
Ratios		
Current assets to current liabilities	1.6 to 1	2 to 1
Equity to debt ratio	25 to 1	8 to 1
Operating return on revenues	19%	20%
Operating return on average net assets employed	34%	33%
After tax return on average net assets employed (3)	17%	16%
After tax return on average shareholders equity (3)	18%	18%

NOTE: (1) 1980 restated on 13,800,000 shares outstanding
(2) Paid on 6,900,000 common shares.
(3) 1981 based on income before extraordinary items.

Report to the Shareholders



John W.H. Bassett

On behalf of the Board of Directors of Baton Broadcasting Incorporated we are pleased to present the Annual Report of the Company for the year ended August 31, 1981.

The consolidated net income for the year amounted to $11,027,791 before extraordinary items. This is an increase of $1,146,271 or 11.6% over net income of $9,881,520 earned last year. Extraordinary items totalling $2,705,054 reduced net income to $8,322,737 for the year ended August 31, 1981.

Last June the shareholders of the Company approved a share capital reorganization which entitled common shareholders to one Class A share and one Class B share for each common share held. Net income for the 1981 fiscal year before extraordinary items amounted to 82.5¢ per share on the Class A shares and 77.5¢ per share on the Class B shares. This compares to restated earnings per share of 71.5¢ earned last year before the share capital reorganization. The extra earnings attributable to the Class A shares reflect the entitlement of the Class A shares to annual dividend payments of 5¢ per share over the Class B shares. Net income after extraordinary items amounted to 62.8¢ per share on the Class A shares and 57.8¢ per share on the Class B shares.

Continuing high interest rates seriously affected operations of All-View Interphase Systems Inc. as well as severely restricting sales of its master antenna systems. As a result, the Company has written off as an extraordinary item $2,763,300 representing its investment in All-View and the costs to be incurred in winding down the company's activities.

The Company's investment of $396,059 in Jarnac Film Holdings Limited, a company engaged in the interim financing of Canadian feature films has also been written off. Distribution agreements in place for films financed by Jarnac are not sufficient to recover the investment.

Partially offsetting the foregoing is a gain of $454,305 on the sale of the land and building of Haughton Graphics Limited (formerly C.F. Haughton Limited) located on McCowan Road in Agincourt, Ontario. New premises on six acres of land in north-east Scarborough are under construction.

The financial results reflect continued growth in broadcasting and production operations. Net income from these operations rose $1,729,591 or 19.3% above last year.

The Company's television stations in Toronto and Saskatoon made significant contributions to the increase in net income. Both stations benefitted from higher air time sales and from a substantial improvement in the financial position of the CTV Television Network.

Operations of the production division resulted in higher net income due principally to a $2,750,084 or 16% increase in revenue. Higher revenue from the duplication of videotapes for home video cassettes was a major contributor to the improved financial position.

Net income from radio operations fell below last year. Operations of CKLW-AM and FM in Windsor, Ontario resulted in a net loss because of poor economic conditions in the Windsor/Detroit market area.

The printing and packaging division added $928,757 to net income, a decrease of $101,801 below last year. Operations of the Company's printing and business forms subsidiaries contributed to an improvement in net income but this improvement was more than offset by lower earnings in the packaging operation.

Net income for the current year includes a loss of $589,685 from operations of All-View Interphase Systems Inc. Operations have now been reduced to the maintenance of existing sales contracts and the Company is assessing the position of All-View in the marketplace.

Report to the Shareholders

Financial Position

Last May the Company purchased the outstanding 39.8% equity interest in the Haughton Group of Companies for $5,685,750. The purchase price represents eight times earnings based on operations for the year ended August 31, 1980. The Haughton Group of Companies are now wholly owned subsidiaries of Baton Broadcasting Incorporated.

Also last spring the Company purchased a 3.5% equity interest in Rupertsland Resources Co. Ltd. for $5,000,000. Rupertsland is engaged in oil and gas exploration in Canada and the United States. As part of the purchase agreement the Company was given a seat on the Board of Directors and received share warrants which are convertible for additional common shares.

The Company continued to update its television and production facilities. During 1981 a total of $8,086,421 was spent in this area of business activity with a further $1,327,189 used to improve the facilities of the job printing and business form operations.

The new commercial printing plant of Haughton Graphics Limited will be completed in February 1982. The total cost of the land, building and new equipment is estimated at $5,500,000 after applying the proceeds from the McCowan Road premises and will provide expanded facilities to meet future growth in the Company's lithographing operations.

Dividend payments to shareholders in 1981 totalled 50¢ per share or 35% of the $1.43 per share earned in the 1980 fiscal year. Annual dividends are currently being paid at the rate of 30¢ per Class A share and 25¢ per Class B share.

Last September the Company sold its Class X and Class Y shares of Maclean-Hunter Limited previously held as an investment. The net proceeds of $3,582,000 were used to improve working capital.

The Company's small long term debt compared to equity provides opportunity for substantial debt financing for future acquisitions. The 30,000,000 authorized Class A non-voting shares, of which 6,900,000 shares were issued at August 31, 1981, also provides an opportunity for future acquisitions through the issue of further Class A shares without diluting the voting rights of existing Class B shareholders.

Outlook

The Company's television stations in Toronto and Saskatoon continue to be the number one rated television stations in their coverage area. The AM radio stations in Saskatoon and Windsor are also the number one rated radio stations in the BBM full coverage area. In Ottawa CFGO-AM maintained its position as the number two rated radio station in the BBM central market area but because of a restricted signal pattern outside Ottawa, the Station falls to fourth place among radio stations in the BBM full coverage area.

The dominant position of the Company's television stations and the strong competitive position of the radio stations provides a solid foundation for revenue increases in each of the markets served.

The Company's production facilities should benefit from the introduction of pay television into Canada and from the production of additional programs for pay television in the United States.

Packaging operations are expected to improve because of changes made to add strength to the management team.

The year 1982 will see further growth in the Company's revenue and net income but the rate of growth will depend to some extent upon general economic conditions.

Douglas G. Bassett

John Bassett

John W.H. Bassett
Chairman of the Board

Douglas G. Bassett

Douglas G. Bassett
President and Chief Executive Officer

Review of Operations

Television

The Company's television station CFTO-TV in Toronto enjoyed another successful year with increases in advertising revenue and net income.

The November 1981 Nielsen survey of audience once again confirms CFTO-TV as the number one rated television station in its coverage area. In prime time, 6:00 pm — midnight, the average audience watching CFTO-TV climbed to 330,000 viewers, an increase of 39% over the corresponding period one year ago. This is the largest prime time audience for any November since CFTO-TV began broadcasting in 1961.

Last March CFTO-TV won three CANPRO Awards for excellence in local television programming in competition with television stations across Canada. The programs were HOURLONG, a weekly news magazine, THE ARTHUR VAILE SHOW, a weekly report on business and THE LITTLEST HOBO.

In Saskatoon, Saskatchewan, the Company's television station CFQC-TV continued to show improvement in advertising revenue and net income. The latest audience surveys show CFQC-TV has maintained its position as the number one rated television station in its coverage area despite three American commercial television channels brought to Saskatoon by the local cable company.

CFQC-TV is currently expanding its facilities for the production of television commercials at a cost of $189,000 primarily for new equipment. The new facilities will provide an additional source of revenue for the Station.

Radio

Revenue from air time sales at CFQC-AM in Saskatoon increased above last year but the improvement was not sufficient to offset higher costs. This resulted in a small decline in net income.

CFGO-AM Radio in Ottawa also showed a decrease in net income with the decline occurring entirely in the first quarter of the fiscal year. The remainder of the 1981 fiscal year showed improvement over the corresponding period a year earlier.

Last August CFGO-AM moved into its new building located in the west central part of Ottawa. The building previously occupied was expropriated by the City of Ottawa for a new police station.

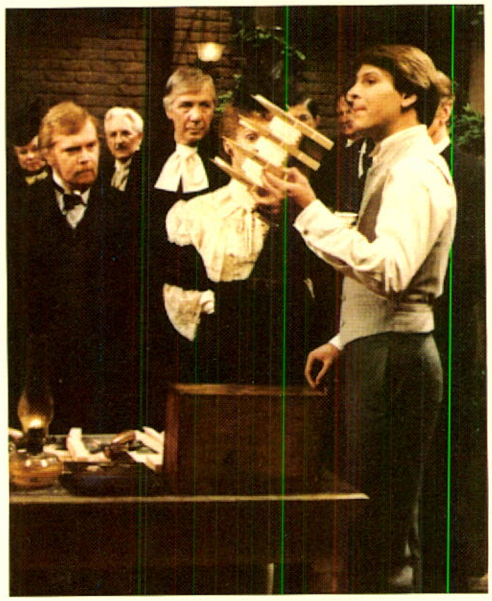
In November CFGO-AM was given permission by the Canadian Radio-television and Telecommunications Commission to adjust its nighttime signal pattern to put a stronger signal into the area west and southwest of Ottawa. The change will improve reception and make the Station available to more radio listeners.

Operations of CKLW-AM and FM Radio in Windsor, Ontario resulted in a net loss for the 1981 fiscal year. The ratings of both stations remain strong but poor economic conditions in the Windsor/Detroit market resulted in lower advertising revenue. CKLW-FM is planning to change its country music format to the big band sound and its call letters to CKJY-FM. The change in call letters is being made to resolve confusion with its sister station CKLW-AM which broadcasts an adult contemporary format.

Broadcasting Licences

The following are the expiry dates of broadcasting licences held by the Company's broadcast subsidiaries:

CKLW-AM	March 31, 1983	CFTO-TV	September 30, 1984
CFQC-TV	March 31, 1984	CFQC-AM	September 30, 1985
CKLW-FM	March 31, 1984	CFGO-AM	September 30, 1986

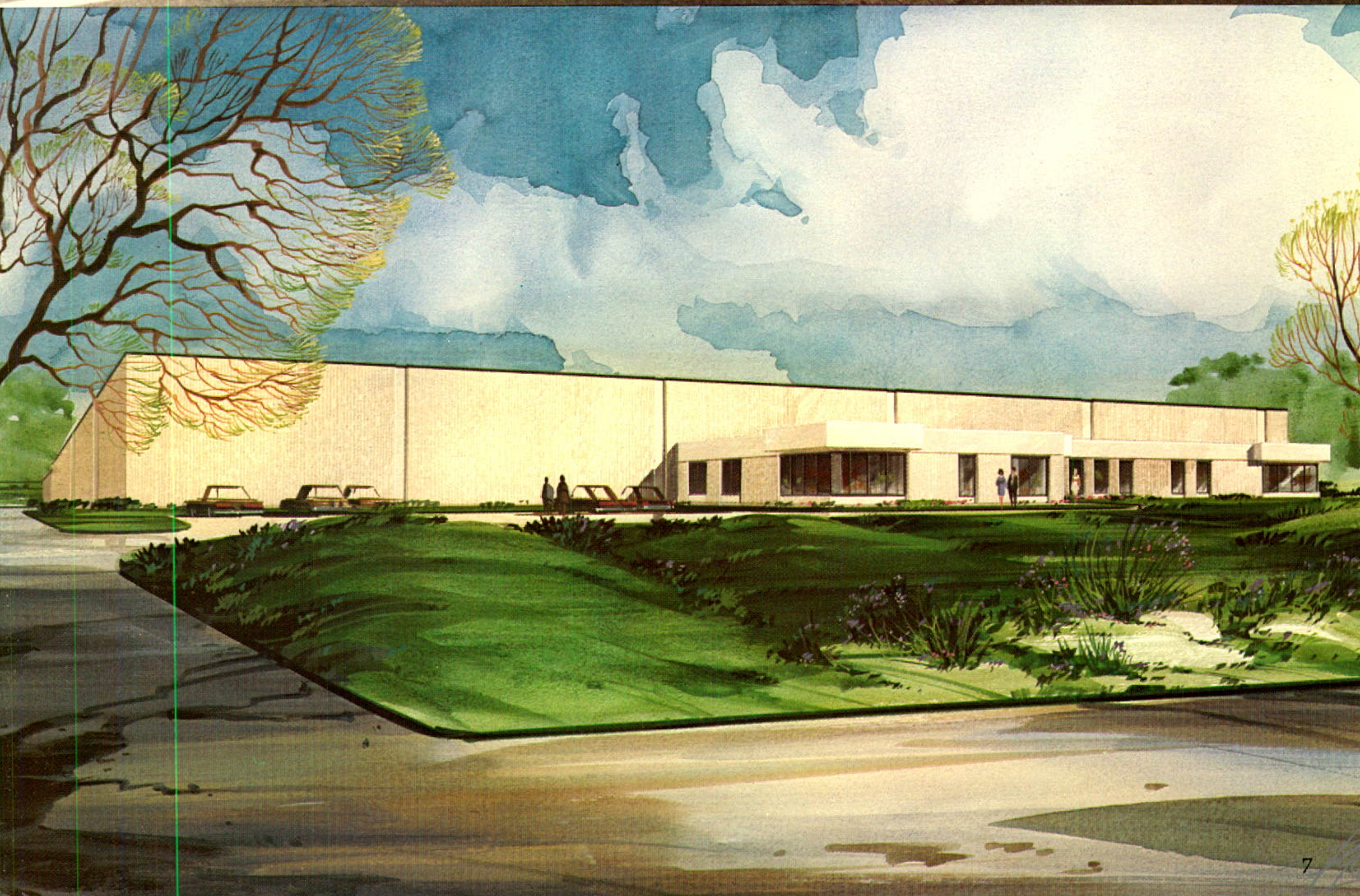


Top — A scene from ELEPHANT MAN starring Philip Anglim and produced for television in the Glen-Warren studios.

Below — The Religious Advisory Committee of CFTO-TV, now celebrating its twentieth anniversary, produces PARADOX, a weekly half-hour program on contemporary religious attitudes and telecast by CFTO-TV on Sunday morning.
Pictured from left to right are: Dr. William H. Jones - Editor, The Canadian Baptist Magazine; Rev. Harold Burgess - Minister, St. Cuthbert's Church, Mississauga; Rev. Earl Albrecht - Pastor, Advent Lutheran Church, Willowdale; Father Tim Foley - Rector, Church of the Redeemer, Toronto; Rev. Gordon Fish - Minister, St. John & St. David Presbyterian Church, Burlington, and Father John Newton - Associate Pastor, St. Clare's Roman Catholic Church, Toronto.

Above right — New studios of CFGO Radio in Ottawa, Ontario. The building was officially opened last September by Dr. John Meisel, Chairman of the Canadian Radio-television and Telecommunications Commision.
Below right — Artist conception of new building for Haughton Graphics Limited, in Scarborough, Ontario. Completion is expected in February, 1982.


CFGO 1440



Production

Glen-Warren Productions Limited, the television production arm of the Company continued to show improvement in revenues and net income.

THE LITTLEST HOBO, produced by Glen-Warren is now in its third season on the CTV television network. The Nielsen ratings covering September and October show THE LITTLEST HOBO with 1,610,000 viewers making it the number one rated weekly Canadian television program in the country. THE LITTLEST HOBO is seen throughout the world and recently won its second consecutive gold medal at the International Film and Television Festival in New York City.

With the exception of LIVE IT UP and W5, Glen-Warren produces all the weekly Canadian programs seen on the CTV television network in prime time.

During the year Glen-Warren's facilities were used to produce ELEPHANT MAN, a ninety minute drama starring Philip Anglim for the ABC Network, and a one hour drama CASTLE ROCK for Warner Bros., which was telecast on the NBC Network in the United States. The facilities were also used to produce OMNI - THE NEW FRONTIER, a one-half hour science related weekly program starring Peter Ustinov, seen throughout the United States and a half hour series AN EVENING AT THE IMPROV featuring comedians from Canada and the United States.

Glen-Warren's technicians and facilities were part of the production team telecasting the inauguration of President Ronald Reagan and were also used to produce Billy Graham Crusades in the United States, Mexico and Japan, the Miss U.S.A. Pageant in Mississippi and an International Music Concert starring Van Cliburn in Texas.

Agincourt Productions Limited continued to increase its market share of the duplication of home movie video cassettes and remains the leader in custom dubbing of television commercials and industrial presentations. Feature movies made by 20th Century Fox and Walt Disney Productions are now being duplicated by Agincourt for distribution in Canada. Agincourt now occupies its own premises in downtown Toronto.

Printing and Packaging

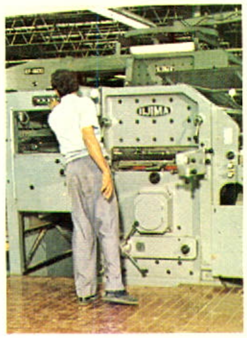
The ABF Automated Business Forms group of companies showed higher revenues and net income in 1981. Sales climbed 17.5% above the previous year.

The ABF group of companies produces all types of computer and business forms from three plants located in St-Hyacinthe, Quebec; Toronto, Ontario; and Edmonton, Alberta. The companies also have ten sales offices located in major cities across Canada.

Operating results of Telfer Packaging Limited were disappointing. Gross revenues were higher than last year but competitive pressures on profit margins resulted in a large drop in net income. Changes in senior management coupled with an aggressive sales force and productivity improvements should provide the base for improvement this year.

Haughton Graphics Limited (formerly C.F. Haughton Limited) enjoyed a successful year on the strength of record sales revenues.

Haughton Graphics is a commercial printing house specializing in web and sheet offset printing. The company produces direct mail material, brochures and advertising and promotional printing. When its new plant in Scarborough, Ontario is completed this spring, Haughton Graphics' printing capacity will double.



Shown above are operators performing quality control checks and adjustments on equipment at Haughton Graphics, Telfer Packaging and A.B.F. Automated Business Forms. The craftsmanship of the skilled personnel is the key to the quality and service required in the competitive markets in which these companies participate.

Responsibility for Financial Reporting

The consolidated financial statements of the Company appearing in this report were prepared by management and reviewed in detail by the Audit Committee of the Board of Directors. On the recommendation of the Audit Committee, they were approved by the Board of Directors for presentation to the shareholders. To ensure that transactions are properly recorded and approved, management maintains extensive internal accounting controls. These controls are monitored by the Company's external auditors.

External Auditors

Clarkson Gordon, Chartered Accountants, have been the independent auditors of the Company since it was incorporated. In addition to expressing an informed judgment as to whether management's financial statements present fairly the Company's financial position and the results of its operations, the external auditors review but do not express an opinion on the quarterly Interim Reports prepared by management for the shareholders.

Audit Committee

The Board of Directors annually appoints an Audit Committee consisting of one inside and two outside directors. The Audit Committee meets annually with the external auditors and management to review the audited consolidated financial statements prior to their submission to the Board of Directors for approval. At this meeting, the Audit Committee receives explanations for any unusual disclosures or accounting treatment, reviews recommendations made by the external auditors for improvements in accounting systems and internal controls and asks the external auditors whether there are any matters which should be brought to the attention of the directors or shareholders.

Auditors' Report

To the Shareholders of Baton Broadcasting Incorporated:

We have examined the consolidated balance sheet of Baton Broadcasting Incorporated as at August 31, 1981 and the consolidated statements of income, retained earnings, changes in financial position and summary of segmented information for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at August 31, 1981 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 applied on a basis consistent with that of the preceding year.

Clarkson Gordon
Chartered Accountants

Toronto, Canada,
November 9, 1981.

Baton Broadcasting Incorporated

Incorporated under the laws of Ontario

	1981	1980
Assets		
Current:		
Cash and term deposits	$ 2,757,369	$ 11,032,735
Accounts receivable	28,693,415	21,771,202
Income taxes recoverable	165,935	282,383
Inventories (note 3)	13,834,144	11,949,222
Prepaid expenses	2,330,339	1,930,571
Total current assets	47,781,202	46,966,113
Other assets:		
Investments (notes 4 and 15)	6,383,686	1,794,850
Mortgages and long-term accounts receivable (note 5)	2,847,906	5,230,758
Total other assets	9,231,592	7,025,608
Fixed assets (note 6):	59,808,670	56,906,040
Less accumulated depreciation	25,098,325	22,755,202
Total fixed assets	34,710,345	34,150,838
Broadcasting licence and goodwill (note 7)	10,786,117	11,487,065
	$102,509,256	$ 99,629,624

See accompanying notes

with comparative figures at August 31, 1980

Liabilities and Shareholders' Equity

	1981	1980
Current:		
Bank indebtedness (note 8)	$ 11,251,586	$ 9,159,551
Accounts payable and accrued charges	11,067,582	7,543,200
Income and other taxes payable	3,426,213	2,408,279
Long-term debt due within one year (note 9)	708,729	1,257,182
Deferred income taxes	3,904,984	2,964,960
Total current liabilities	30,359,094	23,333,172
Long-term debt (note 9)	2,472,057	7,057,561
Deferred income taxes (note 10)	7,190,186	7,638,455
Provision for warranties		526,866
Minority interest (note 2)		3,458,388
Shareholders' equity:		
Share capital (note 11)		
Authorized:		
30,000,000 Class A non-voting shares without par value		
20,000,000 Class B voting shares without par value		
100 common shares without par value		
Issued:		
6,900,000 Class A shares	7,134,556	7,134,556
6,900,000 Class B shares	7,134,556	7,134,556
	14,269,112	14,269,112
Retained earnings	48,218,807	43,346,070
Total shareholders' equity	62,487,919	57,615,182
	$102,509,256	$ 99,629,624

On behalf of the Board:

John Bassett Director

Director

See accompanying notes

Consolidated Statement of Income

for the year ended August 31, 1981

with comparative figures for 1980

	1981	1980
Revenues:		
Air time sales	$ 53,996,935	$ 49,033,168
Production and distribution	19,951,360	17,201,276
Printing and packaging	38,941,139	32,842,446
Investment	1,151,270	1,028,103
	114,040,704	100,104,993
Expenses:		
Programming and production	64,964,770	56,382,205
Selling and administrative	22,369,445	20,264,357
Depreciation and amortization	3,940,413	3,173,447
Interest on long-term debt	398,870	405,422
	91,673,498	80,225,431
Income from continuing operations	22,367,206	19,879,562
Loss from discontinued operations (note 12)	589,685	183,847
Income before income taxes, minority interest and extraordinary items	21,777,521	19,695,715
Income taxes:		
Current	8,873,338	7,534,870
Deferred	1,478,300	1,541,796
	10,351,638	9,076,666
Income before minority interest and extraordinary items	11,425,883	10,619,049
Minority shareholders' interest in earnings of subsidiary company (note 2)	398,092	737,529
Income before extraordinary items	11,027,791	9,881,520
Extraordinary items (note 13)	2,705,054	
Net income for the year	$ 8,322,737	$ 9,881,520

Earnings per share (note 11)	Class A	Class B	Restated
Income before extraordinary items	$.825	$.775	$.715
Net income for the year	$.628	$.578	$.715

See accompanying notes

Consolidated Statement of Changes in Financial Position

for the year ended August 31, 1981

with comparative figures for 1980

	1981	1980
Source of funds:		
Funds from operations		
Income before extraordinary items	$ 11,027,791	$ 9,881,520
Add items not involving an outlay of funds	3,456,212	4,568,537
Total from operations	14,484,003	14,450,057
Increase in working capital on discontinuance of subsidiary's operations	1,657,758	
Decrease in long-term accounts receivable	849,645	1,118,395
Increase in long-term debt		877,234
Proceeds on sale of fixed assets	6,347,215	1,138,358
Reduction in machinery deposits		36,769
Total funds provided	23,338,621	17,620,813
Use of funds:		
Acquisition of remaining 39.8% in the Haughton Group of Companies	5,685,750	
Purchase of fixed assets	9,413,610	9,959,180
Dividends paid	3,450,000	3,105,000
Increase in investments	5,041,816	796,458
Repayments of long-term debt	3,249,427	992,805
Increase in long-term accounts receivable	2,529,841	1,536,532
Dividends paid to minority interest	179,010	
Total funds used	29,549,454	16,389,975
(Decrease) increase in working capital during the year	(6,210,833)	1,230,838
Working capital, beginning of the year	23,632,941	22,402,103
Working capital, end of the year	$ 17,422,108	$ 23,632,941
Represented by:		
Current assets	$ 47,781,202	$ 46,966,113
Less current liabilities	30,359,094	23,333,172
	$ 17,422,108	$ 23,632,941

see accompanying notes

Consolidated Statement of Retained Earnings

for the year ended August 31, 1981

with comparative figures for 1980

	1981	1980
Balance, beginning of the year	$ 43,346,070	$ 36,569,550
Net income for the year	8,322,737	9,881,520
	51,668,807	46,451,070
Dividends paid	3,450,000	3,105,000
Balance, end of the year	$ 48,218,807	$ 43,346,070

See accompanying notes

Notes to the Consolidated Financial Statements

August 31, 1981

1. Accounting policies

(a) Consolidation —
The consolidated financial statements include the financial position of all subsidiary companies at August 31, 1981 and the results of their operations for the year then ended.

The significant subsidiary companies all of which are wholly-owned are:

Broadcasting and Production —
- CFTO-TV Limited
- CFQC Broadcasting Limited
- CKLW Radio Broadcasting Limited
- CFGO Radio Limited
- Glen-Warren Productions Limited
- Agincourt Productions Limited

Printing and Packaging —
- C.F. Haughton Limited
- A.B.F. Automated Business Forms Limited
- A.B.F. Automated Business Forms (Western) Ltd.
- A.B.F. Formules d'Affaires Limitée
- Telfer Packaging Limited

(b) Revenue recognition —
Air time revenue is recognized by the Company when advertisements are aired under broadcast contracts.
Program production and distribution revenues are recognized by the Company to the extent that services have been performed under contracts.
Printing and packaging revenue is recognized at the time goods are shipped to customers or, in certain circumstances, at the time they are available for shipment to customers.

(c) Inventories —

(i) Printing and packaging materials —
Inventories are stated at the lower of cost or estimated net realizable value.

(ii) Programs —
Programs produced by the Company are carried in the Company's accounts at cost, including direct production costs and an appropriate share of overhead. If it becomes apparent that future proceeds from distribution contracts will not be sufficient to absorb these costs the value of the program is written down to its estimated net realizable value.

(iii) Production materials —
Production materials are carried in the Company's accounts at cost less provision for usage.

(d) Program and feature film contracts —
The Company is committed under various long-term contracts for the rights to broadcast programs and feature films. Payments made under the terms of these contracts are reflected in the accounts as a prepaid expense. The cost of each contract is amortized on a "per play" basis over the duration of the contract; if it becomes apparent that this basis will not allow the contract to be fully amortized, the rate of amortization is increased.

(e) Fixed assets and depreciation —
Rates and bases of depreciation applied by the Company on an annual basis are as follows:

Buildings	— 2½% straight-line basis
Production and transmitting equipment	— 7% to 12½% straight-line basis
Printing and packaging equipment	— 10% straight-line basis
Automotive equipment	— 30% declining balance basis
Furniture and fixtures	— 10% straight-line basis

Gain or loss on disposal of individual assets is the difference between proceeds and net book value in the year of disposal.

(f) Broadcasting licences and goodwill —
The Company's policy is not to amortize broadcasting licences and goodwill acquired prior to April 1, 1974; if it becomes apparent that the value of any component is permanently impaired, it will be written down. Goodwill acquired subsequent to April 1, 1974 is being amortized over a forty-year period.

(g) Translation of foreign currency —
Current assets and current liabilities in foreign currencies are translated into Canadian dollars at the year-end rate of exchange and the related gain or loss is included in income. Non-current monetary assets and liabilities are translated at the year-end rate of exchange. The related unrealized gain or loss is deferred and has been grouped with accounts receivable on the balance sheet and amortized to income over the life of the related asset or liability. Transactions during the period have been translated at the average exchange rate prevailing during the year and the related gain or loss is included in income.

(h) Income taxes —
The Company follows the deferred method of tax allocation in accounting for income taxes. Under this method, timing differences between reported and taxable income (which occur when revenues and expenses recognized in the accounts in one year are taxed or claimed for tax purposes in another year) can result in deferred taxes.

2. Acquisition of subsidiary

During the year the Company purchased, for $5,685,750 cash, the remaining 39.8% of the outstanding common shares of the Haughton Group of Companies to hold 100%.

The purchase price was allocated as follows:

Minority interest	$ 3,677,470
Land, buildings and equipment	654,326
Goodwill	1,353,954
	$ 5,685,750

3. Inventories

Inventories are comprised of:

	1981	1980
Printing and packaging materials	**$ 7,168,005**	$ 6,530,832
Programs	**5,401,542**	3,803,608
Production materials	**1,264,597**	1,201,264
MATV components and installations in progress		413,518
	$13,834,144	$11,949,222

4. Investments

Investments are comprised of:

	1981	1980
Shares in other companies (estimated market value — $10,381,000; 1980 — $5,062,000)	**$ 6,109,597**	$ 1,109,597
CTV Television Network Ltd.	**215,390**	215,390
Other investments, without quoted market value	**58,699**	469,863
	$ 6,383,686	$ 1,794,850

5. Mortgages and long-term accounts receivable

Mortgages and long-term accounts receivable are comprised of:

	1981	1980
Mortgages receivable due September 1986 and bearing interest at 15%	**$ 2,607,576**	
Non-interest bearing accounts receivable under film contracts	**240,330**	$ 1,198,701
MATV installation contracts receivable, at discounted value		4,032,057
	$ 2,847,906	$ 5,230,758

6. Fixed Assets

Fixed assets and related accumulated depreciation and amortization are comprised of:

	1981			1980
	Cost	Accumulated depreciation and amortization	Net book value	Net book value
Land	**$ 2,334,170**		**$ 2,334,170**	$ 2,333,442
Land held for development				2,636,004
Building	**11,611,873**	**$ 3,029,792**	**8,582,081**	8,649,307
Production and transmitting equipment	**29,581,248**	**15,578,488**	**14,002,760**	10,523,366
Printing and packaging equipment	**11,605,179**	**4,250,934**	**7,354,245**	7,912,829
Automotive equipment	**1,074,337**	**536,004**	**538,333**	549,478
Furniture and fixtures	**3,601,863**	**1,703,107**	**1,898,756**	1,546,412
	$59,808,670	**$25,098,325**	**$34,710,345**	$34,150,838

7. Broadcasting licence and goodwill

Broadcasting licence and goodwill are comprised of:

		1981		1980
Broadcasting licence		**$ 2,597,166**		$ 2,597,166
Goodwill and franchise rights acquired before April 1, 1974		**4,812,700**		4,812,700
Goodwill acquired on or after April 1, 1974	**$ 3,691,412**		$ 4,403,195	
Less accumulated amortization	**(315,161)**	**3,376,251**	(325,996)	4,077,199
Total		**$10,786,117**		$11,487,065

8. Bank indebtedness

Bank indebtedness includes both demand and term bank loans in a subsidiary of $11,250,000 which is secured by various general assignments of accounts receivable, together with specific and floating charges totalling $8,950,000 over the fixed and other assets of the subsidiary. Interest expense on bank indebtedness amounted to $1,239,000 (1980 — $1,317,191).

9. Long-term debt

Long-term debt is comprised of:

	1981	1980
Accounts payable under film contracts, non-interest bearing (U.S. $726,561; 1980 — U.S. $1,307,812) due October, 1982	$ 872,964	$ 1,513,531
12% series A redeemable debentures due June, 1983		1,175,000
Demand bank loan, bearing interest at bank prime rate — not to be repaid within one year . .	2,230,000	4,770,000
Other long-term debt at various interest rates and due dates up to 1987	77,822	856,212
	3,180,786	8,314,743
Less portion due within one year	708,729	1,257,182
	$ 2,472,057	$ 7,057,561

The aggregate amount of payments required to meet debt obligations in each of the next five years is as follows:

1982	—	$ 708,729
1983	—	2,419,867
1984	—	15,274
1985	—	15,274
1986	—	15,274
Thereafter	—	6,368
		$ 3,180,786

10. Deferred income taxes

The balance of deferred income taxes on the balance sheet includes provisions made in prior years totalling approximately $2 million relating to reassessments issued in the 1978 fiscal year which are presently under appeal. The total of such reassessments is approximately equal to the provisions already made in the accounts. The eventual outcome of the appeals cannot be determined at this time.

11. Share capital

(a) On June 2, 1981 the shareholders approved the reclassification, change and subdivision of the Company's 6,900,000 issued common shares into 6,900,000 Class A and 6,900,000 Class B shares both without par value on the basis of one Class A share and one Class B share for each previously issued common share. In addition, the authorized capital was changed by cancelling 2,049,900 previously unissued common shares and increasing the authorized share capital by creating an additional 23,100,000 Class A and 13,100,000 Class B shares.

The authorized capital of the Company as a result of the reclassification, change and subdivision is now as follows:

(i) 30,000,000 Class A non-voting shares without par value
(ii) 20,000,000 Class B voting shares without par value
(iii) 100 Common shares without par value

Class B shares can be converted into Class A shares on a one-for-one basis at the holder's option at any time.

At August 31, 1981 the issued capital was as follows:

6,900,000 Class A non-voting shares	$ 7,134,556
6,900,000 Class B voting shares.	7,134,556
Total	$14,269,112

(b) Holders of Class A Shares are entitled to receive a non-cumulative semi-annual dividend of 2.5¢ per share and no dividend can be declared on the Class B shares in a fiscal half-year until this 2.5¢ dividend has been declared. Any further dividends will be paid in equal amounts to holders of Class A and Class B shares.
All references in these financial statements to per share data and issued share capital for 1980 and 1981 have been restated to reflect this share capital reorganization.
Earnings per share reflect the entitlement of Class A shares to annual dividends of 5¢ per share over Class B shares.

(c) As a result of corporate reorganizations in prior years, the Company's legal share capital of $34,135,400 is $19,866,288 in excess of share capital of $14,269,112 shown on the consolidated financial statements.

12. Discontinued operations

During the fourth quarter of the year the Company discontinued its operations relating to the sale of master antenna television systems conducted through its subsidiary All-View Interphase Systems Inc. The investment has been written down and the costs to be incurred in connection with this discontinuance have been provided for in these financial statements.

13. Extraordinary items

Extraordinary items consist of the following:

Write-down of subsidiary's operations (net of taxes of $1,200,000)	$ (2,763,300)
Gain on sale of land; land held for development and buildings (net of taxes of $162,300)	454,305
Write-down of an investment in other companies (net of taxes of $138,000) . . .	(396,059)
Total	$ (2,705,054)

14. Commitments

The Company has commitments totalling $5,506,000 (1980 — $5,275,000) under various long-term contracts for the rights to future broadcasts of feature films and programs with varying expiry dates up to and including 1986.
The Company has also made commitments totalling approximately $7,300,000 for capital expenditures.

15. Subsequent events

Subsequent to the year end the Company sold an investment and realized a gain of $3,582,000 after provision for taxes.

16. Comparative figures

Certain of the prior year's figures have been reclassified to conform with the current year's presentation.

Statement of Segmented Financial Information

for the year ended August 31, 1981

with comparative figures for 1980, (in thousands of dollars)

	Consolidated		Broadcasting, television production and distribution		Printing and packaging	
	1981	1980	1981	1980	1981	1980
A. Total revenue	$114,041	$100,104				
Less revenue not identifiable to specific operating segments	1,151	1,028				
Identifiable revenue	$112,890	$ 99,076	$ 73,949	$ 66,234	$ 38,941	$ 32,842
B. Income before income taxes, minority interest and extraordinary items	$ 21,778	$ 19,696				
Less income not identifiable to specific operating segments	228	1,166				
	21,550	18,530				
Add interest expense	1,594	1,777				
Identifiable income before income taxes, minority interest and extraordinary items	$ 23,144	$ 20,307	$ 19,404	$ 16,266	$ 3,740	$ 4,041
C. Total assets	$102,509	$ 99,630				
Less:						
Cash, term deposits and other investments	8,314	11,705				
Assets of All-View Interphase Systems Inc.		7,399				
Identifiable assets	$ 94,195	$ 80,526	$ 60,888	$ 52,094	$ 33,307	$ 28,432
D. Identifiable depreciation and amortization	$ 3,940	$ 3,173	$ 2,546	$ 2,033	$ 1,394	$ 1,140
E. Capital expenditures	$ 9,414	$ 9,959				
Less expenditures not identifiable to specific operating segments	21	298				
Identifiable capital expenditures	$ 9,393	$ 9,661	$ 8,086	$ 4,224	$ 1,307	$ 5,437

The company has defined the following as its two main industry segments: (1) television and radio broadcasting combined with the production and distribution of commercial and syndicated programming; (2) commercial printing combined with the production of packaging and business forms.

Five Year Review

in 1,000's of dollars

	1981	1980	1979	1978	1977
Operating results					
Revenue					
Air time sales	$ 53,997	$ 49,033	$ 44,896	$ 37,830	$ 33,906
Production	19,951	17,201	14,179	14,404	11,401
Printing and packaging	38,941	32,843	29,240	24,082	19,791
Master antenna sales			851		
Investment income	1,151	1,028	661	571	561
Total revenue	$114,040	$100,105	$ 89,827	$ 76,887	$ 65,659
Income before extraordinary items	$ 11,028	$ 9,882	$ 9,769	$ 8,429	$ 7,704
Deduct extraordinary items	2,705				
Net income	$ 8,323	$ 9,882	$ 9,769	$ 8,429	$ 7,704
Per share data					
Income before extraordinary items					
Class A shares (1)	82.5¢	71.5¢	71.0¢	61.0¢	56.0¢
Class B shares (1)	77.5¢	71.5¢	71.0¢	61.0¢	56.0¢
Net income					
Class A shares (1)	62.8¢	71.5¢	71.0¢	61.0¢	56.0¢
Class B shares (1)	57.8¢	71.5¢	71.0¢	61.0¢	56.0¢
Dividends paid					
Common shares (2)	50.0¢	45.0¢	40.0¢	28.0¢	21.5¢
Number of share outstanding (000's)					
Common shares		6,900	6,900	6,900	6,900
Class A shares	6,900				
Class B shares	6,900				
Funds flow					
Funds provided from operations	$ 14,484	$ 14,450	$ 13,436	$ 11,559	$ 10,862
Capital expenditures:					
Business acquisitions	5,686		1,965		
Additions to plant and equipment	9,414	9,959	7,133	4,997	2,708
Dividends paid	3,450	3,105	2,760	1,932	1,483
Year-end financial position					
Working capital	17,422	23,633	22,402	18,257	14,697
Property, plant and equipment	34,710	34,151	27,776	23,394	20,927
Total assets	102,509	99,630	87,281	70,783	58,681
Long term debt	2,472	7,058	7,173	2,789	981
Minority interest in subsidiary companies		3,458	2,721	2,218	1,955
Shareholders equity	62,488	57,615	50,839	43,830	37,333
Ratios					
Net income as a percentage of revenue (3)	9.7%	9.9%	10.9%	11.0%	11.7%
After tax return on average shareholders equity (3)	18.4%	18.2%	20.6%	20.8%	22.5%
Current assets to current liabilities	1.6	2.0	2.1	2.2	2.9
Annual share price range					
Class A shares	$ 9-6⅝				
Class B shares	$ 10-7¼				
Common shares		$ 15⅜-12	$ 15-12⅛	$ 13-8¾	$ 11-7⅝

NOTE: (1) Net income per share earned in 1980 and prior years restated on 13,800,000 shares outstanding.

(2) Paid on 6,900,000 common shares.

(3) 1981 based on income before extraordinary items.

Baton Broadcasting Incorporated

Board of Directors

JOHN W.H. BASSETT
Chairman
Baton Broadcasting Incorporated

DOUGLAS G. BASSETT
President and Chief Executive Officer
Baton Broadcasting Incorporated

*GORDON V. ASHWORTH, C.A.
Executive Vice-President
Baton Broadcasting Incorporated

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Osler, Hoskin & Harcourt

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JOSEPH J. GARWOOD, C.A.
Vice-President, Managing Director and Treasurer
Baton Broadcasting Incorporated

*EDWIN A. GOODMAN, Q.C.
Senior Partner, Law Firm
Goodman & Goodman

FOSTER W. HEWITT, O.C.
Chairman
Hewpex Sports Enterprises Ltd.

LEIGHTON W. McCARTHY
President
L.W. McCarthy Investments Limited

*Member of the Audit Committee

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Chairman

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President and Chief Executive Officer

GORDON V. ASHWORTH, C.A.
Executive Vice-President

JOSEPH J. GARWOOD, C.A.
Vice-President, Managing Director and Treasurer

EDWARD J. DELANEY
Vice-President and Secretary

FOSTER W. HEWITT, O.C.
Vice-President

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Investor Information

Capital Stock

On June 2, 1981 the shareholders approved a reorganization of the share capital of the Company. Each shareholder is entitled to receive one Class A non-voting share and one Class B voting share for each common share held. Holders of Class A shares are entitled to receive a non-cumulative semi-annual dividend of 2.5¢ per share and no dividend can be declared on the Class B shares in a fiscal half year until this 2.5¢ dividend has been declared. Any further dividends will be paid in equal amounts to holders of Class A and Class B shares. Class B shares can be converted into Class A shares on a one-for-one basis at the holder's option at any time. Class A non-voting shares cannot be converted to Class B voting shares.

Dividends

The Company paid dividends totalling 50¢ per share in 1981 on 6,900,000 common shares issued and outstanding. The first semi-annual dividend of 15¢ per share on the Class A shares and 12½¢ per share on the Class B shares was paid November 16, 1981.

Stock Exchange Listing

Toronto Stock Exchange
Montreal Stock Exchange

Stock Symbols

BNB A
BNB B

Registrar and Transfer Agent

Canada Permanent Trust Company

Banks

Canadian Imperial Bank of Commerce
The Bank of Nova Scotia
The Toronto-Dominion Bank

Auditors

Clarkson Gordon, Toronto

Head Office

P.O. Box 9, Station O
Toronto, Ontario M4A 2M9
Telephone (416) 299-2000
Telex No. 0625161

Restrictions on Ownership

Since certain subsidiaries of the Company hold licences under the Broadcasting Act, at least 80% of the shares of the Company must be beneficially owned by persons who are Canadian citizens or who are corporations controlled in Canada.

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