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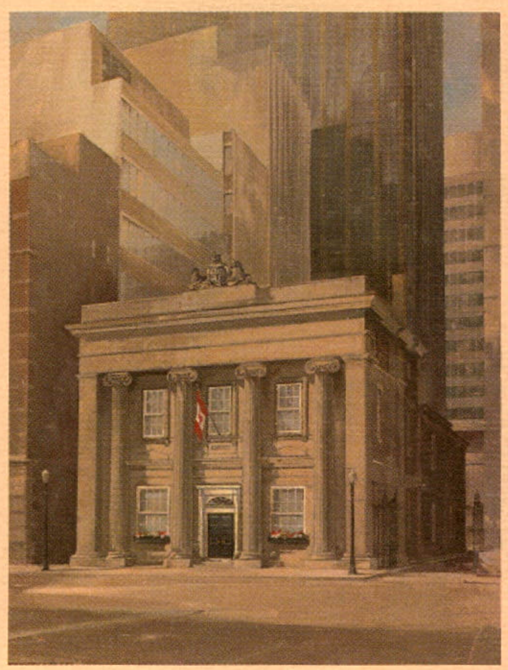
HOLLINGER INC.

Annual Report 1985



TEN TORONTO STREET

Designed by Frederick Cumberland of Cumberland and Storm, the building was completed and opened as Toronto's seventh post office in 1852. By 1873 it had become too small to handle the steadily increasing mail load and the post office function moved to the eighth post office at the head of Toronto Street. Ten Toronto Street later became the office of the Bank of Canada in Toronto. It is the head office of Hollinger Inc.

HOLLINGER INC.

A Corporation under the laws of Canada

10 Toronto Street, Toronto, Canada M5C 2B7

Hollinger Inc. is a holding company with significant interests, through subsidiary and other companies, in the distribution and wholesaling of food for home consumption in Canada, publishing, printing and distribution of newspapers in Great Britain, cable television in California and merchant banking and related financial services in Canada.

On September 17, 1985, Argcen Holdings Inc. (successor to Dominion Stores Limited), Hollinger Argus Limited and Labmin Resources Limited were amalgamated under the Canada Business Corporations Act and continued as one corporation under the name "Hollinger Inc." On the amalgamation each common share of Argcen became one common share of Hollinger Inc., each common share of Hollinger Argus became 2.5 common shares of Hollinger Inc. and each common share of Labmin became 3.5 common shares of Hollinger Inc. It is not necessary for former Argcen shareholders to exchange their share certificates for certificates of Hollinger Inc. because Argcen or Dominion Stores Limited share certificates represent the same number and class of shares of Hollinger Inc. However, because existing Hollinger Argus and Labmin share certificates no longer indicate the actual number of common shares held in Hollinger Inc., former shareholders of those companies are urged to exchange their share certificates for share certificates in the name of Hollinger Inc. In order to do so, shareholders should communicate with Central Trust Company at its principal offices in Toronto, Montreal or Vancouver.

Board of Directors

RALPH M. BARFORD (1)	Toronto	P. C. FINLAY	Toronto
EDWARD G. BATTLE	Calgary	THE HON. W. JOHN MCKEAG (2)	Winnipeg
CONRAD M. BLACK (1)	Toronto	ANDRE MONAST (1)(2)	Quebec City
G. MONTEGU BLACK	Toronto	MRS. BERYL A. PLUMPTRE	Ottawa
EDMUND C. BOVEY	Toronto	F. DAVID RADLER (1)	Vancouver
DIXON S. CHANT (1)	Toronto	RONALD T. RILEY	Montreal
CHARLES G. COWAN	Toronto	TRUMBULL WARREN (2)	Hamilton
FREDRIK S. EATON	Toronto	PETER G. WHITE	London, Ont.

(1) Members of the Executive Committee
(2) Members of the Audit Committee

Officers

Chairman of the Board, President and Chief Executive Officer	CONRAD M. BLACK
Executive Vice-Presidents	DIXON S. CHANT F. DAVID RADLER
Vice-President and Secretary	CHARLES G. COWAN
Vice-President and Treasurer	WENDELL F. WHITE
Vice-President, Finance and Treasury	JOHN A. BOULTBEE
Honorary Chairman	P. C. FINLAY

Auditors

Thorne Riddell .... Toronto

Transfer Agent and Registrar

Central Trust Company .... Toronto, Montreal, Vancouver

Stock Exchange Listings

The common shares of Hollinger Inc. (ticker symbol HLG) are listed on the Toronto, Montreal and Vancouver stock exchanges.

Cover: Reproduction of painting by Toronto artist Vernon Mould

Annual Report

May 8, 1986

TO THE SHAREHOLDERS

Your Directors present the first Annual Report of Hollinger Inc. The accompanying consolidated financial statements include the consolidated financial statements of Domgroup Ltd. (formerly Dominion Stores Limited) for the year ended December 31, 1985, with comparative figures for the 41 weeks ended December 29, 1984, as Domgroup changed its fiscal year end during the comparative period.

Effective September 17, 1985, Argcen Holdings Inc., Hollinger Argus Limited and Labmin Resources Limited were amalgamated to form Hollinger Inc. The amalgamation has been accounted for as though it were a pooling of interests and accordingly the 1985 figures reflect the combined operations of Argcen, Hollinger Argus and Labmin. Comparative figures for 1984 give effect to the amalgamation as if it had taken place January 1, 1984.

Consolidated revenue for the year ended December 31, 1985, totalled $1,146,479,000 compared to $1,576,754,000 for the 41 weeks ended December 31, 1984, a decrease of $430,275,000 or 27%. Costs of goods sold and expenses were $1,190,248,000 compared to $1,626,574,000 in the previous year.

Equity in net earnings of associated companies, principally Norcen and, until September 19, 1985, Standard Broadcasting, amounted to $25,121,000 compared to $21,212,000 in the previous year, an increase of $3,909,000 or 18%.

Net income for the year ended December 31, 1985, after provision for recovery of income taxes but before extraordinary items was $399,000 compared to a net loss after provision for recovery of income taxes and minority interests of $4,769,000 in 1984. After extraordinary items, net income in 1985 was $10,445,000. Net loss per common share for 1985 before extraordinary items was 15¢ compared with a net loss of 32¢ per common share in the previous year. Net income per common share for 1985 after extraordinary items was 51¢. Extraordinary items included a loss on rationalization of operations and a gain on the sale of Standard Broadcasting.

DOMGROUP LTD.

In accordance with the Agreement made in March, 1985, for the sale by Dominion Stores Limited to The Great Atlantic and Pacific Tea Company of 92 supermarkets and other assets, the corporate name of Dominion Stores Limited was changed to Domgroup Ltd. on April 28, 1986.

By year end Domgroup had significantly downsized its former level of operations, mainly through divestitures. The downsizing is reflected in revenue for 1985 of $1,146,141,000 which is 27% below the level of revenue recorded in the 41 week period ended December 29, 1984. The loss in 1985 from normal operations continued to be high at $19,404,000 (versus $23,290,000 in 1984). Losses were further aggravated by current and projected future costs of discontinuing and/or converting retail operations. The possible future benefit of tax loss carry-forwards has not been recorded in the financial statements, although a recovery may occur in future years. Together, these operations created a net loss before extraordinary items for the year of $19,407,000 compared to a net loss of $11,625,000 in 1984.

In accordance with its plans outlined in the 1984 Annual Report, in 1985 Domgroup disposed of certain retail, wholesale and food service operations in Ontario and New Brunswick, as well as certain subsidiaries. In addition, Domgroup also sold ten conventional grocery stores and two distribution centres in Nova Scotia, as well as the Ontario assets of its subsidiary 146919 Canada Limited (formerly General Bakeries Limited). The Ottawa distribution centre of Willett Foods (a wholly-owned subsidiary of Domgroup) and certain of Domgroup's Supermarkets were closed during the past year. These divestitures, all of which were concluded at or near book value, yielded gross proceeds of approximately $250 million. Net cash proceeds, after discharging related payables and mortgages, were used to replenish working capital depleted by operations, to repay short term debt, to finance expansion of continuing operations and to fund the significant costs associated with such divestitures and closures.

In the Hollinger Interim Report for the third quarter of 1985, it was indicated that Dominion Stores Limited (now Domgroup Ltd.) had applied in November, 1985, for regulatory approval of recovery of a portion of the surpluses in its pension plans. With the prior consent of the Pension Commission of Ontario, Domgroup withdrew an aggregate of $62.3 million of surplus from its union, key personnel and executive pension plans in January of 1986 leaving an aggregate surplus of $10.5 million in the plans. Domgroup had previously withdrawn $16.5 million from its union pension plans in 1983, also with the prior consent of the Commission. In February, 1986, an application was commenced under the Judicial Review Procedure Act (Ontario) against the Pension Commission of Ontario and Domgroup seeking an order of the Supreme Court of Ontario quashing the consent of the Commission to the withdrawal by Domgroup of the total $38 million of surplus which was withdrawn in January of 1986 from the union pension plans and directing Domgroup to return such amount to those plans. Domgroup has complied with an interim order of the Court in those proceedings by delivering to a corporate trustee letters of credit of a Canadian chartered bank (guaranteed by Hollinger) in the aggregate amount of $40.25 million as security for the $38 million and interest thereon pending a final judicial determination of entitlement to the surplus in separate declaratory proceedings which have been commenced by Domgroup. Domgroup is defending the judicial review proceedings and is pursuing its declaratory proceedings vigorously. Hollinger continues to believe that Domgroup has acted lawfully and properly in withdrawing surplus from its pension plans. However, because the litigation is in the early stage of proceedings and involves novel and complicated legal and factual issues, it is not possible to forecast its duration or its ultimate outcome and financial implications. Domgroup has recorded as income for 1985 $31.2 million on account of pension surplus. For the fiscal years ended December 29, 1984, March 17, 1984, and March 19, 1983, $2.1 million, $2.4 million and $2.8 million, respectively, of pension surplus were included in income in accordance with Domgroup's policy of bringing experience gains or losses into income on an amortized basis over 10 years. In fiscal 1983 an additional $15.4 million on account of pension surplus in the union pension plans was included in income.

At year end, Domgroup and its subsidiaries comprised a food wholesaling, processing and retailing group which owns Willett Foods Limited (including its interest as franchisor in 48 Mr. Grocer franchise retail stores in Ontario, together with three food service operations under the names Marsh Foods in Windsor, Chef Foods in London, and KW Foods in Kitchener), Eplett Dairies, Hiway Market in Kitchener, a 60% interest in a joint venture in retailing and wholesaling in Newfoundland, 49 retail supermarkets from Saskatchewan to Nova Scotia and certain real estate holdings. Domgroup intends to continue rationalizing its operations and to implement cost-cutting techniques in the first half of 1986, with a view to having a stable base of profitable operations during the second half of the year. A provision for the cost of anticipated downsizing activity has been made in the 1985 accounts, even where precise determination of amounts at issue and eventual total expenses are not possible. 1986 results will be affected, either positively or negatively, to the extent that management's estimates are not borne out by actual events.

Domgroup's management gratefully acknowledges the patience and support of customers and staff alike during this trying period in its history.

THE DAILY TELEGRAPH plc

In February, 1986, Hollinger acquired a 49.8% interest in The Daily Telegraph plc (the "Telegraph") and in May, 1986, acquired a further 8% interest therein from The Ravelston Corporation Limited. The cost of the investment aggregated approximately $66.7 million (Canadian). Hollinger has, until June 14, 1995, a right of first refusal over 20,500,000 ordinary shares of the Telegraph now owned by The Telegraph Newspaper Trust, the former controlling shareholder. In addition, Hollinger has a call option to purchase up to 10,234,500 ordinary shares of the said 20,500,000 shares from The Telegraph Newspaper Trust. The call option is exercisable, in whole or in part, at a price of 100 pence per share at any time or times before September 30, 1989 or before listing of the ordinary shares of the Telegraph on The London Stock Exchange, if earlier. If the call option has not been exercised in whole by Hollinger before its expiry, then The Telegraph Newspaper Trust has the right to require Hollinger, upon expiry of the option, to purchase any or all of the shares which were the subject of the option at

100 pence per share, provided the Telegraph has not traded at a loss before income taxes and extraordinary items during the year ended March 31, 1989.

The Telegraph and its subsidiaries are primarily engaged in the publishing, printing and distribution of The Daily Telegraph and The Sunday Telegraph together with its colour magazine. The Daily Telegraph was founded in 1855 and, until the advent of the popular press in the late 19th century, it is thought to have had the largest newspaper circulation in the world. Today The Daily Telegraph continues to dominate the United Kingdom quality daily newspaper market with a circulation in excess of the other three quality newspapers combined, although the average circulation of both The Daily Telegraph and The Sunday Telegraph has declined over the last five years. In 1985 the average world wide circulation of The Daily Telegraph and The Sunday Telegraph was approximately 1,200,000 and 700,000 copies, respectively.

In 1984, after several years of planning, the Telegraph decided to proceed with the complete replacement of its existing composition and printing facilities with technologically advanced photocomposition and web-offset printing equipment. The Telegraph had recognised that its existing production equipment and processes were outdated, in common with those of much of the national newspaper industry in Britain, resulting in severe limitations on production quality with adverse consequences both for the appeal to readers and to advertisers as an advertising medium and for profitability. Negotiations related to the introduction of the new equipment are taking place with the trade unions with a view to reducing manning and wage levels, reaching agreement on redundancy terms and implementing new work practices. The Telegraph's new production facilities in Manchester commenced operations on schedule on January 1, 1986. These facilities have replaced the previous contract printing arrangements for the northern edition of The Daily Telegraph, which is now being produced in high quality print resulting from the new equipment. The construction of the Telegraph's new facilities in London is also on schedule, with first commercial production planned for the last quarter of 1986 and full commercial production in the first half of 1987.

As the Telegraph's financial year ended March 31, 1986 progressed, its operating results fell substantially behind management projections made for that year. By September 30, 1985, the Telegraph had incurred a trading loss which, together with exceptional costs, amounted to £6.7 million instead of a profit which had been expected for the period. The principal reasons for this loss were lower advertising volume, partly as a result of significant discounting by competitors, additional labour costs in connection with the transition to photocomposition, some shortfall in circulation revenue and contributions to a new pension plan for printers. Payments made in connection with the rationalization of employee practices, amounting to some £9.8 million, were also included as extraordinary items in the Telegraph's accounts for the period in question and were in line with management's earlier projections. The cash flow position of the Telegraph became critical and short term projections showed that it was continuing to incur trading losses and would have had insufficient funds to meet its commitments up to the end of December, 1985. It was also apparent that the Telegraph's bankers were in a position to declare it in default under its then existing loan and lease facility agreements. In December, 1985, the agreement was entered into whereby Hollinger agreed to, inter alia, subscribe for approximately £14.4 million of new equity and to underwrite a rights issue of approximately £5.6 million. This agreement also provided that Hollinger and Ravelston would together acquire a majority of the equity in the Telegraph. Principally as a result of this agreement, the Telegraph's bankers agreed to reinstate the existing loan facility and agreed to a further facility of up to £10 million.

Management accounts indicate that since September, 1985, the Telegraph has been operating at a loss after exceptional items but before tax and extraordinary items. The new senior management of the Telegraph is drawing up revised plans for operations and, in the short term, the main objectives are to improve the cost structure of the business and improve revenue. Steps have already been taken to build on the editorial strength of the newspapers, while eliminating certain weaknesses that have arisen in recent years, and the management structure of the Telegraph is also being changed. In addition, new budgetary and cost control systems are being introduced.

The Telegraph believes that, in due course, it will obtain the full benefit of new higher quality production of its newspapers. However, the Telegraph faces an extremely difficult period of operating in the short to medium term but one which, with sound management and the co-operation of all employees, should result eventually in a stronger company with modern printing technology and business methods capable of long-term profitability.

The scale of the re-organization necessary within the Telegraph and the time required both for the new facilities to come into full operation and for the necessary reduction in manning to be achieved all create substantial uncertainty. In addition, the Telegraph is operating in an increasingly competitive environment which is still developing in the British national newspaper industry. However, given the proven loyalty of its readership and the many anticipated positive changes in the industry and in the Telegraph, it is hoped the Telegraph will be able to return to profitability without inordinate delay.

Valley Cable TV

On December 31, 1985, Hollinger completed the purchase of a 100% interest in Valley Cable TV, a California limited partnership, from Standard Broadcasting Corporation Limited, in accordance with the provisions of an agreement dated May 8, 1985, under which Hollinger agreed to sell its interest in Standard Broadcasting to Slaight Communications and, if required by Slaight, to purchase Valley Cable from Standard Broadcasting. On October 7, 1985, Slaight elected to require Hollinger to complete the purchase. Valley Cable owns and operates a cable television system in the Los Angeles metropolitan area which it acquired in June, 1983. All financial information in this section is expressed in U.S. dollars.

The Valley system covers the West San Fernando Valley of Los Angeles and the City of San Fernando, California. The non-exclusive franchises for these two areas were awarded to Valley Cable in 1980 and 1982, respectively. The cable plant in the Valley system has 61 channel capacity and two-way capability. The following table sets forth selected operating data as of the fiscal year-end August 31, 1985.

	West Valley Los Angeles	San Fernando	Totals (1)
Miles under franchise	1,213	38	1,251
Complete miles	1,213	38	1,251
Homes in franchise area	170,500	5,500	176,000
Homes passed by cable	170,500	5,500	176,000
Basic subscribers	55,316	1,852	57,168
Percent Penetration	32.4%	33.7%	32.5% (2)
Pay TV Subscriptions	75,786	2,219	78,005
Pay Penetration	1.37	1.20	1.36 (3)

(1) All statistics are approximate.
(2) Basic subscribers divided by homes passed.
(3) Pay television subscriptions divided by basic subscribers.

Revenues for the year ended August 31, 1985, increased approximately 18% to $19,005,000 from $16,099,000 in 1984. Cable subscriptions over the same period increased 25.8% and 12.9% for basic subscribers and pay units, respectively. Operating margin (before management fees, depreciation, amortization and interest) increased approximately 605% to $5,215,000 from $750,000 in 1984. Net loss for the year declined 54% to $8,034,000 from $17,377,000 due to the aforementioned operating margin improvement and a $4.5 million extraordinary gain from the repurchase of $28,436,850 principal amount of subordinate debentures, which significantly improved the long term liquidity prospects of Valley Cable.

The following table sets forth selected operating data as of December 31, 1985, four months into the current fiscal year:

	West Valley Los Angeles	San Fernando	Totals
Homes in franchise area	173,000	5,600	178,600
Homes passed by cable	173,000	5,600	178,600
Basic Subscribers	57,012	1,907	58,919
Percent Penetration	33.0%	33.9%	33.0%
Pay TV Subscriptions	74,538	2,156	76,694
Pay Penetration	1.31	1.13	1.30

The following table shows selected unaudited financial information for the four months ended December 31, 1985, with comparative figures for the corresponding period in 1984:

	September to December 1985	September to December 1984
Basic subscription net gain	1,751	4,852
Pay subscription net gain	(1,316)	4,419
Revenue	$ 7,084,000	$ 5,790,000
Operating Margin	2,178,000	1,337,000
Net Loss	2,717,000	5,092,000
Long Term Debt	57,366,000	72,283,000
Owner's Equity (deficit)	$(15,256,000)	$(28,539,000)

Revenues for the four month period ended December 31, 1985, increased 22% to $7,084,000 from $5,790,000 in the same period in 1984. Operating margin increased 63% to $2,178,000 from $1,337,000 while net loss declined by 47% to $2,717,000 from $5,092,000 over the same period. A softening in the pay subscription market unfavourably impacted the retention of pay services by subscribers causing a deterioration in pay units. A net loss of 1,300 units was realized over the four months as compared to a 4,400 unit gain in 1984.

Valley Cable is now producing a positive cash flow and further improvements in its overall financial picture are anticipated in the current year.

Hees International Corporation

On March 7, 1986, Hollinger sold all of its 40% equity interest in Norcen Energy Resources Limited to Hees International Corporation in exchange for notes aggregating $137.25 million, bearing interest at the prime rate of a Canadian Chartered Bank, and six million common shares of Hees. $68.625 million of the notes were subsequently paid by Hees and the remainder matures on January 1, 1991. On May 1, 1986, four million of the six million common shares of Hees were sold for net cash proceeds of $114 million. The Norcen shares sold by Hollinger are now held indirectly by NCNH Holdings Ltd., a subsidiary of Hees formed for that purpose. Hees has indicated that it expects to grant to Brascan Limited or Brascade Resources Inc. a two year option to acquire the Norcen shares from NCNH. Hollinger has agreed to purchase, at Hees' request which may be made prior to January 1, 1991, $50 million of 9% junior cumulative convertible preference shares of NCNH and may pay the purchase price by delivering Hees notes valued at par or Hees common shares valued at $27 per share. In the event that the common shareholders' equity of Hollinger falls below $275 million Hollinger has agreed to deposit with NCNH security to cover the purchase price. Hollinger has three representatives on the Board of Directors of Hees.

Hollinger now holds a 5.5% equity interest in Hees, a corporation which provides a wide range of merchant banking services to a select group of clients and holds interests in established companies where its intitiatives can enhance values. Hees management services include acquisition advice, operational evaluation, personnel development, corporate restructuring, investment monitoring and loan and asset workouts. In the field of financial services Hees provides financing programs, underwriting support, money market activities, risk management, equipment leasing and project financing. The principal corporate investments of Hees are Brascan Holdings Limited (49%), Carena-Bancorp Inc. (37%), Dexleigh Corporation (33%), Norcen Energy Resources Limited (40%) and North Canadian Oils Limited (28%).

The following are excerpts from the Hees 1985 Annual Report which we believe will be of interest to Hollinger shareholders.

"During 1985 Hees strengthened its position as an important participant in the Canadian financial markets. Earnings increased for the fourteenth consecutive year to $83.7 million compared to $52.6 million in 1984 and are expected to exceed $100 million in 1986, two years ahead of the target set in the company's previously announced five year plan.

"After providing for preferred share dividends, net income per common share in 1985 amounted to $2.00, a 25% increase over the previous year.

"The company's strong earnings performance reflects improved contributions from each of the company's principal areas of business. As in prior years, more than 75% of Hees' income was derived from its merchant banking activities.

"Given Hees' positive earnings outlook, dividends per common share were increased by 41% to $0.60 for the year. This increase is consistent with the company's objective to maximize shareholder returns from increased dividends as well as growth in the value of the shares based on higher earnings.

"As a measure of Hees' success, the 1985 edition of the Globe and Mail Report on Business 1000, ranked Hees fourth in Canada among companies having the highest five year growth in profits, and tenth in having the highest five year growth in assets.

"In a study of ten important financial ratios, Hees outperformed all major Canadian financial institutions, a significant reason Hees' preferred shares and commercial paper enjoy senior credit ratings."

Hees International Corporation

Selected Financial Information	1985	1984
	(in thousands)	
Total		
Gross revenues	$ 125,827	$ 82,394
Net income	83,731	52,625
Dividends	41,337	21,430
Assets	1,399,065	865,376
Shareholders' equity	788,833	582,338
Per common share		
Net income	$2.00	$1.60
Market prices		
High	24.50	22.38
Low	19.50	15.88
Close	$24.25	$22.00

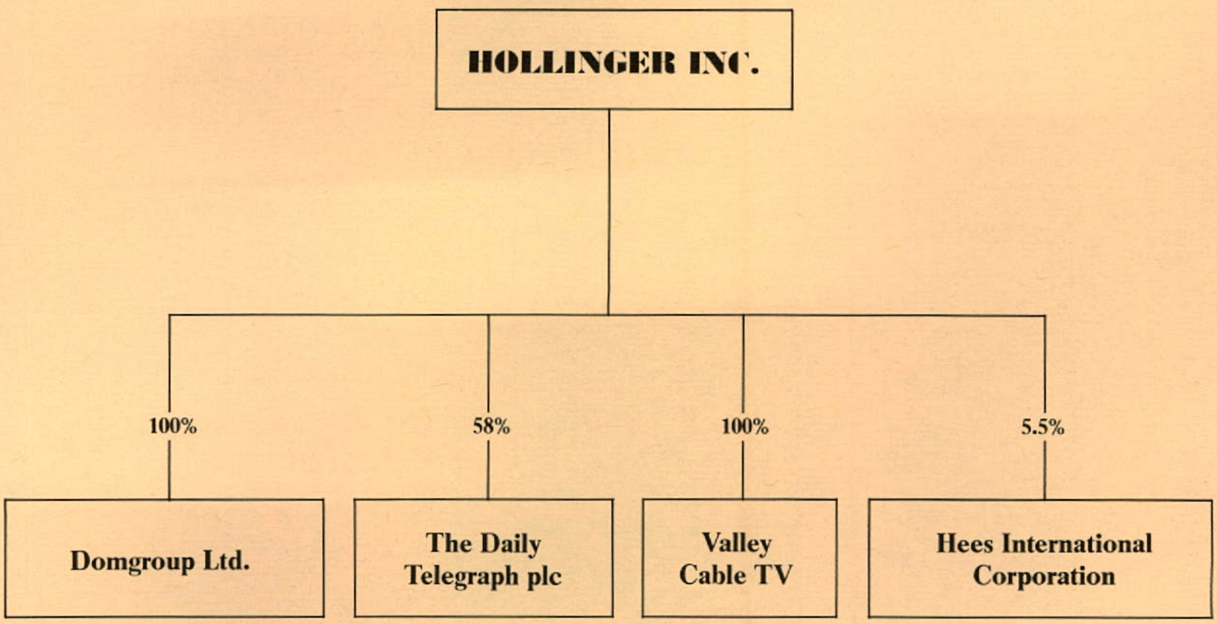
DIRECTORS

We regret that we are losing through retirement Mrs. Beryl A. Plumptre, one of our senior Directors. Mrs. Plumptre became a Director of Dominion Stores Limited in 1978, joined the Board of Argcen Holdings Inc. in 1984 and that of Hollinger Inc. in 1985. She takes with her our grateful appreciation for her good services to these companies and best wishes for the future.

We are pleased to welcome to the Board Mr. Peter G. White who returned in March, 1986, from his position as Special Assistant, Appointments, Office of the Prime Minister of Canada, and has been appointed as President and Chief Executive Officer of Domgroup Ltd. Prior to his tour of duty in the P.M.O., Mr. White had been a director of a number of companies within the group.

SUBMITTED ON BEHALF OF THE BOARD

CONRAD M. BLACK
Chairman of the Board,
President and
Chief Executive Officer



HOLLINGER INC.

Consolidated Balance Sheet as at December 31, 1985

(in thousands of dollars)

	1985	1984
ASSETS		
CURRENT ASSETS		
Cash	$ 52	$ 125
Short term investments, at cost	15,651	33,223
Accounts receivable	88,567	65,455
Income taxes recoverable	19,855	12,498
Merchandise	44,813	163,409
	168,938	274,710
INVESTMENTS (notes 3, 4, 18 and 19)	435,193	410,187
FIXED ASSETS (note 5)	132,724	330,745
DEFERRED CAPITAL GAINS TAX (note 10)	67,405	67,405
OTHER ASSETS	3,431	6,417
	$ 807,691	$ 1,089,464

APPROVED BY THE BOARD

Conrad M. Black

C. M. BLACK, Director

Dixon S. Chant

DIXON S. CHANT, Director

	1985	1984
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness (note 6)	$ 101,730	$ 30,989
Promissory notes and accrued interest	30,437	52,181
Accounts payable and accrued expenses	116,182	173,551
Due to parent company	1,118	—
Current portion of long term debt and obligations under capital leases	4,163	4,921
	253,630	261,642
LONG TERM DEBT (note 7)	56,611	133,142
OBLIGATIONS UNDER CAPITAL LEASES (note 8)	28,718	52,483
DEFERRED INCOME TAXES	6,200	13,021
MINORITY INTEREST	—	508
DEFERRED GAIN (note 9)	139,721	143,508
	484,880	604,304
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 11)		
Authorized		
Unlimited number of common shares and an unlimited number of preference shares		
Issued and fully paid		
1,850,000 Preference shares	37,000	37,000
13,742,505 Common shares (1984 — 16,394,257 shares)	187,809	224,730
	224,809	261,730
RETAINED EARNINGS	98,002	223,430
	322,811	485,160
	$ 807,691	$ 1,089,464

Subsequent events (notes 18 and 19)
Contingencies (notes 4, 16 and 17)

Consolidated Statement of Earnings

Year Ended December 31, 1985
(in thousands of dollars)

	1985	1984
REVENUE		
Sales	$ 1,146,141	$ 1,572,854
Investment and other income	338	3,900
	1,146,479	1,576,754
Cost of goods sold and expenses, except those shown below	1,156,299	1,557,620
Depreciation and amortization	22,321	27,492
Interest on long term debt	5,019	9,526
Interest on obligations under capital lease	5,138	5,141
Other interest	17,285	10,072
Gain on sale of surplus land and buildings	—	(3,477)
Write-down of property	—	1,900
Store closing expenses (note 12)	3,986	18,300
Pension plan funding excess (note 16)	(19,800)	—
	1,190,248	1,626,574
Loss before recovery of income taxes	43,769	49,820
Provision for recovery of income taxes (note 13)	19,047	26,724
Loss before equity earnings, minority interest and extraordinary items	24,722	23,096
Equity earnings (note 14)	25,121	21,212
Income (loss) before minority interest and extraordinary items	399	(1,884)
Minority interest	—	2,885
Income (loss) before extraordinary items	399	(4,769)
Extraordinary items (note 15)	10,046	—
NET INCOME (LOSS)	$ 10,445	$ (4,769)
NET INCOME (LOSS) PER SHARE		
Income (loss) before extraordinary items		
Basic	$(.15)	$(.32)
Fully diluted	$(.15)	$(.32)
Net income (loss)		
Basic	$ .51	$(.32)
Fully diluted	$ .51	$(.32)

HOLLINGER INC.

Consolidated Statement of Retained Earnings

Year Ended December 31, 1985
(in thousands of dollars)

	1985	1984
RETAINED EARNINGS AT BEGINNING OF YEAR	$ 223,430	$ 242,749
Net income (loss)	10,445	(4,769)
	233,875	237,980
Dividends — common	123,671	10,584
— preference	2,736	885
Premium paid on repurchase of common shares	9,466	3,081
	135,873	14,550
RETAINED EARNINGS AT END OF YEAR	$ 98,002	$ 223,430

Consolidated Statement of Changes in Financial Position

Year Ended December 31, 1985
(in thousands of dollars)

	1985	1984
WORKING CAPITAL DERIVED FROM:		
Operations	$ 5,018	—
Proceeds on disposal of assets	221,309	$ 17,232
Decrease in assets under capital lease — net	11,917	—
Increase in obligations under capital lease — net	—	1,898
Increase in long term debt	—	52,916
Issue of preference shares	—	37,000
	238,244	109,046
WORKING CAPITAL APPLIED TO:		
Operations	—	504
Provisions for rationalization of operations net of goodwill write-down and recovery of income taxes (note 15)	15,933	—
Investment in fixed assets	10,719	51,833
Dividends	126,407	11,469
Increase in assets under capital lease — net	—	4,538
Investments	40,157	61
Redemption of common shares	46,165	4
Investment in joint venture		
Purchase of shares	—	5,062
Transfer of net non-current assets	—	(2,802)
Purchase of common shares for cancellation	208	40,650
Decrease in obligations under capital lease — net	19,884	—
Decrease in long term debt	76,531	—
	336,004	111,319
DECREASE IN WORKING CAPITAL	97,760	2,273
WORKING CAPITAL AT BEGINNING OF YEAR	13,068	15,341
WORKING CAPITAL (DEFICIENCY) AT END OF YEAR	$ (84,692)	$ 13,068

Notes to Consolidated Financial Statements

YEAR ENDED DECEMBER 31, 1985
(Tabular amounts are in thousands of dollars except where noted)

1. CORPORATE REORGANIZATION

By agreement dated August 23, 1985, effective September 17, 1985, Argcen Holdings Inc. (Argcen), Hollinger Argus Limited (Hollinger Argus) and Labmin Resources Limited (Labmin) amalgamated to form Hollinger Inc. (the company). The amalgamation was effected as follows:

(i) The conversion of each common share of Argcen into an equivalent common share of the company;

(ii) the conversion of each common share of Hollinger Argus, other than shares owned by Argcen, into 2.5 common shares of the company;

(iii) the conversion of each preferred share of Hollinger Argus into an equivalent preference share of the company;

(iv) the conversion of each common share of Labmin, other than shares owned by Hollinger Argus, into 3.5 common shares of the company.

The amalgamation has been accounted for as though it were a pooling of interests and accordingly the consolidated financial statements reflect the combined operations of Argcen, Hollinger Argus and Labmin. Comparative figures for 1984 give effect to the amalgamation as if it had taken place January 1, 1984.

2. ACCOUNTING POLICIES

(a) Principles of consolidation
The consolidated financial statements include the accounts of the company and its wholly-owned subsidiary Dominion Stores Limited (Dominion). The comparative figures include the results of Dominion for the 41 weeks ended December 29, 1984 as Dominion changed its fiscal year end during the comparative period.

(b) Merchandise
Merchandise is located at both stores and warehouses. These inventories have been valued at the lower of cost and market. The term "market" as it applies to store inventories means "net realizable value" and, to warehouse inventories "replacement cost" or "net realizable value", as appropriate.

(c) Investments
The investment in Norcen Energy Resources Limited (Norcen) has been accounted for by the equity method. The excess of the cost of the investment over the underlying book value has been ascribed to the oil and gas reserves and exploratory acreage. The amount ascribed to exploratory acreage is being brought into the amortization calculation over six years, which is the estimated period of development of such acreage. The balance of the excess of cost of the investment over the underlying book value is being amortized on the unit of production method, based on total estimated proven recoverable reserves. Effective January 1, 1985 the company changed the basis of amortization from the production revenue method to the unit of production method. This change had no material effect on the current year's results. See note 18.

The investment in 49.4% owned Standard Broadcasting Corporation Limited (Standard Broadcasting) has been accounted for by the equity method to August 31, the fiscal year end of Standard Broadcasting and to September 19, 1985 the date of disposition. See notes 3(b) and 15.

The 60% investment in Amalco Holdings Limited (Amalco), a corporate joint venture formed September, 1984, has been accounted for by the equity method.

Other investments are accounted for by the cost method.

(d) Fixed assets
Fixed assets (including significant renewals and betterments) are capitalized at cost. Provisions for depreciation and amortization are determined on a straight-line basis over the estimated useful lives of the assets as follows:

Store, warehouse, office and other equipment	—	3 to 20 years
Buildings	—	40 years
Leasehold improvements	—	term of lease

(e) Leases
Leases entered into subsequent to March 17, 1979 that transfer substantially all of the benefits and risks incident to the ownership of property are classified as capital leases. Assets recorded under capital leases are amortized on a straight-line basis over the estimated useful lives of the assets as described in note 2(d) or over the lease term, as appropriate. Obligations under capital leases are reduced by rental payments net of imputed interest and executory costs. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

(f) Earnings per share
Basic earnings per common share have been calculated using the weighted average number of common shares outstanding during the year of 15,068,381 (1984 — 17,611,669).

Fully diluted earnings per share assumes conversion of all outstanding preference shares from the date of issue.

3. INVESTMENTS

	1985	1984
(a) Norcen (note 18)		
10,262,950 Voting ordinary shares (37.8% interest)		
9,643,250 Non-voting ordinary shares (44.7% interest)	$388,914	$366,864
Valley Cable TV (note 4)	29,650	—
Standard Broadcasting		
2,885,975 Shares (49.4% interest)	—	30,165
Amalco	5,094	5,097
Mortgages and other investments	11,535	8,061
	$435,193	$410,187

(b) On September 19, 1985 the company sold its interest in Standard Broadcasting for $63,453,000 resulting in a gain of $26,401,000 net of income taxes of $8,760,000.

4. INVESTMENT IN VALLEY CABLE TV

On December 31, 1985 the company acquired from Standard Broadcasting all of the shares of Valley Cable TV, Inc. (VCTV) and CSBC Inc., together with all of the outstanding partnership interests (other than the interests owned by VCTV and CSBC Inc.) in Valley Cable TV, a Limited Partnership which owns and operates a cable television system in the San Fernando area of Los Angeles, California. The consideration was cash of $29,650,000 and guarantee of Valley Cable TV's bank borrowings to a maximum of U.S. $61,486,000. (Total borrowings at December 31, 1985 were U.S. $57,366,000).

Under its line of credit agreement Valley Cable TV may borrow up to a maximum of U.S. $58,000,000. This agreement contains covenants relating to, among other things, minimum subscriber counts, cash flow, debt to cash flow ratios, and debt per subscriber. At December 31, 1985 Valley Cable TV was not in compliance with certain covenants. Such events of non-compliance entitle the bank to demand immediate repayment of the outstanding obligations. No such demand for acceleration of payment has been received. The bank has reserved its right for immediate repayment and has not issued any waiver of non-compliance.

Valley Cable TV's management believes that additional financing is required for future capital needs designed to sustain subscriber growth over the longer term. Management of Valley Cable TV is in the process of negotiating a revised credit agreement with the bank.

5. FIXED ASSETS

	1985	1984
Land	$ 11,211	$ 18,188
Buildings and leasehold improvements	54,119	150,017
Store, warehouse, office and other equipment	120,990	312,052
Assets under capital leases	37,514	60,986
	223,834	541,243
Accumulated depreciation and amortization	91,110	210,498
	$132,724	$330,745

6. BANK INDEBTEDNESS

The bank indebtedness at December 31, 1985 was secured by the Norcen shares and subsequently by securities substituted for Norcen. See note 18.

7. LONG TERM DEBT

	1985	1984
14% Term loan	—	$ 53,000
Redeemable sinking fund debentures —		
9¾% Series "D" maturing December 1, 1990	$ 9,571	10,764
9¾% Series "F" maturing July 15, 1997	37,530	44,195
Secured income debenture — bearing interest at one-half of the bank's prime rate plus 1¾% payable quarterly out of available profit, maturing June 15, 1987	9,000	9,500
Non-interest bearing note, mortgages payable and promissory notes bearing interest at rates from 9½% to 16¾%	2,621	2,938
Mortgages payable	—	15,435
	58,722	135,832
Less: Current portion included in current liabilities	2,111	2,690
	$ 56,611	$133,142

The holder of the income debenture has the right to call for repayment, if certain profitability levels, as defined, are not met or certain changes are made to the Income Tax Act (Canada) or the Regulations thereto which adversely affect the holder of the income debenture.

The principal amounts payable, other than for obligations under capital leases, in the next five fiscal years are:

1986	$ 2,111
1987	11,755
1988	3,414
1989	3,904
1990	3,904

8. LEASE COMMITMENTS

(a) Future minimum payments under capital and operating leases are as follows:

	Capital Leases	Operating Leases		
		Gross	Sublease	Net
Fiscal years ending —				
December 1986	$ 6,442	$ 15,133	$ 10,096	$ 5,037
1987	5,994	14,517	10,483	4,034
1988	5,724	13,804	10,247	3,557
1989	4,523	12,021	6,984	5,037
1990	4,247	9,356	4,302	5,054
Subsequent	52,097	91,131	40,313	50,818
Total future minimum lease payments	79,027	$155,962	$ 82,425	$ 73,537
Less: Imputed interest and executory costs	48,257			
	30,770			
Less: Current portion included in current liabilities	2,052			
Present value of obligations under capital leases bearing interest at a weighted average rate of 14%, due from 1987 to 2010	$ 28,718			

Certain leases contain an option to cancel. Should Dominion exercise these options it could be required to purchase the related properties.

Capital lease accounting principles have not been applied to those leases in existence on March 17, 1979. As a result, leases in existence on March 17, 1979, which meet the definition of a capital lease have been accounted for as operating leases. Had the accounting principle been applied retroactively, net investment in assets under capital leases of $12,839,903 (1984 — $36,769,000) and related lease obligations of $18,185,792 (1984 — $52,581,000) would have been recorded on the balance sheet; and income for the current period would have been increased by $671,000 (1984 — net earnings decreased by $944,000).

(b) Dominion is jointly and severally liable for the compliance by the purchasers with the terms of certain lease commitments and obligations with respect to operations sold in prior years. However, Dominion has been indemnified by the purchasers for any losses that may occur.

9. DEFERRED GAIN

On July 28, 1983 the company transferred its mineral resource assets and the shares of a former majority owned subsidiary, Labrador Mining and Exploration Company Limited, to Norcen in exchange for Norcen shares and cash. The transfers were done on a tax-free rollover basis resulting in no immediate gain or loss for income tax purposes. However, there was a gain of $158,424,721 for accounting purposes which is being deferred as it arose in a related party transaction. This gain is represented in Norcen by the excess of the cost of their investment over the net book value of the assets acquired and is being amortized by Norcen over forty years. The company is transferring this deferred gain to income over forty years which is the same basis on which Norcen is amortizing its excess cost. In addition the company transfers to income that portion of the gain that is realized through any dilution or sale of the company's investment in Norcen. See note 18.

10. DEFERRED CAPITAL GAINS TAX

As a result of the value elected for income tax purposes on July 28, 1983 on the acquisition of its Norcen shares, any future disposition of these shares by the company will result in a larger gain for income tax purposes than for accounting purposes. The potential capital gains tax liability of $67,405,111 the company would have incurred as of the date of acquisition of the shares has been recorded in the accounts as a reduction of the carrying value of the Norcen shares and as a deferred capital gains tax charge which will be charged to earnings on disposition of the Norcen shares. This potential capital gains tax liability was calculated based on the value ascribed to the Norcen shares on July 28, 1983. See note 18.

11. CAPITAL STOCK

(a) The Series A preference shares are floating rate, cumulative and convertible. Dividends are payable quarterly at a rate of 2% plus one-half of the average bank prime rate for the period. The shares are convertible in whole as a series at any time, and in multiples of 250,000 shares from time to time, after July 31, 1989 in the ratio of one Series A share to the number of common shares equal to $20.00 divided by the market price per common share at time of conversion.

(b) Transactions in issued common share capital were as follows:

	Number of shares	Amount
Outstanding at January 1, 1984	18,844,988	$257,473
Repurchased for cancellation	2,450,731	32,743
Outstanding at December 31, 1984	16,394,257	224,730
Repurchased for cancellation	2,651,752	36,921
Outstanding at December 31, 1985	13,742,505	$187,809

12. PROVISION FOR STORE CLOSING EXPENSES

In 1984 Dominion made provision for estimated expenses including lease termination costs and losses on disposal of leasehold improvements and equipment that were expected to be incurred in connection with the closure of certain of its supermarkets. The provision of $18,300,000 represented management's best estimate of the expenses to be incurred in connection with the store closings; however, because of the complexities of this program it was not possible to make a precise determination of the eventual total expenses. During the year a further $3,986,000 has been charged to operations in respect of the closures provided for in 1984. Gains and losses in respect of the rationalization of the retail, wholesale and manufacturing operations that were undertaken during 1985 are classified as extraordinary items and are described in note 15.

13. INCOME TAXES

The consolidated effective income tax recovery rate is made up as follows:

	1985	1984
Combined basic federal and provincial income tax recovery rate	51.0%	51.0%
Capital gains	0.1	2.8
Inventory allowance	5.6	4.6
Tax losses for which no benefit is recognized	(12.8)	—
Other	(0.4)	(4.8)
	43.5%	53.6%

14. EQUITY EARNINGS

	1985	1984
Norcen		
Company's interest in earnings	$40,753	$32,346
Amortization of excess of cost over underlying book value	(17,116)	(15,996)
Adjustment of carrying value of investment as a result of Norcen issuing additional ordinary shares	(101)	(533)
Realization of a portion of deferred gain (note 9)	5,471	4,167
	29,007	19,984
Standard Broadcasting		
Company's interest in earnings (loss)	(3,883)	1,193
Amalco	(3)	35
	$25,121	$21,212

15. EXTRAORDINARY ITEMS

Loss on rationalization of operations (net of income taxes of $7,013,000)	$(18,533)
Gain on sale of Standard Broadcasting (net of income taxes of $8,760,000)	26,401
Company's share of extraordinary gain in Standard Broadcasting on repurchase of debentures	2,178
	$ 10,046

During the year, Dominion and its subsidiaries sold, closed or franchised 130 supermarkets, convenience stores, the head office building, seven distribution centres, the Atlantic Canada food service operations, bakery and meat processing plants, gas bar operations and certain trademarks and licences. In addition, certain corporate owned supermarkets have been identified for possible closure in the future.

The loss on rationalization of operations includes gains and losses arising on the sale of assets, provisions for future costs to be incurred on store and office closings, pension plan funding excess gains and past and present employee severance and retiree costs.

16. PENSION PLANS

Based on an actuarial valuation as at November 1, 1985, a net pension surplus of $72,800,000 had arisen which was attributable to experience gains and a change in the actuarial asset valuation method from market related value to current market value. The experience gains are comprised primarily of favourable investment performance and annuitization of retirees' entitlements. Dominion withdrew $62,300,000 of surplus from its union and non-union pension plans in January, 1986, with the prior consent of the Pension Commission of Ontario. The remaining $10,500,000 represented the portion of the surplus which remained in the pension plans in accordance with the regulatory requirements.

In February, 1986, an application was commenced under the Judicial Review Procedure Act (Ontario) against the Pension Commission of Ontario and Dominion seeking an order of the Supreme Court of Ontario quashing the consent of the Commission to the withdrawal by Dominion of the total $38,000,000 of surplus which was withdrawn in January, 1986 from the union pension plans and directing Dominion to return such amount to those plans. Dominion has complied with an interim order of the Court in those proceedings by delivering to a corporate trustee letters of credit of a Canadian chartered bank (guaranteed by the company) in the aggregate amount of $40,250,000 as security for the $38,000,000, and interest thereon, pending a final judicial determination of entitlement to the surplus in separate declaratory proceedings which have been commenced by Dominion. Dominion is defending the judicial review proceedings and is pursueing its declaratory proceedings vigorously.

During the year, Dominion has recorded as income $31,200,000 of the pension surplus of which $11,400,000 is included in loss on rationalization of operations as an extraordinary item.

17. CONTINGENCIES

Dominion and a wholly-owned subsidiary are involved in certain litigation related to a franchising program which allege violations of certain collective bargaining agreements. The total amount in issue is not determinable. Dominion is vigorously defending these actions; however, if Dominion is ultimately unsuccessful, the damages awarded could have a material effect on the company's operating results.

18. SALE OF SHARES OF NORCEN

Pursuant to an agreement dated February 20, 1986 the company sold its 10,262,950 voting ordinary shares and 9,643,250 non-voting ordinary shares of Norcen to Hees International Corporation ("Hees") on March 7, 1986 in consideration for the following:

(i) 6,000,000 Common shares of Hees;

(ii) a promissory note in the amount of $68,625,000 bearing interest at the bank prime rate and callable on 30 days notice;

(iii) a promissory note in the amount of $68,625,000 bearing interest at the bank prime rate and due January 1, 1991;

(iv) a reinvestment commitment by the company to purchase from Hees, at their request, which may be made by Hees from time to time during the period August, 1986 to January 1, 1991, up to 5,000,000 9% cumulative convertible preferred shares at $10 each of a company to be formed to hold the shares of Norcen. The purchase price may be satisfied by tendering Hees promissory notes or Hees shares at $27 per share; and

(v) an agreement by the company that if its own common shareholders' equity falls below $275,000,000 it will deposit with Hees security to cover the unpaid portion of the reinvestment commitment.

On April 7, 1986 the company received $68,625,000 as proceeds of the promissory note referred to in (ii) above and on May 1, 1986 the company sold 4,000,000 common shares of Hees for net cash proceeds of $114,000,000. The proceeds from these two transactions were used in part to reduce bank indebtedness.

The sale of the Norcen and Hees shares will result in the deferred gain of $139,721,000 (Note 9) being recognized as income in 1986 and an undetermined amount of the deferred capital gains tax (Note 10) being charged to income.

19. INVESTMENT IN THE DAILY TELEGRAPH PLC

Pursuant to certain agreements dated December 6, 1985, January 23, 1986 and March 7, 1986 the company completed the purchase in 1986 at a cost of $47,725,000, of 46,643,750 ordinary shares (50% interest) of The Daily Telegraph plc (The Telegraph) an English company principally engaged in newspaper publishing. The company has also agreed to acquire from its parent company, The Ravelston Corporation Limited, at its cost of $18,975,000, a further 8% interest in The Telegraph.

The company has, until June 14, 1995, a right of first refusal over 20,500,000 ordinary shares of The Telegraph presently owned by The Telegraph Newspaper Trust, the former controlling shareholder. In addition, the company has a call option to purchase up to 10,234,500 ordinary shares of the said 20,500,000 shares from The Telegraph Newspaper Trust. The call option is exercisable, in whole or in part, at a price of 100 pence ($2.02 at February 21, 1986) per share at any time or times before September 30, 1989 or before listing of the ordinary shares on The London Stock Exchange, if earlier. If the call option has not been exercised in whole by the company before its expiry, then The Telegraph Newspaper Trust has the right to require the company, upon expiry of the option, to purchase any or all of the shares which were the subject of the option at 100 pence per share, provided The Telegraph has not traded at a loss before income taxes and extraordinary items during the year ended March 31, 1989.

The company has granted an option to the new Group Chief Executive of The Telegraph to acquire from the company, at a price of 100 pence per share, up to 5% of the total outstanding shares of The Telegraph less any shares he may already own or for which he holds an option to subscribe under any executive stock option plan operated by The Telegraph.

The company has agreed with the consortium of lending banks to The Telegraph not to sell its controlling interest in The Telegraph without the prior consent of the consortium, which consent shall not be unreasonably withheld.

The company's shares of The Telegraph have been pledged as partial security for bank indebtedness incurred by the company to finance this acquisition.

20. OPERATIONS

The results of operations of Dominion sold, franchised or terminated during the year which are included in the consolidated statement of earnings are summarized as follows:

	Retail and wholesaling operations	Manufacturing operations	Total
	(in thousands of dollars)		
Sales	$502,652	$ 62,149	$564,801
Cost of goods sold and expenses except depreciation and amortization	528,234	66,115	594,349
Depreciation and amortization	5,795	980	6,775
	534,029	67,095	601,124
Loss before interest, income taxes and other items	$ 31,377	$ 4,946	$ 36,323

21. Segmented Information

The company's operations are conducted primarily in Canada. Retailing and wholesaling and manufacturing are the major business segments of the company.

	1985	1984
Sales		
Retailing and wholesaling	$1,030,519	$1,479,345
Manufacturing	148,448	150,276
Inter-segment sales	(32,826)	(56,767)
	$1,146,141	$1,572,854
Operating profit (loss)		
Retailing and wholesaling	$ (9,860)	$ (23,689)
Manufacturing	(4,228)	(1,944)
Investment and other income	338	2,900
	(13,750)	(22,733)
General corporate expense	(2,577)	(2,348)
Interest	(27,442)	(24,739)
Income tax recovery	19,047	26,724
Equity earnings	25,121	21,212
Income (loss) before extraordinary items	$ 399	$ (1,884)
Assets		
Retailing and wholesaling	$ 325,970	$ 543,895
Manufacturing	38,552	71,180
Corporate	443,169	474,389
	$ 807,691	$1,089,464
Capital expenditure		
Retailing and wholesaling	$ 7,370	$ 42,747
Manufacturing	3,349	9,071
	$ 10,719	$ 51,818
Depreciation		
Retailing and wholesaling	$ 19,423	$ 24,897
Manufacturing	2,898	3,275
	$ 22,321	$ 28,172

AUDITORS' REPORT

To the Shareholders of
Hollinger Inc.

We have examined the consolidated balance sheet of Hollinger Inc. as at December 31, 1985 and the consolidated statements of earnings, retained earnings 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 December 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 on a basis consistent with that of the preceding year.

Toronto, Canada
February 21, 1986
(May 1, 1986 as to notes 18 and 19)

THORNE RIDDELL
Chartered Accountants

Distribution of shares

As at December 31, 1985

	Shareholders		Shares	
	Number	Per Cent	Number (thousands)	Per Cent
Alberta	42	1.55	54	.39
British Columbia	95	3.50	40	.29
Manitoba	35	1.29	61	.44
New Brunswick	29	1.07	3	.02
Newfoundland	8	.29	1	.01
Northwest Territories	64	2.36	6	.05
Nova Scotia	1	.03	—	—
Ontario	1,875	69.14	11,486	83.58
Quebec	337	12.43	1,986	14.45
Saskatchewan	13	.48	1	.01
Total Canadian	2,499	92.14	13,638	99.24
U.S.A.	161	5.94	81	.59
U.K.	23	.85	8	.06
Other foreign	29	1.07	15	.11
Total	2,712	100.00	13,742	100.00

Trading Data

The following table sets forth the high and low prices of the shares of Hollinger Inc. on The Toronto Stock Exchange for the periods indicated:

	High	Low
September 17, 1985 (date of amalgamation) to October 31, 1985	\$21	\$19½
November 1985	20¼	20
December 1985	20½	19½
First Quarter 1986	23	18

Dividends

From September 17, 1985 (date of amalgamation) to May 8, 1986, quarterly dividends of 10¢ per share were paid on December 16, 1985, and March 10, 1986. A quarterly dividend of 10¢ per share has been declared payable on June 10, 1986.

Annual Meeting

The Annual Meeting of Shareholders will be held in Commerce Hall, Commerce Court West, King and Bay Streets, Toronto, Ontario, on Friday, June 20, 1986, at 2.30 p.m., Toronto time. Shareholders are encouraged to attend the Meeting but those unable to do so are asked to sign and return the form of proxy mailed with this Report.

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