

The 66th Annual Report

1985

Rogers Cablesystems Inc.



Table of Contents

	Page
From the Chief Executive Officer	3
Review of Operations	5
Financial Review	19
Financial/Operating Statistics	25
Statements	28
Organization and Subscriber Information	52
Directors and Officers	54
Corporate Information	55

Description of Business

Rogers Cablesystems Inc. is one of the world's largest cable communication companies. With holdings in Canada and the United States, it has an interest in cable systems collectively serving close to 2 million subscribers. Its cable operations are concentrated

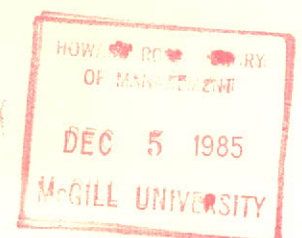
in major metropolitan areas and consist of large, recently constructed or substantially rebuilt cable systems. The Company is also involved in the radio industry and in the provision of entertainment and information services.

Highlights of the Year 1985

	1985	1984
	thousands of dollars or per share	
For the Year ended August 31		
Revenue	\$ 354,165	\$ 294,779
Operating income	128,099	91,461
Loss from continuing operations	22,517	18,663
Loss from discontinued operations	—	12,181
Loss for the year before extraordinary item	\$ 22,517	\$ 30,844
Loss Per Share – from continuing operations	\$ 1.11	\$ 0.97
– before extraordinary item	\$ 1.11	\$ 1.52
– Net loss	\$ 1.11	\$ 1.68
At August 31		
Total assets	\$ 960,229	\$ 877,865
Long term debt	782,183	664,814
Shareholder's equity	87,658	106,780
Subscribers on service	1,971,508	1,912,237

Key Events of the 1985 Fiscal Year

- Revenues rose 20% to \$354 million.
- Operating cash flow, a key yardstick for a cable television company, rose 40% from \$91 million to \$128 million.
- In Canada, pay and other discretionary services penetration doubled. In addition, the disconnect rate declined significantly.
- The Company purchased five radio stations from its parent.
- One of the Company's two U.S. groups, Rogers Cablesystems of America, Inc. went public, raising U.S. \$42 million, subsequent to year end.
- Construction of all U.S. cable systems was completed subsequent to year end.
- Capital expenditures declined from \$128 million in 1984 to \$88 million in 1985.
- The sale of the Syracuse, New York cable system was completed subsequent to year end. Three other systems, with 17,000 basic subscribers, were sold, subject to regulatory approvals.
- The California complex remained unsold.
- The loss from continuing operations increased to \$22.5 million from \$18.7 million the previous year.
- Pay services as a percentage of basic subscribers in the U.S. systems declined from 136% to 120%, but has since stabilized.
- The regulatory climate in both countries improved for cable television.





John W. Graham, Q.C., Chairman of Rogers Cablestystems Inc. and **Edward S. "Ted" Rogers**, Vice Chairman and Chief Executive Officer.

From The Chief Executive Officer

Fiscal 1985 represented another year of dramatic change for the Company as it continued to evolve as a major communications company. A number of our goals were reached, others were not. On balance, we are pleased with our progress and believe we understand what remains to be done and how that will be achieved.

The Company is comprised of three operating groups, one in Canada and two in the United States. Two of the three performed exceptionally well. The third did not.

Our Canadian operating group, Canadian Cablesystems Limited (CCL), had a successful year; operating profit rose significantly and CCL is once again beginning to approach a reasonable return on investment. This can be attributed to a number of factors. A number of the systems received meaningful rate increases, allowing them a partial catch-up from the period in which the Company was constrained by price ceilings. The regulatory climate in Canada, at least for rate regulation, is easing. The introduction of specialty satellite services, particularly when packaged with the national pay television services, is proving to be successful. The number of discretionary services taken by basic subscribers doubled over the 1985 year, from less than 150,000 units to nearly 300,000 units.

We are proud to report that CCL's operating costs actually declined from the prior year. This was due to a determined effort to control costs, as well as a dramatic reduction of the "churn" in pay television resulting from greater consumer satisfaction.

Rogers Cablesystems of America, Inc. (RCA), which was acquired several years ago and which contains, among others, the San Antonio system, had a strong year. Operating profit rose by over 30% and capital expenditures dropped significantly. The RCA Group has now finished all of its primary construction and rebuilds.

The Company's third operating Group, Rogers U.S. Cablesystems, Inc., (RUSCI) which contains the large urban cable systems franchised and built over the past

several years, continues to operate below its potential. The Company has been successful, however, with the co-operation of the local franchising authorities, in renegotiating significant economic concessions in most of its ordinances. We have also improved management techniques in this Group, believe that we have created value for our shareholders and are confident that the systems will evolve successfully.

The Company continued its policy of rationalizing its operating systems with the goal of reducing its overall long term debt, particularly in the Parent Company. To that end, the Company's system serving Syracuse, New York was sold subsequent to year end. Proceeds of nearly U.S. \$20 million were realized and were used to retire debt in the Parent Company.

Also subsequent to year end, the Company entered into agreements to sell three of its smallest systems in the RCA Group comprising approximately 17,000 basic subscribers, for U.S. \$17 million. The closing is subject to regulatory approvals. A fourth system in the Group is also offered for sale. The Company also entered into an agreement to sell its controlling interest in Cablesare Inc., a computer company in London, Ontario, with closing expected before the end of the calendar year.

The Company has been offering for sale its operations in Orange and Los Angeles Counties in Southern California, but to date has not received an offer that it considers acceptable. It is anticipated that they will be sold by the end of fiscal 1986.

In November 1985, the Company sold a 27% interest in RCA to the public. The net proceeds realized were approximately U.S. \$40 million and were used to retire long term debt in the Parent Company. Like RCI, RCA is now trading as a public company on the over-the-counter market in the United States.

The various activities just described have reduced the Company's corporate debt, substantiated the value of its properties and hopefully have demonstrated the resolve of management to place

the Company onto a strong financial foundation. The Company is considering other financing alternatives to further reduce corporate debt.

During fiscal 1985, the Company purchased five radio stations from its controlling shareholder. The flagship stations, CFTR-AM and CHFI-FM, are two of the leading stations in the market. No cash was issued by the Company on the purchase as over 80% of the consideration was convertible preferred shares, with the balance being the assumption of existing debt. From a cash flow point of view, the operating profit contributed by the stations exceeds the dividends on the preferred shares issued.

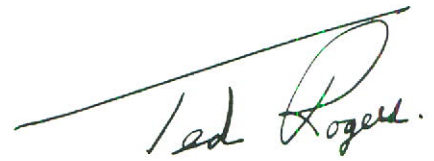
During fiscal 1985, the Company's continuing operations added over 59,000 basic subscribers. Total revenues increased 20% to \$354 million and operating income increased by 40%, from a restated \$91 million to \$128 million. Interest and depreciation rose by approximately the same amount as operating income, as predicted in last year's report; however, a decline in investment and other income, combined with a reduction in deferred tax credits resulted in a loss from continuing operations of \$22.5 million in fiscal 1985, compared to a restated loss of \$18.7 million in the prior year. Capital expenditures declined from \$128 million in 1984 to \$88 million in 1985, reflecting the essential completion of construction everywhere in the Company.

Looking ahead to 1986, we expect continued good growth in revenues and

operating cash flow. We are, however, anticipating a reduction in interest expense resulting from the reduction in long term debt described above. We expect therefore to significantly reduce our pre-tax loss.

In conclusion, we are pleased with the operating performance of our companies and our goal of eliminating corporate debt is within reach. Our urban systems are now built and we look forward to realizing their potential. The Company's older systems have been rebuilt with the channel capacity and flexibility to meet our foreseeable needs. The regulatory environment in both countries has improved over the past year and we anticipate further improvement.

I would like to thank our employees personally for their commitment and sacrifice in successfully meeting the challenges. I would also like to extend my gratitude to the Company's bankers for their continuing support, and to our many regulatory authorities for their flexibility and understanding. Finally, I am deeply touched by the continuing enthusiasm and trust placed in us by our thousands of shareholders in Canada, the United States and abroad.



Edward S. Rogers
Chief Executive Officer



perations

REVIEW OF OPERATIONS

Review of Canadian Operations

Overview

The Company's Canadian operations experienced significant growth during 1985, including a 34,700 increase in basic cable subscribers. This basic subscriber growth resulted from an increase in homes passed of 36,000, plus a small increase in the penetration of existing households. New home construction growth was the result of the easing of interest rates and the recovery of the manufacturing sector in Ontario. The Calgary, Alberta system, where growth in households had been impeded in recent years by the decline in oil industry activity in that Province, expanded significantly.

Pay television, specialty services, and converters also contributed strongly in 1985. The September, 1984 consolidation of the two National English language movie services into the First Choice* Superchannel service, combined with the launch of new specialty services resulted in a doubling of discretionary service penetration.

The Company was also successful in holding operating costs below the level of the previous year through a concentrated effort by all systems, aided by a decline in the pay television connect/disconnect activity.

During the year, Mr. William R. Rogers was appointed President of the Canadian Group, and a Vice-President of the Parent Company.

Throughout the year, the industry worked closely with its regulator, the Canadian Radio-television and Telecommunications Commission (CRTC), to

evolve new practices and regulations which will hopefully contribute to the development of a less restrictive regulatory environment, and one more beneficial to all segments of the Canadian broadcasting industry. Results of this work will primarily be seen in future years, but the shift in regulatory thinking and practice has already begun to yield results with the approval of moderate, but much needed rate increases in all Rogers' Canadian systems.

Basic Cable Television Service

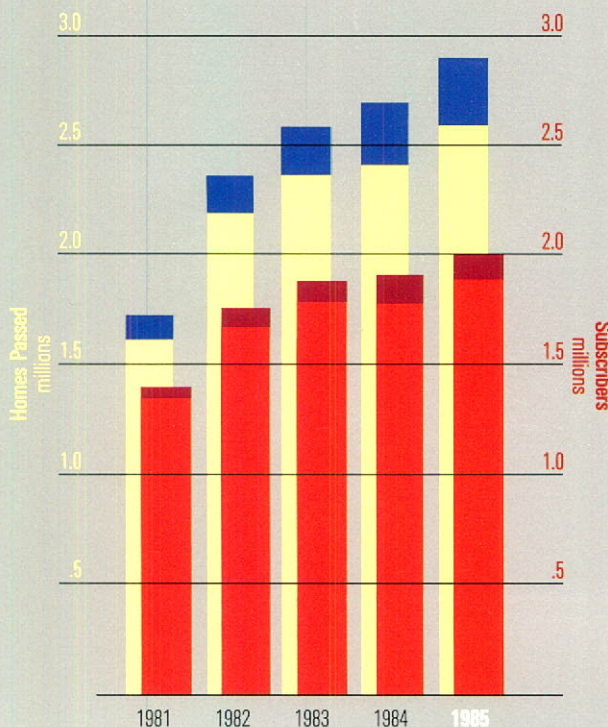
Each of the fourteen cable television systems in Canada experienced growth in basic subscribers during 1985. Almost 34,700 subscribers were added nationally, with three-quarters of these added in Ontario, 15% in Alberta and 10% in British Columbia.

A growth rate in basic subscribers of over 7% was experienced in the Mississauga system, a suburb of Metropolitan Toronto. Oshawa, Newmarket and Brampton in the Toronto region. The Toronto system itself, also experienced strong growth in 1985. Continuing moderate interest rates are expected to stimulate continued strong household construction, and therefore subscriber growth in this area through fiscal 1986.

During 1985, the Company continued to plan and develop microwave interconnections linking its systems within Ontario, and within British Columbia. This was part of the general upgrading of plant in these major cluster areas begun in 1984, which will be essentially completed in 1986. By that date, the majority of subscribers in these

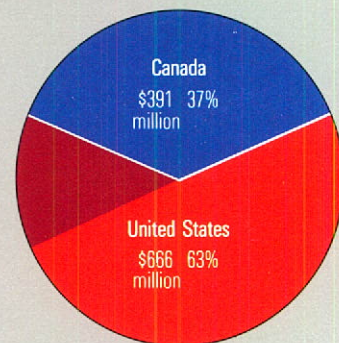
Subscriber Growth

Homes Passed
Subscribers
Discontinued operations



Assets By Country

(at August 31, 1985)



Total - \$1,057 million

Discontinued operations which are not included in the consolidated results.

cluster areas will be served by cable systems capable of delivering a minimum of 41 channels. Our policy of continuous plant improvements has enabled us to meet the challenge of new products and services as they become available.

The Brampton and Mississauga, Ontario, systems received basic rate increases averaging \$1.50 per month in late fiscal 1984. In early Fiscal 1985, the Vancouver, Victoria and Fraser systems also received similar increases. These larger rate increases were awarded by the CRTC after exhaustive regulatory proceedings, including public hearings. The increases were the first step in allowing the Company to earn improved returns on its cable assets. Rate increases were the largest single contributor to the growth in cable service revenue.

Early in 1985, the Company applied for rate increases in most of its systems. During the balance of fiscal 1985 and subsequent to year end, monthly rate increases of \$1.21 in Toronto and Newmarket, \$1.50 in Oshawa, \$1.46 in London, 30¢ in Brantford, 29¢ in both Brampton and Mississauga, 99¢ in Hamilton, 90¢ in Cornwall and \$1.00 in Calgary. These increases will again contribute significantly to the growth in revenue from basic cable operations in fiscal 1986.

Pay Television Services

At the end of Fiscal 1984, pay television services in Canada had stalled at a penetration of 11% of basic subscribers. A high level of "churn", i.e. connects/disconnects resulted in significant operating costs throughout that fiscal year. The collapse or merging of several national and

regional pay television networks had resulted in the loss to the Company of significant numbers of pay television subscriber units. Indeed, additional marketing efforts appeared to be resulting only in increased churn and costs.

In 1985, the CRTC allowed the two national pay services to operate in an exclusive regional area, in effect splitting the country. While the loss of pay subscriber units due to this rationalization was significant, the stabilization of the pay networks was the first step in relaunching discretionary services to subscribers. The Company offered the First Choice* Superchannel service in two packages in all of its Canadian systems. The primary package included First Choice* Superchannel and the two newly licensed specialty services, The Sports Network and Much Music, and was marketed at \$15.95 per month, the same price previously used for the pay service alone. An expanded package included these three services, plus a number of American satellite services including the Arts & Entertainment Network, The Nashville Network, Cable News Network, The Life Channel, CNN Headline News, and Financial News Network. This deluxe package has been marketed at \$19.95. Marketing programs stressed the enhanced value of these packages over the single and dual movie channel packages marketed previously. These products, packaging strategies, and marketing programs resulted in a growth of households taking any discretionary services from 124,000 to 204,000 during fiscal 1985 in the wholly owned systems. Total discretionary services taken rose from 141,000 to 283,000.



Colin D. Watson
President and
Chief Operating Officer

The Company is gratified, but not satisfied by the growth of discretionary service sales in Canada. The pay television networks are impeded by certain license conditions which impact negatively on the wholesale price charged to the cable company. The CRTC will likely review these license conditions in 1986.

Specialty Services

Early in 1984, the CRTC licensed two specialty services, The Sports Network and Much Music which began operation in September, 1984. Programming offered by these new and very different services has proven to be popular with Canadian viewers, both in terms of content and the professionalism with which they are aired. While the specialty services were available individually at a monthly price of \$7.50 for The Sports Network and \$5.95 for Much Music, the primary marketing focus was in conjunction with pay television. Through linkage of these services to pay, the specialty services gained a substantial initial market share and contributed additional value to the pay television purchase. To create these packages, the pay and specialty networks, as well as the Company, accepted lower product margins with the objective of building market share. The program has been successful in meeting these objectives, but the lower margins cannot remain for long.

In contrast to the success of the pay television based packages, Rogers has been disappointed in the package which is made up of all specialty services excluding pay television. This package, priced at \$9.95 per month, has not attracted a large number of subscribers. Overall, the

Company has been constrained by the CRTC from offering as wide a programming menu as is thought desirable. The company remains convinced that expansion of the specialty service package would significantly improve its value and marketability to subscribers.

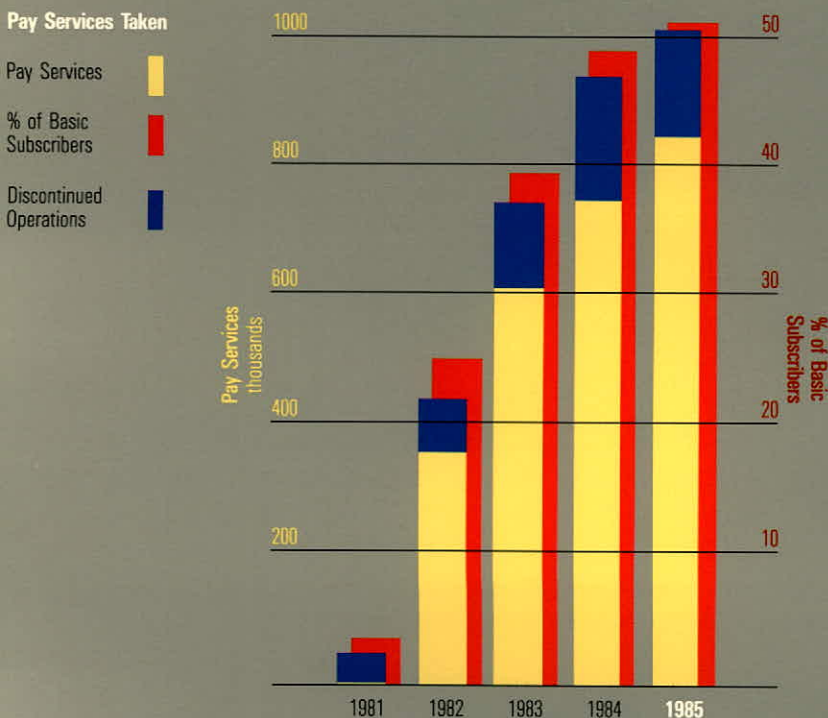
Converters

For the first time in several years, the Company's converter rental business expanded significantly. The continuing retirement of aging corded converters was more than offset by growth in the Zenith "Z-Tac" converter/decoder. The enhanced features of the Zenith unit include automatic fine tuning, volume control, and volume mute. It is the most advanced converter available in the Canadian market and is only available to subscribers on a rental basis from Rogers. Because the converter also incorporates the Zenith decoder system necessary for receipt of pay television and specialty services, a second decoder box, necessary with most other converters, is not required. Subscriber acceptance of this product has been excellent at a present price of \$7.95 per month.

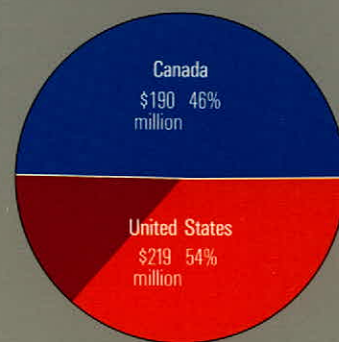
At the end of fiscal 1985, Rogers was renting 183,000 converters to its subscribers. Modest growth in this number is expected in 1986. The development and marketing of television sets with built-in converters, able to interface with pay television encoders is expected to gradually erode converter market size.

Capital Expenditure Program

Capital expenditures by the Company declined significantly in 1985 to \$34.5 million which was



1985 Revenue By Country



Total - \$409 million

Discontinued operations which are not included in the consolidated results.

\$22.8 million less than in 1984. The primary reason for this was a reduction in the purchase of pay television home terminal equipment as the Company filled 1985 orders from inventory.

The Company continued its program of system upgrading throughout 1985. Enhancement programs were completed in Mississauga, Brampton, London, and Hamilton in Ontario. During 1985, major programs continued in Toronto and Vancouver. These programs will continue through 1986 and will be extended to the Oshawa, Newmarket, Fraser, Victoria, and Calgary systems. In the past three years, channel capacity in the Vancouver system has expanded from 30 to 36 channels, and significant additional technical improvements have been made. The company expects that the Vancouver system will, in some respects, lead the way in the development of new services.

By the end of 1985, 35 channel system capacity had been reached in 80% of our Canadian systems. Where necessary, system capacity has already been increased to 41 channels, and other systems will be brought to this level over future years. The Company's rebuild and system enhancement program is based on a philosophy of maximizing service quality and reliability, and creating sufficient channel capacity to meet the demands of new services before they become available.

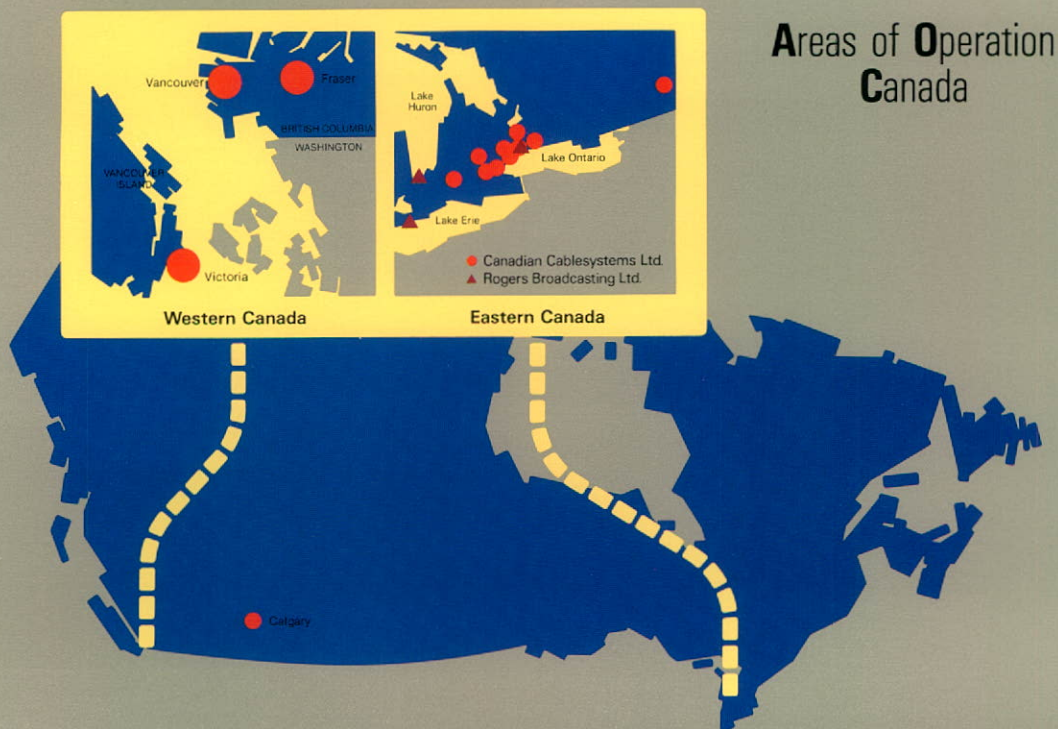
Capital requirements for construction of new plant, rebuild, and other purposes are expected to remain stable, or increase modestly in future years.

Regulation - A Changing Environment

Regulation in Canada and the entire broadcasting system is undergoing considerable scrutiny at the moment. The Minister of Communications has appointed a task force chaired by Gerald Caplan and Florian Savageau to make recommendations as to how to strengthen the system within the context of the significant technical and market changes that have recently occurred. The federal government has asked another task force to assess the value and effectiveness of regulatory agencies including the CRTC. The CRTC itself is conducting a number of reviews with respect to its policies and practices.

Rogers is an active participant in this dialogue and continues to push, in cooperation with the Canadian Cable Television Association, for ways in which the industry can better compete. For example, government policy allows individuals to own backyard earth stations and to receive any programs available. Yet the CRTC will not permit a cable subscriber to access some of those same signals. Similarly, the government will not allow cable companies to actively compete with video stores renting movies - by means of pay-per-view movies offered by the cable company. The Company will continue to press for changes in these areas.

9



Review of U.S. Operations

Overview

The Company's U.S. cable television systems are owned through two principal holding companies. The first, Rogers Cablesystems of America, Inc. (RCA) contains approximately 350,000 basic subscribers. Close to 60% of these subscribers are in the San Antonio, Texas system. The balance are held through ten smaller systems with an average of 15,000 basic subscribers each. The Company's other U.S. Group, Rogers U.S. Cablesystems, Inc. includes systems located in the greater Minneapolis area, the greater Portland, Oregon area and parts of Los Angeles and Orange Counties in Southern California.

The 1985 fiscal year and the first quarter of fiscal 1986 saw the completion of construction in the remaining cable television projects. During the 1985 year, an additional 122,000 homes were passed by cable and 21,000 basic subscribers were added.

The 1985 year was characterized by two strategic thrusts. Significant basic rate increases were implemented wherever possible, both in RUSCI and RCA. There were also increases in converter and pay television rates.

The second major thrust in the 1985 fiscal year was an intensive renegotiation of a number of the Company's franchises, particularly in the RUSCI Group. Working with municipalities the Company has been able to achieve many of the goals of the municipalities, but in a more economic manner. In certain cases, we have been able to eliminate unrealistic requirements imposed by the ordinan-

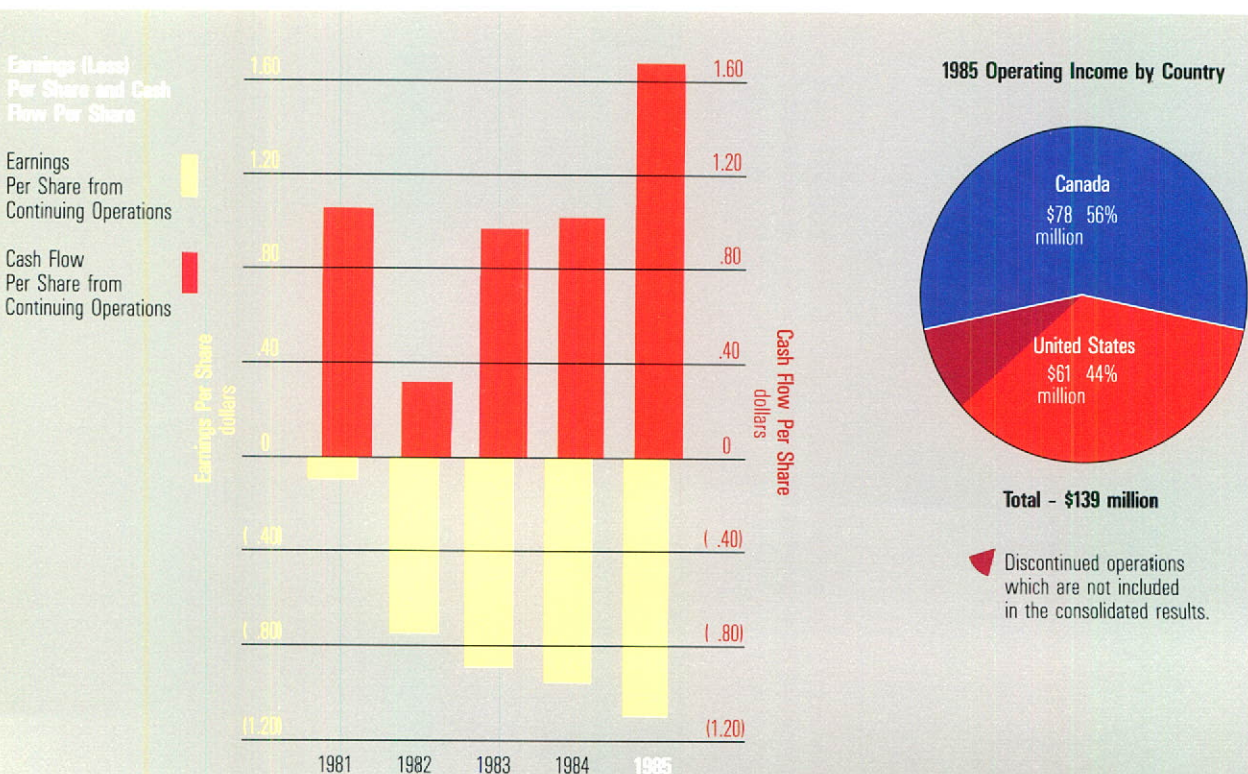
ces, and in other situations we have been able to defer various programs until the cable systems are better able to afford them. While much has been accomplished however, much remains to be done.

During 1985, there were several other events worthy of note. The Cable Communications Policy Act of 1984 became effective on December 29, 1984. This federal statute created an extensive regulatory framework for cable television systems covering a broad range of issues, and clarified some of the issues that exist between the franchisee and the municipality.

The general tone of the Act is deregulatory. It prohibits local authorities from imposing franchise fees in excess of 5% of gross system revenues annually, and deregulates rates for basic cable services, effective January, 1987 for existing franchises. Pay television services remain unregulated by local authorities. The Act also establishes complicated franchise renewal procedures which, to a certain extent, provide cable systems with due process protections. While they do not assure franchise renewal, they provide a greater measure of comfort than had previously existed. Many cable operators, including the Company, believe that this Act will have a favorable effect on the industry.

This year, the Company has conducted negotiations with a number of the cities which it serves - with a view towards reducing the requirements of certain ordinances. Much has changed since the beginning of the franchising process a number of years ago. Many of the optimistic forecasts of urban cable penetrations

10



have fallen short. Costs of servicing public benefits have risen to the point where many are no longer realistic.

Cable systems can finance public benefits when they can afford to pay for them. If revenues are not realized or if costs are higher than anticipated, then the ability of the cable system to perform is impaired. Generally speaking, cities' tend to understand these changed conditions and the Company has been successful in negotiating a number of "relief packages". We salute the cities' move in this direction.

Another event of note which occurred in the 1985 year, was the national trend, particularly in offering a number of pay services towards a lower number of pay services per household. In the Company's case, part of this trend can be explained by significant rate increases. Part is also due to a perceived similarity among the pay services by the consumer. A partial explanation may also be that the industry oversold its basic subscribers on multiple pay services. The reaction of the Company has been to implement new marketing approaches and to promote pay services which are sufficiently differentiated from the foundation pay service. In addition, with the deregulation of and anticipated increase in basic rates, it may be possible to moderate pay television rate increases.

Excluding the Southern California and Syracuse systems which are discontinued operations, a total of 1.1 million homes are located in areas franchised to the Company in the United States. At fiscal year end, almost 90% of these homes were passed by cable and there were

approximately 475,000 basic subscribers on service, at an average basic penetration of just under 50%. These subscribers were taking over 550,000 pay tv services resulting in an average pay-to-basic penetration level of 116%.

Total revenue from the U.S. for the year, excluding discontinued operations was \$164 million or an average revenue of over \$31 per subscriber per month. Discontinued operations contributed a further \$45 million of revenue (all figures are in Canadian dollars).

During the year, David E. Friesen, a Vice-President of the Company, was made President of RCA and RUSCI.



Robert M. Francis
Senior Vice-President
Finance

Rogers Cablesystems of America, Inc.

At fiscal year end, the San Antonio system passed more than 388,000 homes, almost 20,000 higher than at the beginning of the fiscal year. The system completed its primary construction in late 1983, but there is substantial continuing construction to accommodate population growth. Economically, the City of San Antonio is characterized by a stable economy and a very effective local government.

In early fiscal 1985, basic rates for the San Antonio system were increased 50% from \$6.00 to \$9.00 per month. This basic increase followed on the heels of pay television and other rate increases. These dramatic increases caused a decline in basic subscribers which began the year at 200,000 and ended the year at 193,000. By the end of October 1985, the system was once again at 200,000 subscribers. The financial impact of the rate increase outweighed the temporary loss of basic subscribers. However, the number of pay services, which stood at 330,000 at the beginning of the year had dropped below 300,000 by year end presenting a year end penetration of pay-to-basic of 153%. The decline has since stabilized and the number of pay services was well over 300,000 as at October 31st, 1985. The Company anticipates continuing growth in both basic and pay subscribers in fiscal 1986.

During the year the system became fully interactive using Zenith technology. An impulse pay-per-view service was launched in March 1985, allowing subscribers to purchase movies and other events on a pay-per-event basis by pressing

a button. This service has been extremely successful and another pay-per-view channel will be offered in the near future. The system was upgraded from 36 channel to 43 channel capacity at the beginning of the year, and now offers 33 basic channels plus 9 premium services and the pay-per-view channel. The emphasis during 1985 had been on improving signal quality, reliability and service. Standby power supplies have been installed throughout the system to prevent signal interruption during power outages.

The San Antonio system is now the Company's largest U.S. cable television system and one of the largest in the United States.

The remaining 150,000 subscribers in the RCA Group are in ten operating systems ranging from California in the west to Tennessee in the east. These systems are well-managed with experienced personnel. This group of systems has now completed all of its rebuilding, and the minimum capacity is 30 channels with most subscribers living in areas with a minimum of 35 channel capacity. Basic penetration of these systems is high and therefore the emphasis has been on generating more dollars per existing basic subscriber through the provision of additional pay and other services.

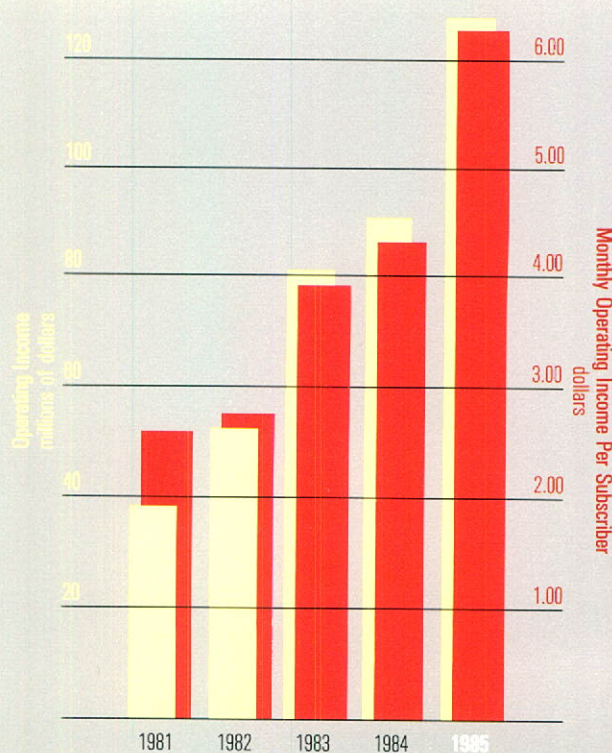
Substantial rate increases were implemented in most of these systems in 1985, without significant subscriber losses. Average revenue per subscriber per month across this group ranges currently from U.S. \$15 to U.S. \$25. This Group can be characterized as stable, with limited growth in household formation, but with a substantial

12

Operating Income and Monthly Operating Income Per Subscriber

Operating Income from Continuing Operations

Monthly Operating Income Per Subscriber from Continuing Operations



opportunity for improving total revenues and therefore operating cash flow.

Subsequent to year end, three of the systems in this group were sold subject to the regulatory approvals, namely the East Texas Group, Gainesville, Texas and McAlester, Oklahoma. A fourth system, the Tennessee Group, is presently being offered for sale. These four systems constitute approximately 28,000 basic subscribers.

The RCA Group posted good growth in operating cash flow in 1985 and expects a significant increase in fiscal 1986.

Capital expenditures in RCA have been declining over the past several years as the pace of construction activity decelerates. RCA has reached the position in its evolution where its cash flow from operations will be equal to its financing charges and its capital expenditure requirements, and beyond fiscal 1986 should be producing positive net cash flow.

Greater Portland, Oregon

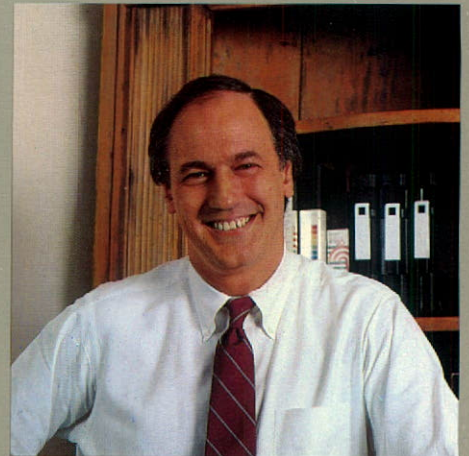
The Company's systems in Oregon encompass 118,000 homes in the City of Portland and approximately 72,000 homes in the adjacent East Multnomah County. The County system had completed its construction at the end of fiscal 1985. The City system was completed in fiscal 1984.

At year end, 43,000 basic subscribers were on service in the City system, a decline of approximately 2,000 subscribers from the beginning of the fiscal year. Pay services also declined from 59,000 at the beginning of the fiscal year to 46,000 at year end. The City system's operating results have been weak although they are improving steadily. The decline in basic subscribers and pay units was partly due to a nationwide trend to fewer pay services per home and to rate increases implemented by the system.

We are pleased to report that negotiations with the City of Portland in modifying our ordinance were successfully completed in the 1985 year, which, among other things, defer a number of access and local origination commitments over a six year period.

During the year, a new general manager was appointed, Mr. Rudi Engel, who had been managing the Company's cable system in Calgary, Alberta. He also has responsibility for the suburban system.

We expect in fiscal 1986 to regain basic subscribers lost during fiscal 1985 and to maintain



Philip B. Lind
Senior Vice-President
Programming and Planning

pay penetration proportionately. Significant expense reduction programs introduced during the last half of the fiscal year are yielding encouraging results to date. Other revenue opportunities, including pay-per-view and advertising, are beginning to contribute to operating revenues. Gross revenue for the fiscal 1986 year is expected to average close to U.S. \$27 per subscriber per month, and we anticipate a significant improvement in operating cash flow. The system does not anticipate needing any further funds.

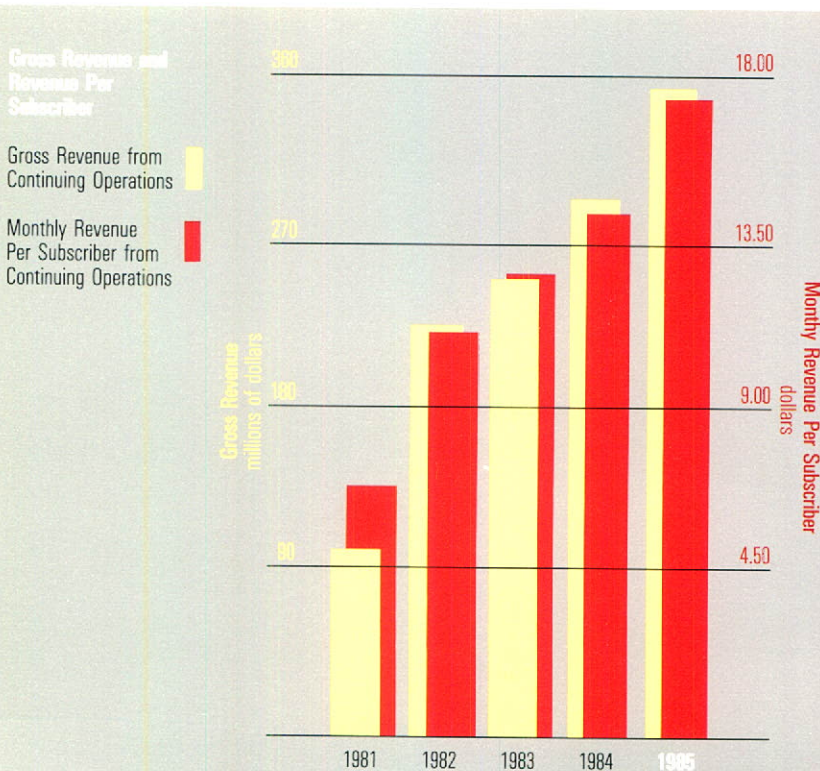
The suburban system was under construction during 1985. The system began the year with 14,000 basic subscribers and ended with just under 30,000, for a penetration of homes passed by cable at year end of 46%. Pay services at year end were just under 39,000 for a pay-to-basic penetration level of 130%. The response to cable during the construction period has been strong and we anticipate in the fiscal 1986 year an improvement in basic penetration and in the number of basic subscribers. Gross revenue per subscriber per month is similar to the City system. The Company is not expected to need additional funds beyond its present bank line.

The Multnomah system recently implemented a \$1 per month basic rate increase without significant impact on subscriber levels. In addition, an application has been filed with the local regulatory authority seeking relief from the obligation to construct a separate institutional network, as well as relief from other commitments.

Greater Minneapolis, Minnesota

The Company's franchised areas include 167,000 homes in the City of Minneapolis and 62,000 homes in five contiguous suburbs. The suburban system was completed in 1983 and the Minneapolis city system has just completed its primary construction. The two systems are technically interconnected and operate under a single regional management.

The southwest suburbs are served by a single cable, one-way addressable system offering 54 channels. Approximately 24,000 subscribers were taking basic service by year end, a decline of approximately 2,000 subscribers from the beginning of the fiscal year. Basic penetration declined over the year from approximately 45% to 39% of homes passed. In line with trends nationally, pay penetration declined from 160% of basic subscribers at the beginning of the year to 130% at year end, a decline of 10,000 pay services. In November 1984, a significant basic rate increase was implemented and part of the decline in subscribers can be attributed to this. In response to these subscriber trends, the Company has reassessed its marketing and has dramatically reduced its operating expenses. In addition, the partnership successfully negotiated a "relief package" with the five cities. Some of the key provisions of this agreement included reduction of franchise fees, and reduction of local programming costs, as well as provision for the Cities to fund certain of the Company's local programming commitments.



Subscribers are now growing and, in fiscal 1986, the system expects to increase its basic subscribers while maintaining its pay television services. Redirected marketing, which focuses on the value of the basic product is expected to improve basic penetration.

The system serving the City of Minneapolis also faced a very challenging year in fiscal 1985. On the one hand, the construction of the 1500 mile, technically sophisticated system was completed in November, 1985 on time and under budget. In many respects, it was a routine build.

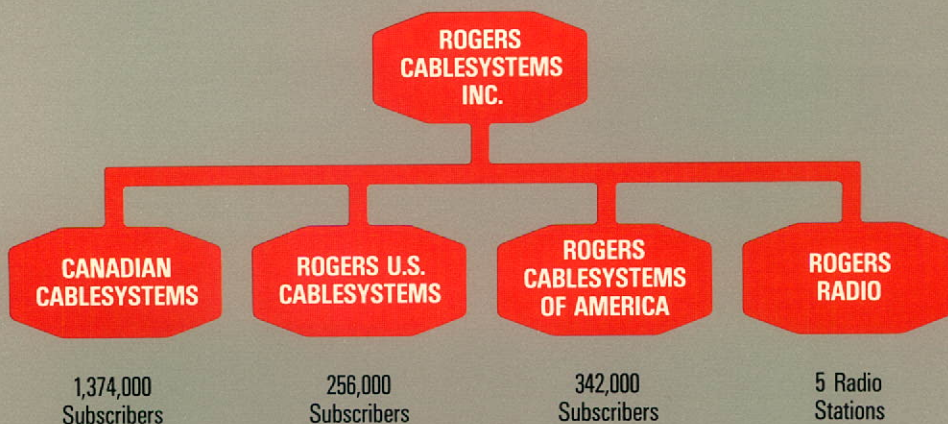
However, the acquisition of new basic and pay subscribers has been slower than anticipated. At the beginning of the fiscal year, almost 25,000 basic subscribers were on service, representing approximately 34% of homes passed. By year end, that figure had grown to over 36,000 basic subscribers. The system began the year with approximately 44,000 pay services sold and a pay-to-basic penetration of 175% but, by year end, this had declined to just under 39,000 services, representing a pay penetration of 107%. These results are disappointing.

The Minneapolis market has proven to be a difficult one in terms of attracting and keeping subscribers. This is partly due to the industry-wide trends mentioned above. In part, however, it is also due to rate increases instituted by the system. In similar fashion to the suburban system, the City system has been revamping its marketing programs, reducing its operating costs, and introduced an economy tier which has been well received. Again, similar to the suburban system,

the partnership is working with the City of Minneapolis to modify certain elements of the franchise ordinance relating to franchise fees, programming commitments and the institutional network.

We believe that cable penetration in the Twin Cities area is reaching a "critical mass" of acceptability and, in the upcoming year, the partnership expects to significantly increase its basic subscriber count as the system moves from a construction to an operating mode. The average monthly revenue in the fiscal 1986 year is expected to be almost U.S. \$27 per subscriber. Capital expenditures will be dramatically reduced from the 1985 year, reflecting the completion of construction.

Condensed Corporate Structure



Southern California

The Company's systems in Southern California are located in Los Angeles and Orange Counties and serve a total of 12 individual Cities plus unincorporated areas. Technically, the cluster of systems is operated as one integrated entity using multiple channel AML microwave links between local headends and hubs. The Southern California systems are also managed as a single entity, although geographically there are two clusters. The first cluster serves approximately 166,000 homes in the contiguous communities of Huntington Beach, Fountain Valley, Westminster, Stanton, Los Alamitos, Garden Grove and unincorporated areas in Orange County. The second cluster serves approximately 85,000 homes in the contiguous Cities of Downey, Bell Gardens, Lynwood, Paramount, Santa Fe Springs and La Mirada, all in Los Angeles County.

In the Orange County Group, approximately 62,000 subscribers were on service at fiscal year end representing a penetration level of 42%. This compares to 60,000 at the beginning of the fiscal year. Pay TV penetration in the Orange County Group declined over the year from approximately 105,000 services to 89,000 at year end. This figure represented a year end pay-to-basic penetration of 144%. As with other Company systems, basic rate increases and a general industry trend were partly responsible. At fiscal year end the Orange County system passed almost 150,000 homes out of the approximately 170,000 in the franchised area.

A portion of the Orange County system is held through a partnership called Dickinson Pacific Cablesystems (DPC) which is managed and controlled by Rogers. This portion of the Southern California Group is the oldest having begun construction in 1979 and we are pleased with its operating performance. Its revenue per home is unusually high and its margins are satisfactory. Its capital expenditure requirements have been reduced to modest levels and the system appears to be cash self sufficient. The Company has been attempting to purchase its partner's interest, but disagreements have arisen, and the parties are presently in litigation.

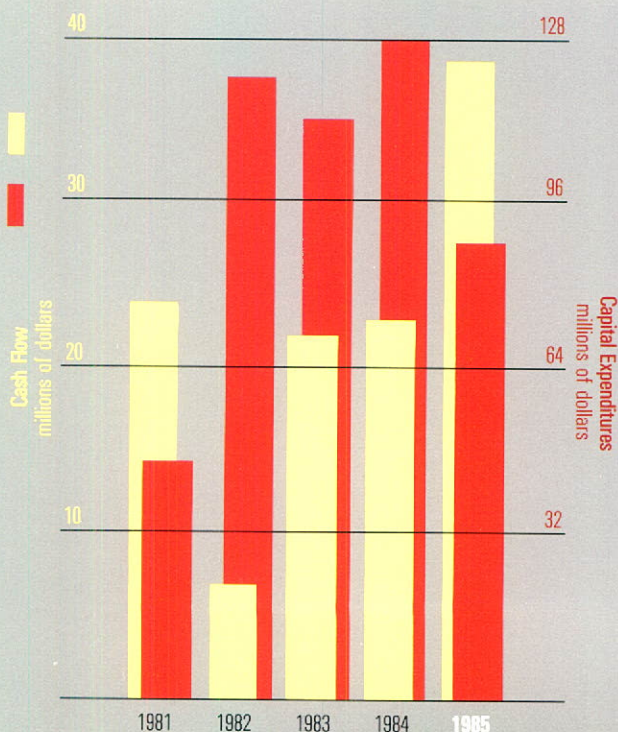
The balance of the Orange County Group is less mature than DPC, but its prospects are encouraging. We expect that, with the same number of years of operation, the balance of the Orange County franchises should perform as DPC has. The Company and the franchising authority in Garden Grove, Orange County recently settled a dispute involving the Company's rate increases instituted early in the 1985 year.

In the Los Angeles County Group, approximately 25,000 basic subscribers were on service at year end, compared with 26,000 at the beginning of the year. The year end figure represented a penetration of 32% of the 77,000 households passed by cable. Pay services sold in the Los Angeles County system stood at 40,000 at year end representing a pay-to-basic penetration of 159%.

The Los Angeles County Group has proved to be in many respects a challenge. This has required

Cash Flow and Capital Expenditures

Cash Flow from Continuing Operations
Capital Expenditures Related to Continuing Operations



different marketing techniques and managerial skills. We believe we are making good progress.

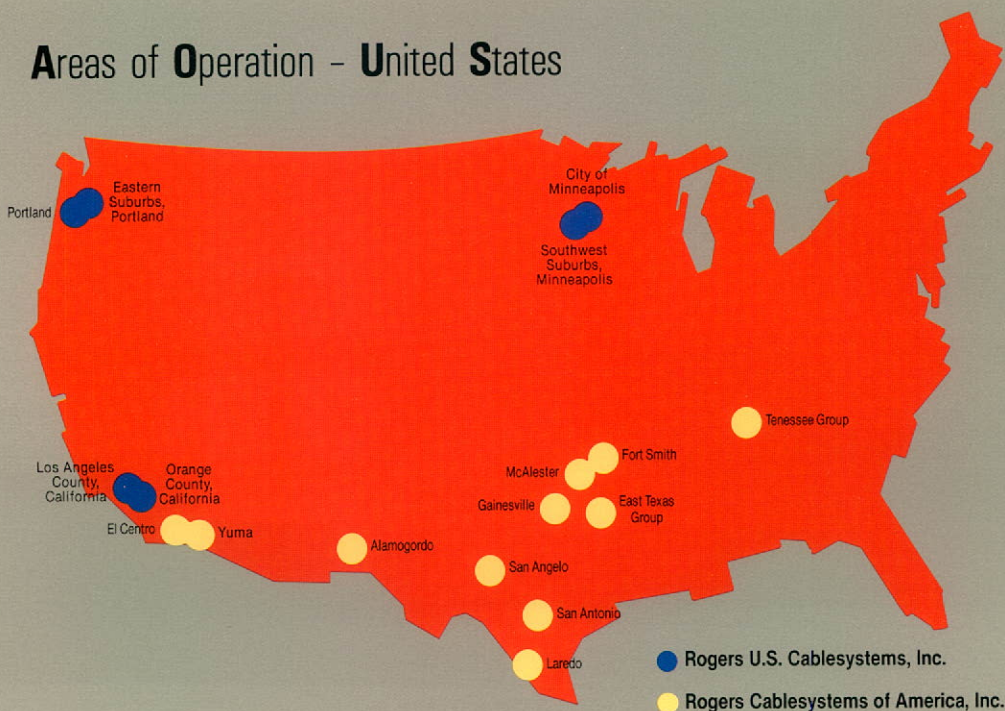
During the fiscal year 1985, the Company was able to negotiate substantial changes in the ordinances governing the Los Angeles County Group. These amendments, which generally took the form of one year agreements, permitted substantial reductions in access and local programming costs and fees, as well deferrals of the institutional network and two-way interactive capabilities of the system. The Company is currently working to extend these relief agreements.

Overall in the California Group, fiscal 1986 will see an increase in homes passed, due to the wiring of close to 8,000 units in apartment buildings. The Company expects an improved financial performance overall, as these systems move away from their primary construction phase, and as revamped marketing campaigns, including an emphasis on telemarketing, are introduced. The integration of the systems is permitting technical and administrative efficiencies. Additional revenues are being generated from regional advertising and pay-per-view.

The California Group however, will need additional equity funds in fiscal 1986 to provide for debt retirement and to provide working capital. Although the Company's operating cash flow is expected to increase substantially and although capital expenditures are budgeted to decline to modest levels in comparison to the size of the Group, there will be insufficient net cash flow to fund financing charges.

The California Group has been designated a discontinued operation and the Company is looking for a suitable purchaser. To date, while the Company has received offers to purchase the system, none have been satisfactory.

Areas of Operation - United States



Rogers Broadcasting Limited

Rogers Broadcasting Limited (RBL) owns and operates five radio stations in Southern Ontario: CFTR-AM and CHFI-FM, Toronto, CHYR-AM, Leamington, CKJD-AM and CJFI-FM, Sarnia.

During the 1985 fiscal year, Rogers Cablesystems Inc. purchased these five radio stations from its controlling shareholder. The purchase price of approximately \$49.4 million (plus closing adjustments for working capital) was non-cash and was satisfied by the issuance of approximately \$41.5 million of convertible preferred shares and the assumption of approximately \$7.9 million of bank debt. Closing was in November, 1985, but effective from September 30, 1985, and RBL is expected to contribute approximately \$15 million in revenue in 1986. In the current year, operating cash flow will exceed the interest and preferred dividend charges associated with the acquisition so RBL will be a positive contributor to cash flow from its effective date of acquisition.

Private radio broadcasting in Canada is a growing industry. Canadian industry revenues approached \$600 million for the year ending August 31, 1985, an increase of 63% since 1979. It is a competitive industry, particularly in large urban centres like Toronto. Yet the RBL radio stations perform above industry averages for similar operations. In the last three years, RBL has increased revenues by 42% and operating profit by 112%.

CFTR, 680 Toronto

The 1980's have seen outstanding audience growth for FM radio. Yet CFTR is an AM station whose management and staff have refused to accept the concept of declining audience levels for AM radio.

CFTR's strategic mix is entertaining personalities, research based market positioning, award winning news coverage, aggressive promotion and a substantial investment in signal improvement.

This mix has resulted in CFTR's audience growing by 63% over the last three years. This audience is largely under age 34, and CFTR now has more people listening to it each week than any other Canadian radio station.

CHFI-FM, 98.1 Toronto

The Rogers presence in radio began in 1960 when Ted Rogers acquired CHFI-FM. Now broadcasting from the CN Tower, CHFI-FM has emerged as a major factor in Toronto adult radio. CHFI-FM has the second largest audience in its target 25 to 49 age group.

In the last three years the gap between CHFI-FM and the number one station for this audience has narrowed and revenues have increased by 66%.

The Sarnia and Leamington Stations

Each of the three radio stations in this group is a market leader within their chosen audience objectives and the profit performance of the group has exceeded inflation and industry averages for the last three years.

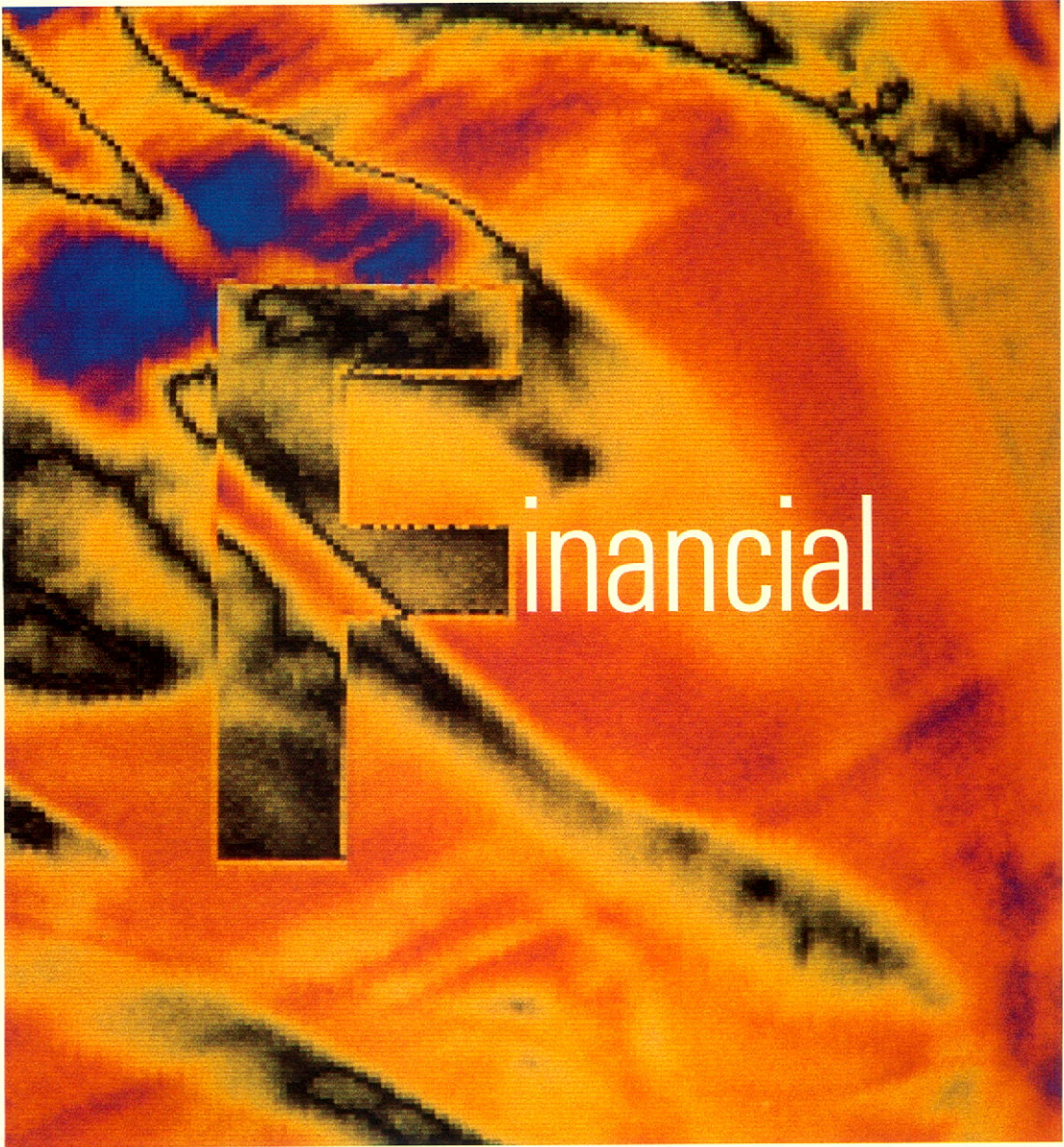
Long serving management has successfully guided these radio stations through some difficult market cycles. The Leamington area is directly affected by the fortunes of the automobile industry in nearby Windsor, and Sarnia's economy is dominated by the petro chemical industry.



James F. Sward, President (left), Rogers Broadcasting Limited and Tony P. Viner, Executive Vice President.

CHFI FM 98
Beautiful.





FINANCIAL REVIEW

Fiscal 1985 was a significant year in many respects for your Company. In Canada, it represented the first full year of marketing new, satellite delivered specialty channels, both separately and in conjunction with pay television. It marked a year of stabilization of operating costs and the ability in both countries to significantly increase basic rates. The first quarter of 1986 saw the completion of construction of the Company's new, urban cable television systems in the U.S. No new cable franchises were acquired or applied for. The Syracuse and Southern California operations continued to be reported as discontinued operations and, subsequent to the year end, the Syracuse system was sold. Certain of the Company's U.S. franchises were renegotiated, relieving the associated cable systems from a number of uneconomic requirements. In some cases this took the form of a deferral of their obligations to the municipalities, permitting them more economic flexibility to develop.

A. FRANCHISES AND SUBSCRIBERS

Subscriber growth over the fiscal 1985 year was the result of construction and internal growth.

CANADA

The Company's Canadian cable systems are wholly owned, except for a 45% interest in Western Cablevision Limited in British Columbia, and are all fully constructed. In the wholly owned systems, nearly 35,000 basic subscribers were added over the year, (an increase of 2.8%), primarily as a result of the growth in household formation (all figures exclude Western Cablevision). Total basic subscribers in wholly owned subsidiaries at year end were 1,280,000, giving a penetration rate of 85.1% of homes passed by cable. Total subscribers including Western were 1,374,000.

Subscribers leasing converters from the Company increased by 10,610 during the year to 182,705, or 14.3% of basic subscribers. Almost two-thirds of those subscribers lease the Rogers "Wonderbox" converter, at an increased monthly rate.

On September 1st, 1984, a number of satellite delivered specialty services were introduced to supplement the pay television services. During 1985, the wholly owned Canadian Group, on a net basis, sold an additional 132,000 supplementary services to its basic subscribers, including the specialty channels, a pay service or a combination of both.

At August 31, 1985 and excluding Western Cablevision, 27,000 subscribers were taking just specialty channels, 98,000 were taking just a pay service (which for First Choice* Superchannel subscribers includes as a bonus two specialty channels) and 79,000 were taking a pay service and all specialty channels. This is a penetration rate for all supplemental services as a percentage of basic services of 22%, compared with 11% at the beginning of the 1985 year.

The Canadian Group now has most of its subscribers concentrated into three clusters in Greater Toronto, in Southwestern Ontario and in Greater Vancouver, British Columbia. Approximately 88% of the Company's Canadian basic subscribers and 85% of potential homes are in these three clusters (see table next page).

UNITED STATES

The Company's U.S. operations experienced a levelling of growth during the 1985 fiscal year. Excluding discontinued operations, approximately 972,000 homes were passed by cable and 475,000 basic subscribers were on service at fiscal year end for a basic penetration of 49%. These subscribers were taking 552,000 pay services at year end for a "pay-to-basic" penetration of 116%. During 1985 21,000 basic subscribers were added to continuing operations. Pay services, however, declined by 46,000, a trend common to the industry.

FINANCIAL REVIEW

The Company's U.S. cable television systems are contained in two corporate groups - Rogers U.S. Cablesystems, Inc. (RUSCI) and Rogers Cablesystems of America, Inc. (RCA). The former contains primarily the cable systems which were franchised over the past five years. The latter holds the systems retained on the division of Rogers UA Cablesystems, Inc. on August 31st, 1983. Approximately 60% of subscribers in the RCA Group are contained in the San Antonio, Texas cable system. The balance of RCA is composed of ten systems in smaller communities spread across the Southwest and Southcentral United States.

Excluding discontinued operations, the Company has three major urban clusters in the United States, with the non-urban RCA systems together being a fourth although not geographically concentrated as are the other three (see table next page).

A summary of the six primary clusters the Company has (three in Canada and three in the U.S.) is shown below:

(as at August 31, 1985)

Cluster	Homes in Area	Homes Passed	Subscribers
Greater Toronto, Canada	666,000	664,000	554,000
Greater Vancouver, Canada (excluding Western Cablevision)	341,000	334,000	304,000
Southwestern Ontario, Canada	287,000	283,000	240,000
Greater San Antonio, Texas	425,000	389,000	193,000
Greater Minneapolis, Minnesota	235,000	192,000	60,000
Greater Portland, Oregon	192,000	183,000	73,000
	<u>2,146,000</u>	<u>2,045,000</u>	<u>1,424,000</u>
Total - All Systems (Excluding discontinued operations)	<u>2,713,000</u>	<u>2,588,000</u>	<u>1,849,000</u>
Six Clusters as a percent of Total	79%	79%	77%

As can be seen the six clusters account for over three-quarters of the Company's homes and subscribers on service. Three of the five largest individual cable television systems in the world are now owned by your Company - in Toronto, Vancouver and San Antonio. All are fully constructed.

The subscriber position at August 31, is shown in the following table which represents 100% of subscribers in all systems in which the Company holds an interest.

	Homes in Licensed or Franchised Areas (est.)	Homes Passed by Cable	Basic Cable Subscribers (penetration of homes passed)	Pay TV Units (pay to basic cable penetration)
CANADA	1,630,000	1,616,000	1,374,000 (85.0%)	296,000 (21.5%)
UNITED STATES	1,083,000	972,000	475,000 (48.9%)	552,000 (116.2%)
SUB-TOTAL	<u>2,713,000</u>	<u>2,588,000</u>	1,849,000 (71.4%)	848,000 (45.9%)
DISCONTINUED OPERATIONS	322,000	291,000	123,000	163,000
TOTAL	<u>3,035,000</u>	<u>2,879,000</u>	<u>1,972,000</u>	<u>1,011,000</u>

B. FINANCIAL RESULTS

Operations Summary

The following is a summary of financial statistics for continuing operations by region.

	CANADA	UNITED STATES	OTHER	TOTAL
Revenue (\$000)	\$189,796	\$164,369	\$	\$354,165
Per Subscriber per Month Revenue, Net of Purchased programming (\$000)	\$12.52	\$31.57		
Per Subscriber per Month	169,828	125,738		295,566
Per Subscriber per Month	\$11.21	\$24.15		
Operating Costs (\$000)	91,520	75,658	289	167,467
Operating Income (\$000)	78,308	50,080	(289)	128,099
Per Subscriber per Month	\$ 5.17	\$ 9.62		
Percent of net revenue	46.1%	39.8%		
Capital Expenditures (\$000)	34,369	53,919		88,288

Canadian Operations

Gross revenue increased by \$25.7 million, to \$189.8 million, an increase of 15.7%. Approximately 65% of this increase is attributable to an increase in basic revenue with the balance coming from pay television. Of this increase in basic revenue, 80% was due to rate increases received during the year which averaged 12%. Specialty services, which were launched in September 1984, contributed to the growth in pay TV revenue which represented 19.8% of gross revenue in fiscal 1985.

Gross revenue per subscriber grew to \$12.52 per month from \$11.12 in 1984. The Company expects that revenue and revenue per subscriber in fiscal 1986 will continue to grow partly due to the impact of rate increases approved in late fiscal 1985 and early 1986.

Operating costs were below the level of fiscal 1984 and when combined with revenue increases during the year contributed to an increase in operating income to \$78.3 million (46.1% of net revenue) compared to \$56.8 million (38.2% of net revenue) in fiscal 1984. Operating income per subscriber grew to \$5.17 per month in 1985 from \$3.85 per month in 1984, an increase of 34%.

Capital expenditures in 1985 amounted to \$34.4 million, a reduction of \$22.8 million from 1984. The 1984 year, however, included over \$22 million of expenditures for home terminal equipment, including addressable converters/descramblers, related to the introduction of pay television services.

United States Operations (all amounts are in Canadian dollars unless otherwise noted)

Gross revenue excluding discontinued operations increased by \$38.4 million in 1985 to \$164.4 million, an increase of 31% over the 1984 level of \$126.0 million. This increase from continuing operations was mainly due to rate increases for basic service received during the year, the most significant being a U.S. \$3.00 per month increase implemented in December, 1984 in San Antonio.

F I N A N C I A L R E V I E W

The significance of these rate increases is also reflected in gross revenue per subscriber per month which increased from \$26.39 in 1984 to \$31.57 in 1985, an increase of \$5.18 or 20%.

Operating income from continuing operations increased to \$50.1 million in 1985 compared to \$32.5 million in 1984, an increase of 54%.

Capital expenditures during 1985 were \$53.9 million for continuing operations, compared to \$70.3 million in 1984. This reduction of \$16.4 million is attributable to the completion of new cable construction. For fiscal 1986, capital expenditures are again expected to be lower, and are estimated to be 60% of the fiscal 1985 level.

C. DISCONTINUED OPERATIONS

Effective August 31, 1984 the Board of Directors of the Company determined that the Company would offer for sale its cable television systems in Syracuse, New York and in Los Angeles and Orange Counties, California. The Syracuse system was sold effective October 31, 1985 and it is anticipated that the California complex will be sold by August 31, 1986.

To reflect this decision, the results of operations of these systems have been segregated in the 1984 Consolidated Statement of Income and the after tax loss is included in the Consolidated Statement of Income under the caption "loss from discontinued operations." For a more detailed discussion, see Note 5 to the consolidated financial statements. The operating review and most statistics in this report do not include results for these systems.

To determine the likely effect of these sales on future operations, the Company carried out a review of estimated proceeds on sale. Adjustments were made for anticipated operating losses to the date of sale. The ultimate sale of these systems should have no material adverse impact on future operating results.

D. NET INCOME

Consolidated interest expense increased to \$101.3 million from \$80.8 million in the previous year, largely resulting from an increase in the volume of funds borrowed to finance cable construction. Depreciation and amortization expense increased to \$63.5 million from \$49.8 million the previous year.

The loss from continuing operations was \$22.5 million (\$1.11 per share) up from \$18.7 million (\$0.97 per share) the previous year. Discontinued operations posted a restated loss of \$12.2 million in 1984. There was no comparable item in fiscal 1985. There was also an extraordinary loss in 1984 of \$3.7 million reflecting the loss on the sale of the Company's Irish interests.

Funds derived from continuing operations reached \$38.6 million in 1985 compared to \$23.1 million in 1984. Capital expenditures related to continuing operations declined to \$88.3 million compared with \$128.1 million in 1984. The difference between the cash generated from operations and the capital expenditures was funded largely by an increase in long term debt.

E. FINANCING

Long term debt of the consolidated group is summarized as follows:

	August 31	
	<u>1985</u>	<u>1984</u>
	\$000's	
Rogers Cablesystems, Inc. (Unconsolidated)	\$164,110	\$130,417
Canadian Cablesystems Limited	282,183	263,905
Rogers U.S. Cablesystems, Inc.	99,373	79,277
Rogers Cablesystems of Canada Limited*	224,008	181,636
Rogers Cablesystems of America, Inc.	12,559	9,579
	<u>\$782,183</u>	<u>\$664,814</u>
Floating rate debt	\$329,554	\$ 52,686
Fixed rate debt	452,629	612,128
	<u>\$782,183</u>	<u>\$664,814</u>

* Guaranteed by Rogers Cablesystems of America, Inc.

Complete details of the major loans are shown in note 7 of the Company's consolidated financial statements.

As the table shows, total long term debt increased by \$117.4 million, from \$664.8 million at the end of 1984. Most of the Company's debt is U.S. dollar denominated. Of the total increase, \$34.8 million was a result of foreign exchange conversion due to the continuing strength of the U.S. dollar.

The Parent Company has renegotiated its corporate loans with its bankers to provide for an increase of U.S. \$25 million in its credit line and the extension of the term of that line to September 1, 1986. The increased line will, among other things, provide the funds necessary for the California Group.

In order to provide sufficient operating capital, the Company invested a further U.S. \$4 million in the equity of the Portland partnership and, as a result, has increased its equity ownership of this system to 82%.

During the 1986 fiscal year, the Parent Company loans will be substantially reduced. Proceeds from the sale of the Syracuse system (just under U.S. \$20 million) and from the RCA equity issue (approximately U.S. \$40 million) have already been received at the time of writing of this report and have been applied to reduce corporate debt.

Further reductions in consolidated debt are expected from the sale of the Company's interests in three (and possibly four) cable systems in RCA, and from Cableshare, Inc. Should an acceptable offer for the California Group be received, those net proceeds would be applied to reduce corporate debt.

FINANCIAL STATISTICS

Cable Subscriber Growth*

	Canada	United States	Discontinued Operations	Ireland	Total
1985					
Homes in licensed areas	1,629,128	1,083,417	321,961	—	3,034,506
Homes passed by cable	1,614,904	972,319	291,443	—	2,878,666
Subscribers	1,374,048	474,553	122,907	—	1,971,508
Basic penetration	85.1%	48.8%	42.2%	—	68.5%
Pay TV subscription units	295,686	552,496	163,305	—	1,011,487
Pay-to-basic penetration	21.5%	116.4%	132.9%	—	51.3%
1984					
Homes in licensed areas	1,596,000	994,900	314,100	—	2,905,000
Homes passed by cable	1,574,626	850,245	277,193	—	2,702,064
Subscribers	1,335,853	454,025	122,359	—	1,912,237
Basic penetration	84.8%	53.4%	44.1%	—	70.8%
Pay TV subscription units	149,881	598,828	187,623	—	936,332
Pay-to-basic penetration	11.2%	131.9%	153.3%	—	49.0%
1983					
Homes in licensed areas	1,584,000	954,000	315,000	148,000	3,001,000
Homes passed by cable	1,565,057	645,970	223,230	142,578	2,576,835
Subscribers	1,315,956	366,466	94,612	110,418	1,887,452
Basic penetration	84.1%	56.7%	42.4%	77.4%	73.2%
Pay TV subscription units	138,952	472,682	132,979	—	744,613
Pay-to-basic penetration	10.6%	129.0%	140.6%	—	39.5%
1982					
Homes in licensed areas	1,555,000	770,000	315,000	147,000	2,787,000
Homes passed by cable	1,537,612	520,259	165,000	141,059	2,363,930
Subscribers	1,285,898	293,162	67,604	109,710	1,756,374
Basic penetration	83.6%	56.3%	41.0%	77.8%	74.3%
Pay TV subscription units	—	359,138	82,704	—	441,842
Pay-to-basic penetration	—	122.5%	122.3%	—	25.2%
1981					
Homes in licensed areas	1,500,000	183,000	196,000	138,000	2,017,000
Homes passed by cable	1,485,554	3,000	106,244	137,236	1,732,034
Subscribers	1,243,692	1,112	43,094	109,867	1,397,765
Basic penetration	83.7%	37.1%	40.6%	80.1%	80.7%
Pay TV subscription units	—	755	49,692	—	50,447
Pay-to-basic penetration	—	67.9%	115.3%	—	3.6%

* Represents cable systems in which the Company held an interest at that fiscal year end. However, only the systems in UA-Columbia Cablevision, Inc. that the Company ultimately retained are shown for 1982.

FINANCIAL STATISTICS

Five Year Financial History

	1981	1982	1983	1984	1985
	\$000's except per share amounts				
Income and Cash Flow					
Revenue	\$101,389	\$172,697	\$250,561	\$294,779	\$354,165
Operating income	39,289	52,902	80,806	91,461	128,099
Income (loss) from continuing operations	(958)	(12,225)	(16,413)	(18,663)	(22,517)
Equity in earnings of Famous Players	2,424	—	—	—	—
Income (loss) from RUAC operations not retained	—	(225)	3,919	—	—
Loss from discontinued operations	(2,715)	(4,099)	(5,905)	(12,181)	—
Income (loss) before extraordinary items	\$(1,249)	\$(16,549)	\$(18,399)	\$(30,844)	(\$22,517)
Cash flow from continuing operations	\$ 21,548	\$ 7,002	\$ 21,516	\$ 23,050	\$ 38,587
Capital expenditures related to continuing operations	46,292	120,326	112,116	128,131	88,288
Balance Sheet					
Fixed Assets	\$147,715	\$352,329	\$425,926	516,576	\$ 562,579
Investments	99,635	80,658	77,673	82,228	93,472
Other assets	32,833	32,045	55,967	29,382	36,939
Goodwill, subscribers and deferred charges	93,892	238,577	248,027	249,679	267,239
	<u>\$374,075</u>	<u>\$703,609</u>	<u>\$807,593</u>	<u>\$877,865</u>	<u>\$ 960,229</u>
Long term debt	\$132,616	\$449,265	\$559,022	\$664,814	782,183
Subscriber prepayments and other payables	44,695	69,627	88,607	95,728	88,285
Deferred taxes	23,057	21,995	20,468	7,929	—
Minority interest	2,287	5,369	2,829	2,614	2,103
Equity	171,420	157,353	136,667	106,780	87,658
	<u>\$374,075</u>	<u>\$703,609</u>	<u>\$807,593</u>	<u>\$877,865</u>	<u>\$960,229</u>
Average shares outstanding (thousands)	20,561	22,037	22,126	22,584	22,979
Per share					
Income (loss) from continuing operations*	\$ (0.09)	\$ (0.76)	\$ (0.90)	\$ (0.97)	\$ (1.11)
Cash flow from continuing operations	1.05	0.32	0.97	1.02	1.68
Shareholders' equity**	6.09	5.10	4.11	2.78	1.94

*Net of dividends on preferred shares

**Excluding preferred shares

FINANCIAL STATISTICS

Share Price And Volume (Calendar Year)

TORONTO AND MONTREAL STOCK EXCHANGES (\$CDN)	CLASS A			CLASS B		
	High	Low	Shares Traded	High	Low	Shares Traded
1982 1st quarter	\$10.00	\$ 6.88	288,390	\$ 9.88	\$ 6.75	422,120
2nd quarter	9.00	5.75	101,940	9.00	5.88	229,300
3rd quarter	9.00	5.13	106,400	9.00	5.25	394,900
4th quarter	9.75	7.00	168,731	9.88	7.00	458,522
1983 1st quarter	13.25	8.25	200,164	10.38	8.13	1,431,870
2nd quarter	14.88	11.63	200,136	15.00	11.63	1,515,104
3rd quarter	14.00	10.00	123,026	14.13	10.38	1,739,271
4th quarter	11.30	9.25	107,407	11.50	10.00	851,820
1984 1st quarter	13.00	8.50	107,697	13.75	9.00	3,655,054
2nd quarter	8.50	7.13	104,229	9.38	7.38	711,561
3rd quarter	7.88	5.50	147,391	8.63	5.63	741,613
4th quarter	7.25	5.50	267,789	7.25	5.63	1,575,365
1985 1st quarter	10.38	6.63	400,038	11.38	6.88	3,729,920
2nd quarter	11.75	9.00	188,845	13.88	9.88	2,484,195
3rd quarter	13.00	9.50	270,261	15.38	11.13	5,548,808

NASDAQ (\$US)*

1982 1st quarter	8.38	5.38	2,119,365
2nd quarter	7.31	4.56	1,234,565
3rd quarter	7.38	4.00	1,566,599
4th quarter	8.00	5.75	2,214,313
1983 1st quarter	10.88	6.50	2,442,932
2nd quarter	12.25	9.38	2,060,367
3rd quarter	11.50	8.38	1,101,526
4th quarter	9.25	7.88	779,953
1984 1st quarter	11.00	7.00	1,801,776
2nd quarter	7.38	5.75	451,983
3rd quarter	6.63	4.38	1,160,902
4th quarter	5.63	4.13	1,418,843
1985 1st quarter	8.13	5.25	4,234,064
2nd quarter	10.25	7.19	4,656,638
3rd quarter	11.38	8.00	6,851,721

Share Price**	1981	1982	1983	1984	1985 to Oct. 31
Canada Class A high (\$Cdn)	\$17.88	\$10.00	\$14.88	\$13.00	\$13.00
low	6.38	5.13	8.25	5.50	6.63
Class B high	16.25	9.88	15.00	13.75	15.38
low	6.38	5.25	8.13	5.63	6.88
U.S.* Class B high (\$U.S.)	13.25	8.38	12.25	11.00	11.38
low	5.63	4.00	6.50	4.13	5.25

* Over-the-counter market. Representative lowest bid prices and highest ask prices.

FINANCIAL STATEMENTS

ROGERS CABLESYSTEMS INC., CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME

YEAR ENDED AUGUST 31, 1985

	1985	1984
		(As restated note 2)
	\$000's	
Revenue		
Cable services	\$214,149	\$181,367
Rental of converters	27,972	20,300
Pay television	112,044	93,112
	354,165	294,779
Less cost of pay television	58,599	46,840
	295,566	247,939
Operating, general and administrative expenses	167,467	156,478
Operating income	128,099	91,461
Depreciation and amortization	63,475	49,791
Interest on long term debt	100,800	80,632
Other interest	478	158
	(36,654)	(39,120)
Share of income (losses) of associated companies	(714)	206
Other income	1,053	1,351
Investment income	4,666	5,364
Loss before the undernoted items	31,649	32,199
Income taxes (note 10)		
Current	972	120
Deferred reduction	(7,956)	(10,848)
	(6,984)	(10,728)
Loss before the following	24,665	21,471
Minority interest in loss of subsidiary companies	(2,148)	(2,808)
Loss from continuing operations	22,517	18,663
Loss from discontinued operations (note 5)		12,181
Loss before extraordinary item	22,517	30,844
Loss on sale of Dublin Cablesystems Limited		3,744
LOSS FOR THE YEAR	\$ 22,517	\$ 34,588
LOSS PER SHARE (note 11)		
From continuing operations	\$1.11	\$0.97
Before extraordinary item	\$1.11	\$1.52
Loss for the year	\$1.11	\$1.68

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED AUGUST 31, 1985

	1985	1984
		(As restated notes 2 and 5)
	\$000's	
SOURCE OF FUNDS		
Operations		
Loss from continuing operations	\$(22,517)	\$(18,663)
Items not affecting funds		
Depreciation and amortization	63,475	49,791
Deferred income tax reduction	(7,956)	(10,848)
Interest on Zero Coupon Notes	7,019	5,784
Share of losses (income) of associated companies	714	(206)
Minority interest in loss of subsidiary companies	(2,148)	(2,808)
	38,587	23,050
Increase in long term debt	75,574	72,106
Increase in capital stock (net)	4,554	2,654
Increase in accounts payable and accrued liabilities and prepayments for services		4,258
Decrease in accounts receivable, inventories and prepaid expenses		724
Proceeds on sale of investments	738	
Decrease in investments	3,241	
Decrease in other assets	1,822	
Proceeds on sale of Dublin Cablesystems Limited		5,654
Foreign currency translation adjustment		7,701
	124,516	116,147
USE OF FUNDS		
Additions to fixed assets	88,288	128,131
Decrease in accounts payable and accrued liabilities and prepayments for services	4,580	
Increase in accounts receivable, inventories and prepaid expenses	43	
Increase in deferred charges	2,368	36
Dividends paid	3,078	3,186
Increase in investments		13,850
Increase in investment in discontinued operations	11,566	669
Increase in other assets		2,475
Foreign currency translation adjustment	477	
Other		658
	110,400	149,005
INCREASE (DECREASE) IN FUNDS	14,116	(32,858)
FUNDS (DEFICIENCY) AT BEGINNING OF YEAR		
As previously reported	(2671)	32,202
Funds included in discontinued operations (note 5(a))	(192)	(2,207)
As restated	(2,863)	29,995
FUNDS (DEFICIENCY) AT END OF YEAR	\$ 11,253	\$ (2,863)

Funds are defined as cash and short term notes and marketable securities less bank advances.

FINANCIAL STATEMENTS

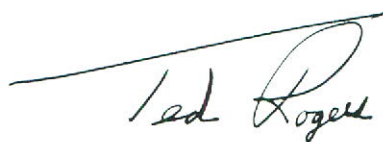
CONSOLIDATED BALANCE SHEET AS AT AUGUST 31, 1985

ASSETS	1985	1984
		(As restated notes 2 and 5)
		\$000's
Fixed assets (note 3)	\$ 562,579	\$516,576
Subscribers	181,082	174,026
Excess of carrying value of subsidiaries over value of underlying net assets acquired, less amortization	47,149	47,406
Investments (note 4)	54,869	56,676
Discontinued operations (note 5)	38,603	25,552
Deferred charges (note 6)	20,825	19,891
Cash and short term notes	11,253	
Accounts receivable	8,733	10,893
Inventories of materials at the lower of cost and net realizable value	5,370	3,778
Prepaid expenses	2,540	3,846
Deferred foreign exchange	18,183	8,356
Other assets (note 7)	9,043	10,865
	<u>\$960,229</u>	<u>\$877,865</u>

Approved by the Board



Director



Director

FINANCIAL STATEMENTS

LIABILITIES AND SHAREHOLDERS' EQUITY

	1985	1984
		(As restated notes 2 and 5)
	\$000's	
Long term debt (note 8)	\$ 782,183	\$664,814
Bank advances		2,863
Accounts payable and accrued liabilities	64,452	67,986
Prepayments for services	23,833	24,879
Deferred income taxes		7,929
Minority interest	2,103	2,614
	872,571	771,085
Shareholders' equity		
Capital stock (note 9)	81,895	77,341
Reorganization surplus	6,235	6,235
Contributed surplus	63,200	63,200
Equity adjustment from foreign currency translation	4,092	2,173
Deficit	(67,764)	(42,169)
	87,658	106,780
	\$960,229	\$877,865
Long term operating leases (note 14)		
Commitments (note 15)		
Contingent liabilities (note 16)		
Subsequent events (note 18)		

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF RETAINED EARNINGS (DEFICIT)

YEAR ENDED AUGUST 31, 1985

	1985	1984
	\$000's	
RETAINED EARNINGS (DEFICIT) AT BEGINNING OF YEAR		
As previously reported	\$ (20,957)	\$ 12,476
Adjustment for change in accounting policies (note 2)	(21,212)	(16,871)
As restated	(42,169)	(4,395)
Loss for the year	(22,517)	(34,588)
	(64,686)	(38,983)
Dividends on preferred shares	(3,078)	(3,186)
DEFICIT AT END OF YEAR	\$ (67,764)	\$(42,169)

AUDITORS' REPORT

To the Shareholders of Rogers Cablestems Inc.

We have examined the consolidated balance sheet of Rogers Cablestems Inc. as at August 31, 1985 and the consolidated statements of income, retained earnings (deficit) and changes in financial position 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, 1985 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, after giving retroactive effect to the change in accounting for pre-maturity costs and franchise costs as described in note 2, on a basis consistent with that of the preceding year.

Toronto, Canada
November 12, 1985
(November 20, 1985 as to Note 18)



Chartered Accountants

FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AUGUST 31, 1985

1. ACCOUNTING POLICIES

(a) Consolidation

- (i) The consolidated financial statements include the accounts of the Company and all of its subsidiaries.
- (ii) Investments in companies and other business ventures in which the Company has a substantial ownership but not greater than 50% are accounted for on the equity basis providing that the Company is able to exercise significant influence over the affairs of these companies. Accordingly, the Company's equity in the earnings of these companies is included in the consolidated statement of income.

(b) Capitalization policy

Costs incurred directly in connection with the negotiation and preparation of new cable franchise applications are capitalized until the franchise has been awarded by the municipality. These costs are included in deferred charges. If the application is successful, the costs are amortized over the life of the initial franchise. All costs related to unsuccessful applications are charged to expense when the franchise has been awarded to another applicant.

During the development and pre-operating phases of new cable systems, all costs including interest are capitalized. During the pre-maturity phase a portion of certain fixed operating expenses including interest costs are capitalized and amortized. The pre-maturity period generally ends at the earlier of two years from the time of the first subscriber revenue and the completion of construction of the distribution system. The pre-maturity period may extend beyond two years for systems being built in large urban areas.

During construction of new cable systems or during the rebuilding of cable systems, direct costs plus a portion of interest and overhead costs are capitalized.

Leases that transfer substantially all of the benefits and risks of ownership are accounted for by the Company as capital leases. Accordingly, the asset values and related liabilities are recorded in the financial statements.

Interest capitalized during the year aggregated \$1,050,000 (1984, \$2,205,000).

(c) Depreciation

The cable plant and other fixed assets are depreciated over their estimated useful lives as follows:

Buildings	- 5% diminishing balance
Towers and head-ends	- 5% and 6-2/3% straight line
Distribution cable	- 5% and 6-2/3% straight line
Subscriber drops and devices	- 5% and 6-2/3% straight line
Computer equipment and development costs	- mainly 20% straight line
Converters and descramblers	- 20% and 13-1/2% straight line
Other equipment	- mainly 20% and 30% diminishing balance
Leasehold improvements	- over the term of the lease
Pre-maturity costs	- 6-2/3% straight line

FINANCIAL STATEMENTS

(d) Income and expenses

Income from cable, rental of converters and pay television services includes earned subscriber service revenue and charges for installations and connections. Subscriber service fees paid in advance are taken into income as earned. The cost of the initial cable subscriber installation is capitalized as part of the distribution system. Costs of all other connections and disconnections are expensed.

(e) Foreign exchange

(i) The accounts of foreign subsidiary companies, all of which are considered to be self sustaining, are translated into Canadian dollars on the following basis:

Assets and liabilities at the year end rates of exchange.

Revenue and expense items at the average exchange rate for the year.

Exchange gains or losses arising from the translation of the financial statements of self sustaining foreign subsidiary companies are deferred and included in a separate component of shareholders' equity.

(ii) Monetary assets and liabilities of the Company and its Canadian subsidiary companies, denominated in foreign currencies, are translated into Canadian dollars at the year end rates of exchange. Exchange gains or losses on translating non-current monetary assets and liabilities are deferred and amortized over the remaining life of the respective assets or liabilities. In those instances when monetary assets or liabilities act as a hedge of a foreign currency item or a foreign currency net asset/liability position, gains or losses on translation of the monetary asset or liability are deferred and included in a separate component of shareholders' equity.

(iii) All other exchange gains or losses are included in income.

The following table shows the changes in the equity adjustment from foreign currency translation for the years ended August 31, 1985 and 1984:

	1985	1984
	\$000's	
Balance at beginning of year	\$2,173	\$(2,850)
Net effect of foreign currency translation adjustments	1,919	5,023
Balance at end of year	<u>\$ 4,092</u>	<u>\$2,173</u>

(f) Deferred charges

Deferred charges include various expenditures the benefit of which will relate to future years. These costs are amortized over various periods up to fifteen years.

(g) Subscribers and excess of carrying value of subsidiaries over value of underlying net assets acquired ("goodwill")

Effective April 1, 1974, generally accepted accounting principles require a determination of the fair value of intangible assets acquired and the value of items designated as goodwill must be amortized over a period not exceeding forty years.

Prior to September 1, 1979 the excess of the purchase price over the estimated fair value of net assets acquired was not separated between amounts paid for cable subscribers and for goodwill. Since September 1, 1979 the Company has determined the cost of subscribers in each purchase. This amount is not being amortized but will be written down pro rata if the subscriber base falls below the level capitalized at the date of acquisition. Such a write down has not been necessary to date.

FINANCIAL STATEMENTS

Goodwill acquired before April 1, 1974 in the amount of \$19,006,000 will not be amortized but will be written down if there should be a diminution in its value. In accordance with generally accepted accounting principles amounts designated as goodwill acquired after April 1, 1974, totalling \$32,453,000 at August 31, 1985, are being amortized over forty years from the dates of acquisition. Amortization of goodwill for the year amounted to \$826,000 (1984, \$839,000).

(h) Canadian program production lending fund

Funds advanced in relation to film production ventures are capitalized and are included in investments.

(i) Research and development costs

Research costs are expensed in the year incurred. Computer software development costs are deferred and amortized on a straight line basis over periods not exceeding five years commencing from the date the computer software is first used. Development costs are charged to expense in total where projects are deemed unfeasible, or in part, when project costs are deemed excessive in amount.

(j) Pensions

Current service pension costs are expensed in the year incurred. Based on the most recent actuarial valuations, the Company has no liability for unfunded past service pension liabilities.

(k) Income taxes

The Company records income tax expense on the tax allocation basis. Tax deferred as a result of claiming, for tax purposes, amounts different from those recorded in the accounts are charged against current operations and recorded in the balance sheet as deferred income taxes. Timing differences consist principally of tax depreciation in excess of book depreciation, interest capitalized for accounting purposes and expensed for tax purposes and the capitalization of certain costs for accounting purposes and expensing them for tax purposes.

No provision is made for withholding taxes on the unremitted earnings of foreign subsidiaries as these earnings are expected to be reinvested in the jurisdiction earned.

2. ACCOUNTING CHANGE

Effective September 1, 1984, the Company amended its accounting for pre-maturity costs and franchising costs.

Prior to September 1, 1984, a portion of all expenses including interest were capitalized during the pre-maturity period. Effective September 1, 1984, a portion of only certain specified fixed expenses including interest are capitalized as pre-maturity costs.

Prior to September 1, 1984, all direct costs incurred in connection with the application for new cable franchises were capitalized to the extent that such costs did not exceed the estimated net realizable value of all cable franchises obtained. Effective September 1, 1984, direct costs incurred in connection with the application for new cable franchises are capitalized only if the application is successful. All costs related to unsuccessful applications are charged to expense.

The Company believes these revised accounting policies are those most commonly followed in the cable industry.

FINANCIAL STATEMENTS

These changes have been applied on a retroactive basis with the result that the opening deficit has been increased by \$21,212,000 and the loss for 1985 has been increased by \$1,452,000 (1984, \$4,341,000). The 1984 financial statements included for comparative purposes have been restated accordingly.

3. FIXED ASSETS, at cost

	1985	1984
	\$000's	
Land and buildings	\$ 18,917	\$ 18,753
Towers and head-ends	30,084	29,453
Distribution cable	358,128	312,385
Subscriber drops and devices	148,529	129,216
Computer equipment and development costs	17,318	16,405
Converters and descramblers	122,173	103,722
Other equipment	56,811	53,712
Leasehold improvements	11,044	10,500
Pre-maturity costs	6,642	5,634
Construction in progress		1,160
	769,646	680,940
Less accumulated depreciation and amortization	207,067	164,364
	\$562,579	\$516,576

4. INVESTMENTS

	1985	1984
	\$000's	
Hees International Corporation	\$17,500	\$18,500
General Cable T.V. Limited	24,000	24,000
Associated companies	7,703	7,457
Canadian Program Production Lending Fund	1,187	1,951
Rogers-Minneapolis Cablesystems Limited Partnership	3,660	3,300
Other investments	819	1,468
	\$54,869	\$56,676

(a) The shares of Hees International Corporation owned by the Company have exactly the same characteristics as the Company's Series V and VI Preferred shares which are issued to an associated company of Hees International Corporation.

(b) The shares of General Cable T.V. Limited, a company controlled by the controlling shareholder of the Company, have exactly the same characteristics as the Company's Series IV Preferred shares. All of the outstanding Series IV Preferred shares have been issued to another company controlled by the same shareholder.

(c) Associated companies

	1985	1984
	\$000's	
Western Cablevision Limited	\$5,808	\$5,551
Cableshare Inc. (note 18 (b))	1,895	1,906
	\$7,703	\$7,457

FINANCIAL STATEMENTS

The carrying value of the Company's investments in associated companies is equal to their cost plus the Company's share of equity or losses in undistributed earnings since the date of acquisition.

The excess of the carrying value of the Company's investment in associated companies over its equity in the value of the underlying net assets amounted to \$3,259,000 at August 31, 1985 (1984, \$3,345,000). This excess is being amortized over its estimated useful life of forty years.

- (d) Effective December 14, 1983, the Company completed an offering of limited partnership units to partially finance the construction and operation of a cable system in the City of Minneapolis, Minnesota which is adjacent to the cable system owned and operated by Rogers Cablesystems of Minnesota. The offering totalled U.S. \$25,000,000 of which U.S. \$7,125,000 remains to be paid on January 20, 1986. A wholly owned subsidiary of the Company is the general partner of the partnership. The general partner will invest capital contributions totalling U.S. \$3,000,000 of which U.S. \$2,150,000 has been invested to date and in addition it transferred franchise rights for a portion of the City to the partnership in exchange for a non-interest bearing promissory note in the amount of U.S. \$4,960,000 due December 14, 1993. Initially, the Company will have a nominal interest in profits, losses and distributions, increasing to a 50% interest if certain profit and cash distribution levels are attained. The Company accounts for this investment on the equity method.

Under the terms of a management agreement the Company is entitled to receive a management fee equal to the greater of 5% of gross revenue and U.S. \$200,000. Management fee income earned for the year ended August 31, 1985 was \$709,000 (1984, \$299,000).

The partnership has also entered into an agreement with three banks to provide long term financing in the amount of U.S. \$55,800,000 for the construction of the system. As at August 31, 1985 U.S. \$37,000,000 was outstanding under the credit agreement (1984, U.S. \$29,500,000). The Company has provided a guarantee of the bank loan up to a maximum amount of U.S. \$14,000,000 of which U.S. \$10,000,000 is supported by a letter of credit. In addition, the Company is contingently liable to provide financing for capital expenditures of the partnership up to a maximum amount of U.S. \$5,000,000.

Under the terms of the bank loan agreement, as amended, it is not expected that certain covenants will be complied with by the partnership after February 28, 1986. In consideration of certain amendments to the loan agreement, the Company has agreed to provide a letter of credit in the amount of U.S. \$550,000 to the banks. The banks have agreed to negotiate in good faith to restructure the terms of the loan by February 28, 1986.

The guarantee of the bank loan of the partnership of U.S. \$14,000,000 provided by the Company can be called by the banks if the terms of the loan agreement are not complied with. Should the Company be required to make a payment under the guarantee, the Company will become a creditor of the partnership with its debt being subordinated to the banks' position. The Company may in turn call on a guarantee in the amount of U.S. \$10,000,000 from its parent company Rogers Telecommunications Limited which guarantee is secured by a letter of credit in the amount of U.S. \$10,000,000.

FINANCIAL STATEMENTS

A summarized balance sheet of the partnership presented in U.S. dollars at August 31, 1985 is as follows:

BALANCE SHEET (unaudited)

	\$000's
Fixed assets	\$37,374
Other assets	9,695
	\$47,069
Bank loan	\$37,000
Accounts payable and other liabilities	4,389
	41,389
Partners' capital	
Limited partners	2,647
General partner	3,033
	5,680
	\$47,069

This cable system has been operating since December, 1983 and it is anticipated that it will complete construction in the latter part of calendar 1985. The unaudited loss for the year ended August 31, 1985 is U.S. \$8,419,000.

5. DISCONTINUED OPERATIONS

Effective August 31, 1984 the Board of Directors of the Company determined by resolution that the Company would offer for sale its cable television system in Syracuse, New York and its cable television systems in Los Angeles and Orange County, California. The investment in these cable systems is recorded at cost from September 1, 1984. Cost is considered to be the equity value of the investment at August 31, 1984, being the date these cable systems were put up for sale, plus advances from that date. Gains and losses on disposition and any necessary adjustments to carrying value will be recognized in income.

(a) The 1984 consolidated balance sheet has been restated to exclude the assets and liabilities to be sold. The assets and liabilities of the systems to be sold are presented below on a combined basis as at August 31, 1985 and 1984.

	1985	1984
	\$000's	
ASSETS		
Fixed assets	\$116,468	\$109,758
Deferred charges	10,969	11,888
Cash and short term notes	1,880	192
Accounts receivable	2,350	2,831
Inventories	1,169	3,638
Prepaid expenses	1,300	1,129
Other assets	4,051	4,710
Deferred income taxes	2,042	2,546
	\$140,229	\$136,692

FINANCIAL STATEMENTS

LIABILITIES		
Long term debt	\$101,061	\$ 97,370
Accounts payable and accrued liabilities	13,330	10,758
Prepayments for services	2,839	3,012
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
	117,230	111,140
CAPITAL STOCK AND DEFICIT	22,999	25,552
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
	\$140,229	\$136,692
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>

(b) The current status of the cable television systems to be sold is as follows:

- (i) In January of 1985, subject to certain closing conditions, the Company entered into an agreement to sell the shares of its wholly owned subsidiary Rogers Cablesystems of Syracuse, Inc. (Syracuse) for gross proceeds of approximately U.S. \$19 million. The transaction closed on November 13, 1985. The gain on sale will be recorded in 1986 (note 18(d)).
- (ii) The Company has not yet entered into sales agreements for its California systems. Cash advances to provide working capital have been made to the California systems in the year ending August 31, 1985 in the amount of \$11,566,000. This brings the total investment in discontinued operations, including Syracuse, at August 31, 1985 to \$38,603,000 after a foreign exchange adjustment of \$1,485,000.
- (iii) Losses for discontinued operations for the year ended August 31, 1985 amounted to \$16,643,000. These losses are not included in income as the Company accounts for this investment on the cost basis. Losses for the year ended August 31, 1984 recorded in the consolidated statement of income as loss from discontinued operations amounted to \$12,181,000.

(c) Further details of significant indebtedness of the discontinued operations are as follows:

- (i) Rogers Cablesystems of California, Inc., a wholly owned subsidiary of the Company, has arranged long term financing with two banks in the amount of U.S. \$36,500,000. At August 31, 1985 and 1984, U.S. \$36,320,000 was outstanding. The loan bears interest at each bank's California prime rate plus 1-1/4% and is secured by the assets of Rogers Cablesystems of California, Inc. Principal repayments are required in fixed quarterly amounts beginning in 1986. On the basis that the loan has been fully drawn down, principal repayments required by fiscal year amount to U.S. \$1,825,000 in 1986, U.S. \$3,650,000 in 1987, U.S. \$4,563,000 in 1988, U.S. \$4,562,000 in 1989, U.S. \$7,300,000 in 1990, U.S. \$7,300,000 in 1991 and U.S. \$7,300,000 in 1992. Financial maintenance and debt incurrence tests have been suspended until September 1, 1986.
- (ii) Dickinson Pacific Cablesystems (a general partnership in which a wholly owned subsidiary of the Company has an interest) has arranged long term financing with two banks in the amount of U.S. \$27,000,000 which amount was fully drawn as at August 31, 1984. During the year, U.S. \$1,000,000 has been repaid on the loan leaving an outstanding balance of U.S. \$26,000,000. The loan bears interest at the banks' California prime rate plus 1-1/4% and is secured by the assets of Dickinson Pacific Cablesystems and a guarantee of the Company in the amount of U.S. \$7,000,000. Principal repayments are required quarterly on a percentage of the amount drawn down. Principal repayments amount to U.S. \$3,000,000 in 1986, U.S. \$4,000,000 in 1987, U.S. \$6,000,000 in 1988 and U.S. \$13,000,000 in 1989. Financial maintenance and debt incurrence tests have been suspended until September 1, 1986.

FINANCIAL STATEMENTS

- (iii) The U.S. \$11,000,000 promissory note payable by Rogers CableSystems of Syracuse (a limited partnership in which a wholly owned subsidiary of the Company has an interest) bears interest at 12-7/8%, is secured by the assets of the partnership and is repayable in instalments of U.S. \$375,000 on September 30, 1987 and March 30, 1988, U.S. \$625,000 on September 30, 1988 and March 30, 1989, U.S. \$900,000 on September 30, 1989 and March 30, 1990 and U.S. \$1,200,000 on each September 30 and March 30 thereafter to March 30, 1993. The terms of the note include certain financial and operational obligations on the part of the partnership.

6. DEFERRED CHARGES

	1985	1984
	\$000's	
Financing costs	\$13,383	\$12,875
Franchising costs	2,481	2,785
Pre-operating costs	3,709	3,507
Other	1,252	724
	\$20,825	\$19,891

Amortization of deferred charges for the year amounted to \$1,732,000 (1984, \$1,848,000).

7. OTHER ASSETS

	1985	1984
	\$000's	
Amounts receivable from employees under share purchase plans, including \$2,308,000 from officers and officers who are also directors (1984, \$2,342,000)	\$ 7,386	\$ 7,978
Miscellaneous mortgages and loans receivable including \$410,000 from officers and officers who are also directors (1984, \$241,000)	693	1,693
Long term contracts receivable for MATV service	215	495
Prepaid franchise fees and franchise deposits	749	699
	\$ 9,043	\$10,865

8. LONG TERM DEBT

	1985	1984
	\$000's	
(a) ROGERS CABLESYSTEMS INC.		
(ii) Term bank loans	\$141,742	\$102,023
(iii) 9% Convertible Subordinated Debentures, maturing October 1, 2000	21,867	27,921
(b) ROGERS CABLESYSTEMS OF CANADA LIMITED		
(iii) Term bank loans	224,008	181,636
(c) CANADIAN CABLESYSTEMS LIMITED		
(iv) Series I 13-1/2% Zero Coupon Senior Secured Notes due May 1, 1988	30,870	25,731
(v) Series II 13-1/2% Zero Coupon Senior Secured Notes due May 1, 1989	27,089	22,579
(vi) 13-5/8% Senior Debentures due April 1, 1998	102,442	97,305
(vii) 14-1/4% Senior Subordinated Debentures due April 1, 1998	102,442	97,305

FINANCIAL STATEMENTS

(viii) Term bank loans		
(ix) Series A 12.55% Sinking Fund Debentures, due March 31, 1996	7,440	8,160
(x) Promissory note payable to the Mutual Life Insurance Company of New York	9,466	10,275
(xi) Mortgages payable	2,263	2,273
(d) ROGERS U.S. CABLESYSTEMS, INC.		
(xii) Term bank loans, Rogers-Portland Cablesystems	46,441	44,112
(xiii) Term bank loans, Rogers Cablesystems of Minnesota	23,903	22,056
(xiv) Term bank loans, Rogers-Multnomah Cablesystems	27,318	11,677
(e) OTHER LONG TERM DEBT	14,892	11,761
	\$782,183	\$664,814

Further details of indebtedness outstanding are as follows:

ROGERS CABLESYSTEMS INC.

- (i) Subsequent to August 31, 1985 the Company entered into an amendment of their current loan arrangements which amendment provides for a total credit facility of U.S. \$130,000,000. As at August 31, 1985 U.S. \$103,772,000 was outstanding under this credit facility (1984, U.S. \$78,637,000). Of this total credit facility, loans of U.S. \$5,000,000 are fixed rate loans bearing interest at approximately 16.0% until February 26, 1987. Loans of U.S. \$75,000,000 bear interest at the U.S. base rate plus 1-1/2% or the London Interbank Offered rate (LIBOR) plus 2% while amounts borrowed in excess of U.S. \$80,000,000 bear interest at the U.S. base rate plus 2% or LIBOR plus 2-1/2%. The loan is secured by a fixed and floating charge debenture on all assets and undertakings of the Company in the amount of U.S. \$300,000,000, guarantees of certain subsidiary Companies and the pledge of shares and promissory notes of certain subsidiaries. The loan is due on September 1, 1986 with no principal repayments required prior to that date. However, any proceeds on the sale of assets or the issuance of debt and/or equity securities during the period the loan is outstanding must be used to repay the bank loan and will reduce availability under the credit facility. The Company has provided an undertaking to sell assets, if necessary, to repay the loans by September 1, 1986. The provisions of the loan agreement contain certain covenants restricting the operations and activities of the Company, the most significant of which relate to the maintenance of a minimum net worth position, mergers and acquisitions, creation of additional indebtedness and encumbrances of assets, and changes in the capitalization of the Company.

The loan agreement also provides the banks with the right to convert the loan from a term loan to a demand loan should there be, in the banks' opinion, an adverse change in the financial position of the Company.

- (ii) These Debentures are unsecured, subordinated and are convertible into Class B shares at the holders' option at any time to October 1, 1985 at \$10.15 per share, and thereafter to October 1, 1990 at \$11.05 per share. The Company may call these debentures for redemption at an amount equal to the face amount outstanding and a premium on redemption. Subsequent to August 31, 1985, \$12,781,000 of debentures were converted into 1,259,140 Class B shares.

The Company is required to make mandatory sinking fund payments in the amount of 5% of the Debentures outstanding on October 1, 1990 in each of the years 1991 to 1999.

FINANCIAL STATEMENTS

ROGERS CABLESYSTEMS OF CANADA LIMITED (RCCL)

- (iii) RCCL, a wholly owned subsidiary of the Company, has a credit facility of U.S. \$180,000,000 of which U.S. \$164,000,000 had been drawn at August 31, 1985 (1984, U.S. \$140,000,000). In addition, the loan agreement also provides for a U.S. \$20,000,000 line of credit to a subsidiary company which amount can be drawn only after the entire U.S. \$180,000,000 credit facility has been drawn.

RCCL has the option to select an interest rate which is principally based on the prime rate or LIBOR. Interest rates payable will be LIBOR plus 1-1/8% to LIBOR plus 1-5/8% or prime rate plus 1/2% to prime rate plus 1% depending on the results of certain financial tests which govern the applicable interest rate. The loan is secured by the guarantees of Rogers American Cable Corp. (RACC) and certain of RACC's subsidiary companies which guarantees are secured by the pledge of all of the assets of those companies.

Principal repayments are required in fixed quarterly amounts beginning in 1986. On the basis that the loans have been fully drawn down, principal repayments by fiscal year amount to U.S. \$3,375,000 in 1986, U.S. \$13,500,000 in 1987, U.S. \$13,500,000 in 1988, U.S. \$18,000,000 in 1989, U.S. \$24,750,000 in 1990, U.S. \$27,000,000 in 1991, U.S. \$29,250,000 in 1992, U.S. \$33,187,500 in 1993 and U.S. \$17,437,500 in 1994.

Additional drawings under the credit agreement are subject to debt incurrence tests at the time of the proposed drawing. The provisions of the loan agreement impose restrictions on the operations and activities of RCCL and RACC and certain of RACC's subsidiary companies, of which the most significant relate to maintenance tests governing amounts borrowed, use of proceeds under the loan agreement, additional indebtedness, additional investments, sales of assets and dividends.

CANADIAN CABLESYSTEMS LIMITED (CCL)

- (iv) The Zero Coupon Notes (the Notes) were sold in units, each unit consisting of U.S. and \$1,000 principal amount of Series I Zero Coupon Senior Secured Notes due May 1, 1988, and U.S. \$1,000 principal amount of Series II Zero Coupon Senior Secured Notes due May 1, 1989, and are secured obligations of CCL guaranteed by a subsidiary company, Rogers Cable T.V. Limited (RCTV). The Notes were sold at a substantial discount from the principal amount thereof, which amount includes interest to maturity at a specified annual rate of 13-1/2%. The Notes are not redeemable prior to maturity. The Notes rank equally in right of payment with other senior indebtedness of CCL, including bank debt and the Senior Debentures, and rank senior to the Senior Subordinated Debentures.

The Notes are secured by a demand bond of CCL. The bond is secured by security interests in all the assets of CCL and RCTV.

As interest accrues on the Notes but is not payable until maturity, accrued but unpaid interest will be added to the face value of the Notes to the maturity date at which point the entire balance owing of U.S. \$32,000,000 on each of the Series becomes payable. Unpaid interest at August 31, 1985 amounted to \$15,717,000 (1984, \$8,187,000).

The provisions of the Notes impose restrictions on the operations and activities of CCL, of which the most significant relate to limitations on payments to the parent and affiliated companies, additional investments, additional indebtedness, contingent liabilities, leases, liens, dividends, sales of assets and mergers.

FINANCIAL STATEMENTS

- (vi) The Senior Debentures which mature on April 1, 1998 are unsecured obligations of CCL guaranteed by RCTV, and bear interest at the rate of 13-5/8% per annum, payable semi-annually. The Senior Debentures rank equally in right of payment with other senior indebtedness of CCL, including bank debt and the Notes, and rank senior to the Senior Subordinated Debentures.

The Senior Debentures require annual mandatory sinking fund payments in the amount of U.S. \$6,560,000 from April 1, 1990 to April 1, 1997 with the balance of U.S. \$22,520,000 being due on maturity. In addition, CCL has the option to redeem the whole or a part of the Senior Debentures after April 1, 1988 subject to certain prepayment penalty clauses.

The provisions of the Senior Debentures relating to restrictions on the operations and activities of CCL, are with minor exceptions, substantially identical to those contained in the Zero Coupon Series I and Series II Notes as described in note (iv) and (v) above.

- (vii) The Senior Subordinated Debentures which mature on April 1, 1998 are unsecured obligations of CCL, are guaranteed by RCTV, and bear interest at the rate of 14-1/4% per annum, payable semi-annually. The Senior Subordinated Debentures are subordinated in right of payment to senior indebtedness of CCL, including bank debt, the Notes and the Senior Debentures.

The Senior Subordinated Debentures require annual mandatory sinking fund payments in the amount of U.S. \$6,560,000 from April 1, 1990 to April 1, 1997 with the balance of U.S. \$22,520,000 due on maturity. In addition, CCL has the option to redeem the whole or a part of the Senior Subordinated Debentures after April 1, 1988 subject to certain prepayment penalty clauses.

The provisions of the Senior Subordinated Debentures relating to restrictions on the operations and activities of CCL, are with minor exceptions, substantially identical to those contained in the Zero Coupon Series I and Series II Notes as described in note (iv) and (v) above.

- (viii) Term bank loans are available under a credit agreement with three Canadian chartered banks and are repayable in Canadian dollars. At August 31, 1985, the line of credit available under the facility amounted to approximately \$21,625,000 of which no amount has been drawn.

Subsequent to August 31, 1985, CCL renegotiated the terms of its line of credit under the credit agreement. Any borrowings under this facility are on a revolving basis until August 31, 1986 at which time the borrowings convert to a term loan, due on August 31, 1993, with quarterly repayments commencing on November 30, 1986. Borrowings bear interest at the banks' prime rates plus 1/2% to August 31, 1986 and thereafter at the banks' prime rates plus 3/4%. In addition, a standby fee of 1/4% per annum is charged on the unused portion of the loan. The facility is secured, together with the Notes by a pledge of the shares of two of CCL's subsidiaries, a fixed and floating charge on the assets of CCL and RCTV and a guarantee of RCTV. The credit agreement contains restrictions on the incurrence of debt and various maintenance tests principally relating to interest and debt coverage. In addition, the credit agreement restricts dividend payments and sales of assets.

FINANCIAL STATEMENTS

- (ix) The Series A Debentures which were issued by a wholly owned subsidiary of CCL are secured by letters of credit issued by two Canadian chartered banks. The covenants under the Debentures were waived to August 15, 1986 when the letters of credit expire. The Debentures are redeemable and require sinking fund payments of \$600,000 annually on March 31, 1986 to 1995 and a final payment of \$1,440,000 on March 31, 1996. In addition, the Company has prepayment privileges equal to \$120,000 a year which will reduce the final payment required to be made in 1996.
- (x) The promissory note payable which was issued by a wholly owned subsidiary of CCL to the Mutual Life Insurance Company of New York bears interest at 9-1/8% and is repayable in U.S. dollars. The note is repayable in annual instalments of U.S. \$990,000 due June 15, 1986 to 1992. The terms of the note include certain financial and operational obligations on the part of the subsidiary company, Rogers Cablesystems - British Columbia Limited.
- (xi) The mortgages payable consist of two mortgages in the principal amounts of \$576,000 and \$1,687,000 bearing interest at 13-1/4% and 12-1/2% per annum respectively. The mortgages mature in 1988 and 1989 respectively with the majority of the principal balance owing being payable upon maturity.

ROGERS U.S. CABLESYSTEMS, INC.

- (xii) Rogers-Portland Cablesystems (a limited partnership in which a wholly owned subsidiary of the Company has an interest) has arranged long term financing with a group of four banks in the amount of U.S. \$34,000,000 which amount was fully drawn as at August 31, 1985 and 1984. The loan bears interest at the lead bank's California prime rate plus 1-1/2% or LIBOR plus 2-1/4% at the option of the partnership. The loan is secured by substantially all of the assets of the partnership. The Company has guaranteed directly and indirectly a total of U.S. \$6,000,000 of the loan. The agreement restricts distributions to partners without the prior written consent of the banks. Principal repayments are required quarterly beginning in 1986 on a percentage of the amount drawn down. Principal repayments required by fiscal year amount to U.S. \$1,000,000 in 1986, U.S. \$2,500,000 in 1987, U.S. \$3,998,000 in 1988, U.S. \$6,004,000 in 1989, U.S. \$6,004,000 in 1990, U.S. \$7,001,000 in 1991 and U.S. \$7,493,000 in 1992. The loan contains both financial maintenance tests and tests for additional debt incurrence.
- (xiii) Rogers Cablesystems of Minnesota (a limited partnership in which a wholly owned subsidiary of the Company has an interest) has arranged long term financing with two banks in the amount of U.S. \$18,000,000. At August 31, 1985 U.S. \$17,500,000 was outstanding under the credit agreement (1984, U.S. \$17,000,000). The loan bears interest at the banks' New York prime rate plus 1-1/2% and is secured by substantially all the assets of the partnership. Principal repayments are required in fixed quarterly amounts beginning in 1986. On the basis that the loans have been fully drawn down principal repayments required by fiscal year amount to U.S. \$1,000,000 in 1986, U.S. \$1,500,000 in 1987, U.S. \$2,000,000 in 1988, U.S. \$3,000,000 in 1989, U.S. \$5,000,000 in 1990 and U.S. \$5,500,000 in 1991. The loan contains both financial maintenance tests and tests for additional debt incurrence. The partnership has obtained waivers for certain events of noncompliance with this loan agreement until December 31, 1985. The partnership has an offer of alternative long term financing which, if accepted, will provide terms the partnership believes can be complied with on a continuing basis.
- (xiv) Rogers-Multnomah Cablesystems (a limited partnership in which a wholly owned subsidiary of the Company has an interest) has arranged long term financing with four

FINANCIAL STATEMENTS

banks in the amount of U.S. \$26,000,000. At August 31, 1985, U.S. \$20,000,000 was outstanding under the credit agreement (1984, U.S. \$9,000,000). The loan bears interest at the banks' New York prime rate plus 1-1/2% or LIBOR plus 2-1/2% at the option of the partnership, with a standby fee of 1/2% per annum charged on the portion not advanced. The loan is secured by substantially all the assets of the partnership. The Company has guaranteed directly and indirectly U.S. \$5,000,000 of the loan. The agreement restricts distributions to partners without the prior written consent of the banks. Principal repayments are required quarterly beginning in 1988 based on a percentage of the amount drawn down. On the basis the loans have been fully drawn down, principal repayments required by fiscal year amount to U.S. \$650,000 in 1988, U.S. \$1,950,000 in 1989, U.S. \$3,250,000 in 1990, U.S. \$5,200,000 in 1991, U.S. \$6,500,000 in 1992, U.S. \$5,850,000 in 1993 and U.S. \$2,600,000 in 1994. The loan contains both financial maintenance tests and tests for additional debt incurrence.

OTHER LONG TERM DEBT

- (xv) Included in other long term debt are obligations of the Company in the amount of \$13,010,000 (1984, \$10,182,000) in respect of long term capital leases.
- (xvi) As at August 31, 1985 the Company has entered into the following interest exchange agreements:

Dollar value of agreement	Reference interest rate	Maturity date
U.S. \$48,000,000	12.2%	March, 1990
25,000,000	10.75%	June, 1986
25,000,000	11.25%	June, 1988
<u>U.S. \$98,000,000</u>		

These agreements have the effect of converting U.S. \$98,000,000 of floating rate debt of the Company to fixed interest rate debt at interest rates generally equal to the reference interest rates specified above plus the Company's cost of money in excess of money market rates. The exchange agreements include certain covenants on behalf of both parties to the agreement and provide for early termination of the agreements under specified conditions.

Principal repayments due within each of the next five years on all long term debt, including obligations under capital leases, are as follows:

	\$000's
1986	\$ 11,547
1987	168,844
1988	64,279
1989	69,712
1990	69,035
	<u>383,417</u>
Due after 1990	398,766
	<u><u>\$782,183</u></u>

FINANCIAL STATEMENTS

9. CAPITAL STOCK Rights and conditions

Preferred shares

There are an unlimited number of Preferred shares without par value, issuable in series, with rights and terms of each series to be fixed by the directors prior to the issue of each series.

Series IV Preferred shares are without par value, are non-voting and have a cumulative dividend rate equal to 50% of the prime lending rate of a Canadian chartered bank plus 1-1/2% payable monthly. These shares are both redeemable and retractable at any time.

Series V and VI Preferred shares are without par value, are non-voting and have a cumulative dividend rate equal to 50% of the prime lending rate of a Canadian chartered bank plus 1-1/2% payable quarterly. The Company is obligated on each dividend payment date to redeem 12,500 Series V and 12,500 Series VI Preferred shares. These shares are retractable at the holder's option at any time after March 31, 1992.

Common shares

There are an unlimited number of voting Class A shares without par value. The Class A shares may receive a dividend at an annual rate of up to 35 cents per share only after the Class B shares have been paid a dividend at an annual rate of 35 cents per share.

There are an unlimited number of non-voting Class B shares without par value. The Class A and Class B shares will share equally in dividends after payment of a dividend of 35 cents per share for each class.

Issued

	1985	1984
	\$000's	
240,000 Series IV Preferred shares (1984, 250,000 shares)	\$24,000	\$25,000
875,000 Series V Preferred shares (1984, 925,000 shares)	8,750	9,250
875,000 Series VI Preferred shares (1984, 925,000 shares)	8,750	9,250
5,146,459 Class A shares	32,094	32,094
18,315,919 Class B shares (1984, 17,641,512 shares)	8,301	1,747
	\$81,895	\$77,341

(a) During the year ended August 31, 1985, the Company effected the following capital stock transactions:

- (i) 596,435 Class B shares were issued as a result of the conversion of \$6,054,000 Convertible Debentures.
- (ii) 10,000 Series IV Preferred shares were redeemed in exchange for a \$1,000,000 interest bearing note receivable owned by the Company.
- (iii) 50,000 Series V Preferred shares and 50,000 Series VI Preferred shares were redeemed for \$1,000,000 cash.
- (iv) 77,972 Class B shares were issued from treasury to employees pursuant to the Company's share purchase plans.

FINANCIAL STATEMENTS

(b) The Articles of Continuance of the Company under the Canada Business Corporations Act impose restrictions on the transfer, voting and issue of the voting Class A and non-voting Class B shares in order to ensure that the Company remains qualified to hold or obtain any licence pursuant to the Broadcasting Act (Canada) and any licence required to carry on a cable television or similar undertaking.

(c) At August 31, 1985, an option was outstanding to Rogers Telecommunications Limited (a company which controls the Company) for the purchase of 500,000 Class A shares at \$11.875 per share. This option expires on December 31, 1987 and was issued in consideration for Rogers Telecommunications Limited providing certain financial assistance in connection with the bank financing of two cable systems of the Company in the United States.

10. INCOME TAXES

Total income taxes vary from the amounts that would be computed by applying the average deferred tax rate of accumulation to the loss before income taxes for the following reasons:

	1985	1984
	\$000's	
Average deferred tax rate of accumulation	53.6%	53.6%
Tax based upon the loss before income taxes	\$(15,813)	\$(24,450)
Increase (decrease) results from:		
Effect of losses of subsidiaries not recognized for income tax purposes	7,372	9,719
Non-deductible depreciation of fixed assets and amortization of goodwill related to acquisitions	1,341	1,474
Loss on sale of assets and shares not recognized for income tax purposes		2,364
Foreign exchange losses not recognized for income tax purposes	2,033	567
Non-taxable dividend income	(1,650)	(1,685)
Other items	(267)	1,283
Actual income tax reduction	\$ (6,984)	\$(10,728)

At August 31, 1985, the Company and its Canadian subsidiaries have losses of approximately \$19,690,000 available to be claimed against taxable income in future years, the tax effect of which has not been reflected in the accounts. These losses expire principally in the years 1991 and 1992.

At August 31, 1985, certain United States subsidiaries have losses of approximately U.S. \$47,548,000 available to be claimed against taxable income in future years, the tax effect of which has not been reflected in the accounts. These tax losses expire principally in the years 1995 to 2000. In addition, the Company's U.S. subsidiaries have approximately U.S. \$5,927,000 of unclaimed investment tax credits which are available to reduce future income taxes until approximately 2000.

11. LOSS PER SHARE

Loss per share has been calculated based on the weighted average number of outstanding shares during the year, after adding dividends on Preferred shares to the loss for the year. Fully diluted earnings per share are not disclosed herein as they are anti-dilutive.

FINANCIAL STATEMENTS

12. SEGMENTED INFORMATION

During the years ended August 31, 1985 and 1984, the Company operated cable and pay television systems in Canada, the United States and Ireland which are considered to be a single industry segment. Ireland was sold in 1984 and the results of operations are only included for the ten months ended June 30 in the 1984 segmented information presented below. Information by geographic segment is presented below:

	Canada	United States		Corporate items and eliminations	Consolidated totals
August 31, 1985			\$000's		
Revenue	\$189,796	\$164,369			\$354,165
Operating income	\$ 78,308	\$ 50,080		\$ (289)	\$128,099
Depreciation and amortization	32,507	30,618		350	63,475
	<u>\$ 45,801</u>	<u>\$ 19,462</u>		(639)	64,624
Interest				(101,278)	(101,278)
Other corporate items, net				5,005	5,005
Income taxes				6,984	6,984
Minority interest				2,148	2,148
				<u>\$(87,780)</u>	
Loss for the year					<u>\$ 22,517</u>
Identifiable assets	<u>\$338,155</u>	<u>\$568,502</u>		<u>\$ 53,572</u>	<u>\$960,229</u>
				Corporate items and eliminations	Consolidated totals
August 31, 1984			\$000's		
Revenue	\$164,059	\$125,983	\$ 4,737		\$ 294,779
Operating income	\$ 56,843	\$ 32,487	\$ 1,618	\$ 513	\$ 91,461
Depreciation and amortization	27,102	21,662	763	264	49,791
	<u>\$ 29,741</u>	<u>\$ 10,825</u>	<u>\$ 855</u>	249	41,670
Interest				(80,790)	(80,790)
Other corporate items, net				6,921	6,921
Income taxes				10,728	10,728
Minority interest				2,808	2,808
Loss from discontinued operations				(12,181)	(12,181)
Loss on sale of Dublin Cablesystems Limited				(3,744)	(3,744)
				<u>\$(76,009)</u>	
Loss for the year					<u>\$ 34,588</u>
Identifiable assets	<u>\$320,378</u>	<u>\$504,695</u>	<u>Nil</u>	<u>\$ 52,792</u>	<u>\$877,865</u>

FINANCIAL STATEMENTS

13. RESEARCH AND DEVELOPMENT

During the year ended August 31, 1985, the Company incurred research and development costs in the amount of \$1,278,000 (1984, \$1,997,000). Of this total, research and development costs of \$828,000 (1984, \$991,000) were charged to expense and computer system software development costs of \$450,000 (1984, \$1,006,000) are included in fixed assets on the balance sheet.

14. LONG TERM OPERATING LEASES

The Company has entered into various operating lease agreements for the rental of premises, distribution facilities, equipment and microwave towers. Based upon all operating leases in force at August 31, 1985, the minimum amount that will be incurred by the Company and its subsidiaries per annum will be \$10,730,000. The aggregate amount that will be paid under lease arrangements now in force is approximately \$52,061,000.

15. COMMITMENTS

(a) U.S. commitments for cable construction

The Company is presently building a cable system in the United States. At August 31, 1985, total costs to complete this system are estimated to be U.S. \$4,000,000. This construction program is financed largely by bank indebtedness and proceeds from the sale of limited partnership units.

(b) Canadian commitments

A Canadian Radio-television Telecommunications Commission decision has required the Company to spend 1% of Canadian regulated revenue on various programming and production activities. It is estimated that this commitment will amount to approximately \$1,500,000 in the next fiscal year. At August 31, 1985, the Company has accrued as a liability and set aside funds as a deposit the amount of \$1,346,000 to satisfy the unexpended portion of this commitment.

(c) U.S. Partnerships

Under the terms of certain partnership arrangements in which the Company has an interest, the Company is required under certain conditions and at the request of the other partners, to purchase all or a portion of their partnership interests. The prices will be based upon the fair market value of the partnerships at the time of purchase. The requests by the other partners to the general partners can only be made during certain years varying between 1988 and 1992 with the exception of Dickinson Pacific Cablesystems (DPC) as described below.

On October 2, 1984, pursuant to the terms of the partnership agreement of DPC, the Company exercised its option to purchase the remaining 50% partnership interest owned by Dickinson Communications Limited (DCL). The purchase price to be paid to DCL will be based upon the fair market value of the partnership as at October 2, 1984 as determined by an independent valuation. An appraisal was completed in April 1985 which appraisal DCL has contested and has brought suit to compel arbitration. It is not possible to determine when the purchase will be effected, nor at what price.

In addition, the Company is committed to capital contributions of U.S. \$850,000 at August 31, 1985 to provide financing to Rogers-Minneapolis Cablesystems Limited Partnership.

FINANCIAL STATEMENTS

16. CONTINGENT LIABILITIES

- (a) The Company has issued the following Class B shares which are held by a trustee under the terms of the Employee Share Purchase Plans:

Date of issue	Number of shares	Issue price
June 29, 1984	64,545	\$9.375
August 22, 1984	61,680	\$9.375

Should the market price of the shares held in trust two years from the date of issue be below 85% of the issue price, the Company has agreed to pay to the employees an amount equal to the difference between 85% of the issue price and the market price.

- (b) On June 1, 1983, litigation was initiated against Rogers Cablesystems of Texas, Inc. The complainant seeks damages of U.S. \$10,000,000 to be trebled pursuant to anti-trust laws and an injunction against continued construction. Although management believes that the Company has meritorious defenses, there can be no assurance that the Company will prevail. The Company has filed a counterclaim against the complainant in the amount of U.S. \$14,000,000.
- (c) There exist other legal actions against the Company and its subsidiary companies both in Canada and the United States none of which is expected to have a material adverse effect on the consolidated financial position of the Company.
- (d) The Company has outstanding letters of credit aggregating approximately U.S. \$10,850,000 issued to third parties in connection with certain safe harbour leasing arrangements.

17. RELATED PARTY TRANSACTIONS

- (a) The Company incurred charges from Cableshare Inc., an associated company, for data processing services in the year ended August 31, 1985 in the amount of \$705,000 (1984, \$1,858,000). The Company's investment in this associated company is accounted for using the equity method.
- (b) Rogers Telecommunications Limited, the Company's parent company, has guaranteed bank loans of a subsidiary company and a partnership in which the Company has an interest to a maximum of U.S. \$15,000,000.
- (c) Effective December 31, 1981, the Company subscribed for 240,000 cumulative, redeemable, retractable, non-voting Second Preference Shares with a par value of \$100 each in the capital of General Cable T.V. Limited (General) for an aggregate subscription price of \$24,000,000. The dividend rate and redemption rights on the General Second Preference Shares are essentially the same as the dividend rate and redemption rights on the 240,000 Series IV Preferred Shares of the Company (the RCI Preferred Shares) held by Rogers Telecommunications Limited (RTL). The subscription by the Company was conditional upon the execution of an agreement between RTL, the Company and a Director of the Company pursuant to which RTL agreed that the 240,000 RCI Preferred Shares held by RTL would be placed in trust with the Director as Trustee. The agreement further provides that if there is any default in the payment of dividends on General's Second Preference Shares, during the continuance of such default, the Company need not pay dividends on the RCI Preferred Shares beneficially owned by RTL. In addition, in the event that RTL or the Company determines to retract or redeem the RCI Preferred Shares, the Company can satisfy the redemption price therefor by transferring one General Second Preference Share for each RCI Preferred Share retracted.

FINANCIAL STATEMENTS

- (d) The Company has guaranteed payment, supported by a letter of credit in the amount of U.S. \$650,000 of capital contributions required to be made by certain officers and directors of the Company who purchased limited partnership units of Rogers-Minneapolis Cablesystems Limited Partnership (note 4(d)).

18. SUBSEQUENT EVENTS

- (a) Effective October 1, 1985, the Company purchased substantially all of the operating assets and liabilities of an affiliated company, Rogers Radio Broadcasting Limited (RRBL). The purchase price of \$51,207,000 was satisfied by the assumption of bank indebtedness of \$7,848,000, liabilities in the amount of \$1,859,000 and the issuance of 4,150,000 cumulative, convertible, redeemable, retractable non-voting Series VII Preferred Shares issued at a value of \$41,500,000. The shares bear a dividend rate equal to 2-1/4% plus 50% of the bank prime lending rate, are convertible into Class A voting and Class B non-voting shares at rates of \$11.875 and \$11.600 respectively (subject to adjustment) and are redeemable and retractable at \$10 per share subsequent to April 30, 1990. As a condition of the agreement the Company has the right to return certain of the purchased assets valued at \$1,800,000 to RRBL. This put agreement remains in force for eighteen months subsequent to the purchase. RRBL also has a call option on these assets on substantially the same terms and conditions as described above.
- (b) In September of 1985 the Company entered into negotiations to sell its investment in Cablesare Inc. (note 4(c)). The sale, the closing of which is subject to certain conditions, provides for the Company to receive gross proceeds of approximately \$4,668,000 for 835,000 shares of Cablesare Inc. owned by the Company. In addition, the purchaser can call and the vendor can put the remaining 376,552 shares of Cablesare Inc. owned by the Company. This put/call is exercisable within 15 days after the initial closing referred to above at a price equal to the market value per share at the date of exercise plus 15% subject to a specific limitation.
- (c) Effective October 30, 1985, certain subsidiaries of the Company with total basic subscribers at August 31, 1985 of 17,600, have entered into agreements to sell operating assets of certain U.S. cable television systems. The gross proceeds on these sales, subject to closing adjustments, are estimated to be U.S. \$17,000,000. Closing of these sales is subject to a number of conditions including regulatory approvals. The effect of these proposed sales will not be material to the asset or income position of the Company.
- (d) In January of 1985, subject to certain closing conditions, the Company entered into an agreement to sell the shares of its wholly owned subsidiary Rogers Cablesystems of Syracuse, Inc. for gross proceeds of approximately U.S. \$19 million. The transaction closed on November 13, 1985. The gain on sale will be recorded in 1986 and proceeds will be utilized to retire parent company indebtedness (note 5).
- (e) On November 18, 1985 a subsidiary company, Rogers Cablesystems of America, Inc., completed an offering for sale to the public of 3,850,000 of its common shares (26.9% of total common shares issued). The Company expects gross proceeds of U.S. \$42,350,000 which proceeds after deducting the cost of issuance will be utilized to retire parent company indebtedness.
- (f) On or about November 26, 1985 the Company intends to offer for sale to the public \$50 million of Series VIII convertible, redeemable Preferred Shares. Should the issue be completed proceeds net of costs of issuance will be utilized to retire parent company indebtedness.

Organization and Cable Subscriber Information

CANADA			Basic Subscribers as at August 31, 1985
Cable System	System Manager	% Ownership	
Toronto	Clifford D. Williams	100%	368,864
Mississauga	Chris C. Kofler	100%	70,968
Brampton	Richard L. Moore	100%	49,527
Newmarket	Mary E. Blackwell	100%	14,276
Oshawa	Lorne F. McFadden	100%	50,424
London	Gordon E. Symons	100%	66,233
Brantford	James A. Yardy	100%	28,024
Kitchener	Donald A. MacAlpine	100%	106,377
Hamilton	Lee Martini	100%	39,549
Cornwall	Andre D. Cammaert	100%	18,335

WESTERN CANADA

Vancouver	Frank L. Eberdt	100%	251,722
Fraser	Frank Radelja	100%	77,899
Victoria	Glenn C. Terrell	100%	52,484
Surrey*		45%	93,680
Calgary	Don E. Taylor	100%	85,686

* Surrey is 45% owned by Rogers but is not managed by Rogers.

UNITED STATES			Basic Subscribers as at August 31, 1985
Cable System	System Manager	% Ownership	
Minneapolis, Minnesota	C.D. Williams	10.7% * *	36,139
Minneapolis, Suburbs (Edina, Hopkins, Minnetonka, Eden Prairie, Richfield)	(Regional Manager)	82.2%	23,836
Portland, Oregon	Rudi Engel	81.6%	42,687
Multnomah County, Oregon (Eastern suburbs of Portland)	(Regional Manager)	62.6% * *	29,959
Orange County, California (Huntington Beach, Westminster, Fountain Valley, Stanton) (Garden Grove, Los Alamitos)	Robert J. LaTourette (Regional Manager)	50.0%	45,590
		100%	16,228
Los Angeles County, California (Downey, Santa Fe Springs, Lynwood, Bell Gardens, Paramount, La Mirada)		100%	24,938

San Antonio, Texas	David Edwards	100%	193,351
Southwest & Southcentral Groups	Robert A. Singer (Regional Manager)		
Fort Smith, Arkansas	Edward D. Davidson	100%	28,451
San Angelo, Texas	Donald R. Dooley	100%	25,496
Laredo, Texas	Steven Merritt	100%	21,984
Yuma, Arizona	Clay Blanco	100%	17,971
El Centro, California	Tom Mixon	100%	17,513
Alamogordo, New Mexico	William L. Mason	100%	9,429
Tennessee Group	Martha M. Hoskins	100%	10,089
+ McAlester, Oklahoma	Larry O. Stark	100%	7,063
+ East Texas Group	James C. Blanchard	100%	5,626
+ Gainesville, Texas	Ricky W. Allen	100%	4,959
- Syracuse, New York	Mary L. Cotter	70.3%	36,151

** Ownership will increase as certain profit and cash flow targets are met.

+ Sold subsequent to year end, subject to regulatory approval.

- Sold subsequent to year end.

Directors and Officers

DIRECTORS

Ronald D. Besse

Chairman, President
& Chief Executive Officer
Canada Publishing Corporation
Toronto, Ontario

Claude Ducharme, Q.C.

Partner
Desjardins, Ducharme,
Desjardins & Bourque
Montreal, Quebec

George A. Fierheller

President &
Chief Executive Officer
Cantel Inc.
Toronto, Ontario

Robert M. Francis

Senior Vice-President
Finance
Rogers Cablesystems Inc.
Toronto, Ontario

John W. Graham, Q.C.

Partner
Cassels, Brock & Blackwell
Toronto, Ontario

Gordon C. Gray, F.C.A.

Chairman
Royal LePage Limited
Toronto, Ontario

Thomas I. Hull

President
Thomas I. Hull Insurance
Limited
Toronto, Ontario

Philip B. Lind

Senior Vice-President
Programming & Planning
Rogers Cablesystems Inc.
Toronto, Ontario

William D. McGregor

President
CAP Communications
Limited
Kitchener, Ontario

Edward S. Rogers

Vice-Chairman &
Chief Executive Officer
Rogers Cablesystems Inc.
Toronto, Ontario

Loretta A. Rogers

Company Director
Rogers Cablesystems Inc.
Toronto, Ontario

Robert Smith

Chairman & President
Talcorp Limited
Toronto, Ontario

**The Hon. Richard J.
Stanbury, Q.C.**

Partner
Cassels, Brock & Blackwell
Toronto, Ontario

James F. Sward

President
Rogers Broadcasting
Limited
Toronto, Ontario

John A. Tory, Q.C.

President
The Thomson Corporation
Limited
Toronto, Ontario

**J. Christopher C.
Wansbrough**

President
National Trust Company
Toronto, Ontario

Colin D. Watson

President
Rogers Cablesystems Inc.
Toronto, Ontario

W. David Wilson

Vice-President & Director
McLeod Young Weir Limited
Toronto, Ontario

OFFICERS

John W. Graham, Q.C.

Chairman

Edward S. Rogers

Vice-Chairman &
Chief Executive Officer

Colin D. Watson

President

Philip B. Lind

Senior Vice-President,
Programming & Planning

Robert M. Francis

Senior Vice-President,
Finance

Barry A. Ross

Senior Vice-President,
Corporate

Nicholas F. Hamilton-Piercy

Vice-President, Engineering
& Technical Services

David E. Friesen

Vice-President,
U.S. Operations

William R. Rogers

Vice-President,
Canadian Operations

Graham W. Savage

Vice-President,
Investment Planning

Bruce D. Day

Vice-President, Treasurer

W. Wayne Howard

Vice-President, Controller

Albert Gnat, Q.C.

Secretary

Daphne Evans

Assistant Secretary

Corporate Information

Corporate Office

Suite 2600
Commercial Union Tower
Toronto-Dominion Centre
Toronto, Ontario
M5K 1J5
(416) 864-2373

Telecopy Number 864-2385
Telex Number 0623996

Transfer Agent

Royal Trust Company

Bankers

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

Auditors

Thorne Riddell

Notice of Annual and Special Meeting of Shareholders

The Annual and Special Meeting of Shareholders of Rogers Cablesystems Inc. will be held in Ballroom 'B' at L'Hotel, 225 Front Street West, Toronto, Ontario, Canada on Friday, December 20, 1985 at the hour of 11:00 o'clock a.m., Toronto time.

Exchange Listings

Rogers Cablesystems Inc.

- Toronto Stock Exchange
- Montreal Stock Exchange
- Alberta Stock Exchange
- Vancouver Stock Exchange

- United States Over-the-Counter

Rogers Cablesystems of America, Inc.

- United States Over-the-Counter

Stock Symbols

Class A RCI.A
Class B RCI.B.

Class B RCINZ

Class A RCCAA

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