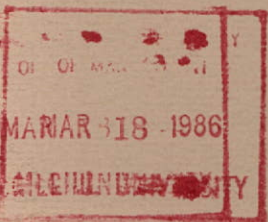


NORTHERN TELEPHONE LIMITED

ANNUAL REPORT 1985



Contents

Contents and Corporate Information _____	1
Corporate Profile _____	2
Directors _____	3
President and Department Heads _____	3
Message from President and Chief Executive Officer _____	4-5
Salute to Employees _____	6
Improving Services _____	7
Staying First in Communications _____	7
Meeting the Financial Challenge _____	8
Management Report _____	9
Auditors' Report _____	9
Balance Sheet _____	10-11
Statement of Income _____	12
Statement of Changes in Financial Position _____	13
Statement of Retained Earnings _____	14
Notes to Financial Statements _____	14-19
Statistics _____	20

Corporate Information

ADDRESS

25 Paget Street
New Liskeard, Ontario
P0J 1P0

TRANSFER AGENT

CENTRAL TRUST
COMPANY
Toronto

TRUSTEE

THE CANADA
TRUST COMPANY
Toronto and Montreal

AUDITORS

ROSS, POPE & COMPANY
Chartered Accountants,
Timmins, Ontario

BANKER

CANADIAN IMPERIAL
BANK OF COMMERCE
New Liskeard, Ontario

Corporate Profile

Northern Telephone Limited, a subsidiary of Bell Canada Enterprises Inc., provides local telephone service, sells and maintains a broad range of telecommunication services and equipment in Northeastern Ontario and provides data processing services throughout Ontario. Long distance telephone facilities are owned and operated by the Ontario Northland Transportation Commission. Northern Telephone receives commissions on long distance tolls.

The Company's service area covers approximately 83,000 square kilometres of North-eastern Ontario. At December 31, 1985, there were 31 exchanges with 51,496 telephone numbers in service. The Head Office is in New Liskeard.

The Company was originally incorporated as the Temiskaming Telephone Company Limited on April 5, 1905, in New Liskeard and opened its first exchange there the same year. By the end of that year, a second exchange had been opened in Cobalt.

The Company steadily extended service and, by the end of 1928, was serving Cobalt, Haileybury, New Liskeard, Englehart, Kirkland Lake, Rouyn-Noranda, Timmins, Schumacher, South Porcupine and Kapuskasing. In 1928 the name of the Company changed to Northern Telephone Company, Limited.

In the 1960's the Company was serving the Kenora, Red Lake and Atikokan areas in Western Ontario, the area north of Sault Ste. Marie along the Algoma Central Railway to Hearst and most of the area from Hearst in the west, to Chibougamau, in Northeastern Quebec, and south to Latchford in Ontario. In 1960, due to reorganizations and amalgamations, the corporate name changed to Northern Telephone Limited.

Bell Canada acquired control of Northern Telephone in 1966 as a result of a share purchase offer. In 1969, the Company's northwestern assets were sold to Bell Canada and, in 1976, the Company sold its Quebec subsidiary, Northern Quebec Telephone Inc., to Telebec Ltée in Quebec.

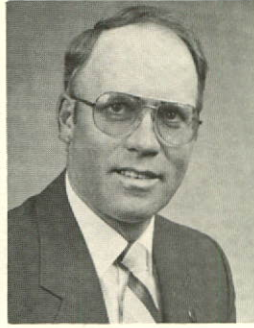


Northern Telephone's Head Office, "The McKelvie Building", located in New Liskeard, named in honour of Donald McKelvie, former President and Past Chairman of the Board, who served the Company for 47 years.

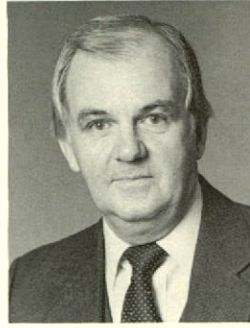
Directors



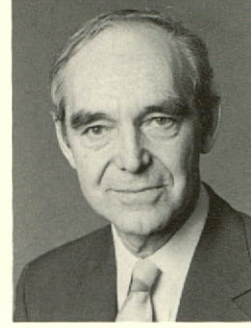
J.D. Archer
Chairman of the Board
Northern Telephone
Limited
President and
General Manager
Archers Dairy Limited



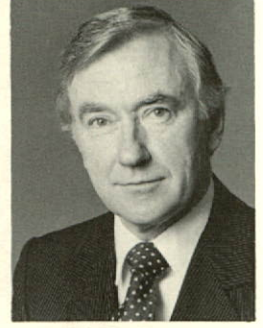
G.T. Bowman
Owner
Bowmanlea Farms



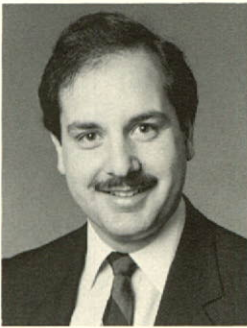
V.E. Brown*
President
Mike's Supermarket
(1962) Limited



R. Brunelle*
Director and Consultant
Spruce Falls Pulp & Paper



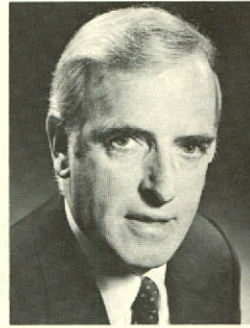
M.W. Cooper
President and
Chief Executive Officer
Northern Telephone Limited



D.O. Jarvis
Vice-President
and Treasurer
Bell Canada
Enterprises Inc.



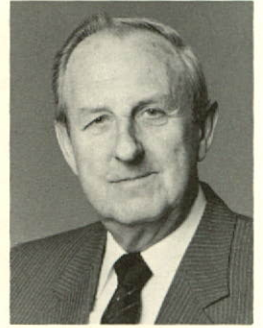
J.C. Lavigne
Former Chairman
of the Board
Northern Telephone
Limited



O.W. McAleer
Vice-President
Network Services
Bell Canada



D.R. Newman*
Vice-President
and Comptroller
Bell Canada
Enterprises Inc.



H.A. Roth
Vice-Chairman
of the Board
Northern Telephone
Limited

*Member of Audit Committee

President and Department Heads

Murray W. Cooper
President &
Chief Executive Officer

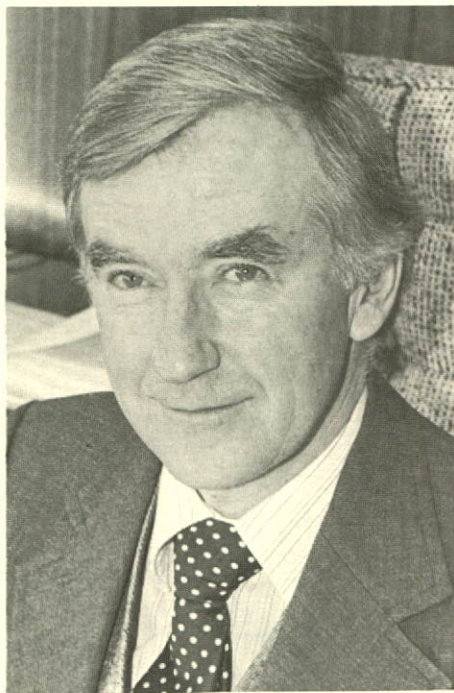
Dennis D. McCarty
Director - Administration &
Business Information Systems

John A. Parker
Director -
Customer Services

Thomas J. McKenney
Secretary-Treasurer &
Director - Marketing

D. Brien Sirola
Director -
Network Services

Message from the President and Chief Executive Officer



While 1985 marked the 80th anniversary of Northern Telephone's incorporation, it also served as a settling-in period for some fairly significant changes in the Canadian telecommunications industry. Those changes reflected a move on the part of regulatory bodies, several years earlier, to allow competition in the provisioning of telephone equipment and changed the traditional way in which telephone companies operated.

Northern Telephone has fared well in this new era of competition, maintaining the majority of its business customers through a host of quality products, flexible payment options, dedicated service, and last, but certainly not least, a determined effort by our employees.

The year 1985 saw the Company offer Dataforce, a comprehensive maintenance service for personal computers and related equipment. Further, the Company is actively seeking out other methods to provide needed services and increase Company earnings.

In financial terms, expenses increased at a slower rate than revenues. Ongoing maintenance and improvements to our telephone plant and enhancements to the Company pension plan accounted for the major portion of increased expenses while an increase in local rates and growth in long

distance messages accounted for the majority of increased revenues. The rate of return on average common equity for regulatory purposes on telephone operations was 16.0 percent, compared to 15.0 percent in 1984.

Local service revenues were \$14,001,000, a gain of \$979,000 or 7.5 percent over 1984. Higher rates effective January 7, 1985 account for approximately \$910,000 of the increase. Long distance revenues increased by \$814,000 or 8.2 percent to \$10,705,000 in 1985. This increase is primarily due to increased growth in toll messages which, during 1985, increased by 5.0 percent over 1984, and a 2.0 percent increase on long distance rates from January 1 to August 31.

As of the end of December, 1985, Northern Telephone had 51,496 telephone numbers in service, an increase of 805 or 1.6 percent over 1984.

A highlight in Northern Telephone's financial picture is the higher bond rating given the Company in 1985 by the Canadian Bond Rating Service (CBRS). In providing this improved rating CBRS recognized positive trends as well as fair regulatory treatment. In a capital-intensive operation such as ours, this higher rating is certainly good news.

Richard A.H. Taylor, a long-time Director, retired from the Company's Board in 1985. The Taylor family's contribution to Northern Telephone spanned 73 of the Company's 80 years of existence. Mr. Taylor, who served 36 years on the Board, 15 of those years as Vice President, was a valuable asset to the Board and the Company, and I would like to offer my personal appreciation to him.

Graydon T. Bowman of New Liskeard, a well-known member of Northern Ontario's agricultural community, was appointed to fill the vacancy left by Mr. Taylor's retirement. Another new member of the Board is Owen W. McAleer, Vice President, Network Services, Bell Canada, who was appointed in November of 1985. Hubert A. Roth stepped down as Chairman of the Board and was elected Vice Chairman. J. Dean Archer, who previously served as Vice Chairman, was elected Chairman.

The Collective Labour Agreement between Northern Telephone Limited and the Communications and Electrical Workers of Canada expired on February 28, 1985.

Negotiations between the two parties commenced in early 1985 and a settlement was reached in May. The new three-year agreement will expire February 28, 1988.

A good portion of the Company's success in 1985 can

be attributed to its employees. The Company recognizes the value of a well-trained and professional employee body and, therefore, affords every opportunity for training and self-development. In 1985, approximately 620 days were utilized for training in various technical, management and safety-related areas. Training is completed by both in-house classroom sessions and outside courses. Included in the 620 days of training were 123 days of in-house sessions on First Aid and Defensive Driving. This type of training has proven beneficial to employees both on and off the job.

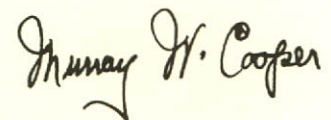
Northern Telephone employees are community-minded, as demonstrated by their involvement in municipal government, community projects, service clubs and the local chapter of the Telephone Pioneers of America. Employees have also been active in organizing several social functions such as baseball, golf and dances for fellow employees, pensioners and friends. I sincerely appreciate the efforts of all who have organized and participated in these events.

A group of employees known as the Community Relations Team promotes Northern Telephone as a good corporate citizen by providing training and telephone sets to area elementary schools and other learning institutions. As well, this team ensures the Company

is represented in local trade shows, public displays and parades. The employees and the Company also provided financial support for a variety of community fundraising activities.

In conclusion, 1985 was a good year for Northern Telephone. We have maintained our financial integrity while continuing to provide quality telecommunications services to people of the North. Our employees are dedicated to providing good service and are assisting in the Company's quest for an expansion of service offerings and increased Company earnings.

Looking to 1986, I see more of this same employee dedication, continued service improvements and enhancements for our customers and a reinforcement of our theme to remain "First in Communications in the North."



Murray W. Cooper - President & Chief Executive Officer



Salute to Employees

The success of a business enterprise can be attributed in a major way to the dedication of its employees. As depicted in photographs on this page, Northern Telephone employees contributed to the Company and the communities they serve during 1985.



Northern Telephone people are an involved and dedicated group of individuals both on and off the job and are to be congratulated for their fine efforts.

Murray W. Cooper
 President & Chief Executive Officer
 on behalf of the Board of Directors,
 Northern Telephone Limited



Improving Services

In order to ensure good quality telephone service to its customers, it is necessary for Northern Telephone to inject capital into programs which will maintain, improve and enhance the various services offered by the Company and to modernize the different equipment used to provide these services.

In 1985, capital expenditures increased by 11.6 percent to \$7,701,000, from \$6,901,000 in 1984. Increased spending in Outside Plant and Central Office equipment accounted for most of the increase. The two largest capital programs currently underway at Northern Telephone are the 11-year Rural Upgrade Program, which is scheduled for completion by the end of 1986, and the Digital Switching Program.

The Rural Upgrade Program involves an upgrading of existing telephone lines, which in some cases carry ten customers per line, to lines of four or less customers per line. In 1985, the Company spent \$1,902,000 on this program, which represents approximately 25 percent of total capital expenditures for the year. As of December 31, 1985, 95 percent of rural customers were on lines of four or less customers per line.

The Digital Switching Program, which involves the replacement of electro-mechanical switching equipment with computerized digital switching equipment in order to meet service and growth demand, resulted in 1985 capital expenditures of \$1,138,800, for 1,271 digital lines. Completed work included

the replacement of electro-mechanical exchanges at Connaught and Kamiskotia as well as modernization and growth in other exchanges. Eleven percent of installed lines are now digital, up from 9 percent at the end of 1984.

The Connaught and Kamiskotia offices were part of a Company project to expand toll-free calling within the City of Timmins, which covers a geographical area of some 3,110 square kilometres.

Continuing with plans to improve and enhance local telecommunication services will assist the Company with its ongoing commitment to provide good quality service at a reasonable cost.

Staying First in Communications

Northern Telephone's 80th anniversary marked yet another successful year of providing service to our customers. The Company performed well in the competitive environment and also sought out new products and services to offer to customers. The Company was successful in winning many competitive encounters involving PABX and Key Telephone Systems.

The Company sold two SL-1 PABX systems, complete with approximately 1,025 telephone sets, to its largest customer.

This sale and subsequent service provisioning in late 1985 required months of planning, negotiations, installation and training time. Recognition for the smooth implementation of this major project goes out to all employees involved.

Three promotional campaigns were conducted in 1985 which served to increase revenues in the long distance, wide area paging and residential rental areas.

In 1985, Northern Telephone began to offer Dataforce

service to people in the North. This new service, in which trained Company technicians perform regular preventative maintenance and repairs on personal computers, printers and modems, is offered throughout the Company's serving territory.

The Company is continuing to seek out new products and services to better meet the needs of people in the North and to increase Company earnings.

Meeting the Financial Challenge

Meeting the financial challenge at Northern Telephone requires careful planning and proper utilization of resources. As with all Canadian telephone companies, regulation plays a major role in the ongoing financial and service operations. Northern Telephone, as an independent telephone company in Ontario, is regulated by the Ontario Telephone Service Commission.

The Ontario Telephone Service Commission granted the Company additional local revenues of \$910,000 annually, effective January 7, 1985. This increase, when coupled with the 2.0 percent long distance rate increase by Ontario Northland Telecommunications effective from January 1, 1985, to August 31, 1985, represented a 3.6 percent increase in total local and long distance billed revenues.

In early 1985, the Commission approved an application made by the Company which would introduce toll-free calling to customers in Connaught and Kamiskotia, thereby eliminating long distance charges within the City of Timmins. Work on the project progressed through 1985 and the new service was in effect on December 10, 1985.

Due to steady growth in the Timmins area, it is estimated that total telephone numbers for Timmins will exceed the present rate group category (13,001 to 20,000 total

telephone numbers) in 1986. As a result, the Company applied to establish rates which would become applicable for areas with 20,001 to 27,000 total telephone numbers. Approval was received December 31, 1985 and as a result, Timmins area subscribers will be upgrouped to this new rate category, likely in late 1986. The higher rates which become effective reflect the increased value of telephone service to customers since they can reach more telephone numbers without incurring a long distance charge.

In mid-1985 the Company filed a request for increased rates to become effective January 1, 1986. The Commission granted the Company a rate of return on average common equity on telephone operations of 14.5 percent, resulting in additional annual local revenues of \$713,000 with increased rates effective January 1, 1986. This local revenue increase, when coupled with a 2.0 percent decrease in long distance rates by Ontario Northland Telecommunications effective September 1, 1985, represents a 1.4 percent increase in total local and long distance billed revenues for 1986.

In August 1985 the Canadian Bond Rating Service (CBRS) updated its analysis of the Company and announced upgraded rating classifications to B + + (high) and P-3 (high) for the Company's Debentures

and Preferred shares respectively. In its analysis, the CBRS noted several positive trends including fair treatment by the regulator.

In 1985, the Company completed a major upgrade of the central computer. The new system has eight times the memory and about four times the speed of its predecessor, at approximately one-half the cost. The new system will enable data entry, on-line capabilities and other applications.

An On-Line Mechanization Committee was formed in 1985 with the objective of gathering information where on-line mechanization could be implemented to streamline the preparation and flow of necessary records and procedures. The Committee's job was completed and its report identified areas for further mechanization. Feasibility studies for these areas are now underway.

The internal program to place micro-computers in various locations throughout the Company continued in 1985. Through the micro-computers' capabilities, there has been a saving in time and manpower at Northern Telephone. By the end of 1985, micro-computers were located in Timmins and New Liskeard offices, and most have the capability to interface with the Company's central computer.

Management Report

To The Shareholders of Northern Telephone Limited

The data contained in this Annual Report of Northern Telephone Limited is the responsibility of management and has been approved by the Board of Directors. The financial statements are based upon management's best estimates and judgements and have been prepared within the guidelines of generally accepted accounting principles.

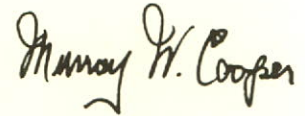
To ensure the integrity and objectivity of the data, management maintains a system of internal controls, comprised of written policies, procedures, and a

comprehensive internal audit program. The internal audit program provides reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements and that assets are properly accounted for and safeguarded.

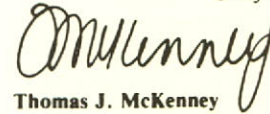
The Board of Directors carries out its responsibility for the financial statements in this Annual Report principally through its Audit Committee. The Audit Committee meets with management and the internal and external auditors to review accounting principles, practices and internal controls.

The shareholders' external auditors meet with the Audit Committee both with and without management present.

These financial statements have been examined by the shareholders' auditors Ross, Pope and Company, chartered accountants and their report is presented below.



Murray W. Cooper
President and
Chief Executive Officer



Thomas J. McKenney
Secretary-Treasurer

Auditors' Report

To the Shareholders of Northern Telephone Limited

We have examined the balance sheet of Northern Telephone Limited as at December 31, 1985 and the statements of income, 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 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.

ROSS, POPE & COMPANY,
CHARTERED ACCOUNTANTS,

Timmins, Ontario
January 24, 1986.

Balance Sheet

As At December 31

Assets	1985	1984
Current Assets		
Accounts receivable (Note 10) _____	\$ 5,796,369	\$ 4,884,670
Investment redeemable within one year _____	785,000	2,080,000
Other _____	372,095	434,149
	<u>6,953,464</u>	<u>7,398,819</u>
Telecommunication Property, At Cost		
Buildings, plant and equipment _____	73,851,080	69,215,353
Less: Accumulated depreciation _____	25,807,555	24,420,004
	<u>48,043,525</u>	<u>44,795,349</u>
Land _____	460,231	464,213
Plant under construction _____	2,424,022	2,763,517
Materials and supplies _____	766,716	836,796
	<u>51,694,494</u>	<u>48,859,875</u>
Investments, At Cost (Note 3) _____	<u>14,325,540</u>	<u>20,792,690</u>
Other Assets		
Long-term receivables (Note 4) _____	1,140,833	806,095
Deferred charges _____	243,962	288,377
	<u>1,384,795</u>	<u>1,094,472</u>
Total Assets _____	<u>\$74,358,293</u>	<u>\$78,145,856</u>

On behalf of the Board of Directors:

R. Brunelle, Director

H.A. Roth, Director

Liabilities and Shareholders' Equity	Current Liabilities	1985	1984
	Bank indebtedness _____	\$ 316,435	\$ 662,336
	Accounts payable (Note 10) _____	4,595,073	4,312,351
	Advance billing for service _____	540,396	508,625
	Dividends payable _____	736,340	713,043
	Income taxes payable _____	657,256	96,750
	Interest accrued _____	522,860	542,615
	Debt due within one year (Note 7) _____	<u>2,214,000</u>	<u>4,254,000</u>
		<u>9,582,360</u>	<u>11,089,720</u>
	Long-term Debt (Note 6) _____	<u>22,100,000</u>	<u>23,475,000</u>
	Deferred Credits		
	Income taxes _____	9,765,716	9,299,292
	Other deferred credits _____	<u>92,408</u>	<u>97,821</u>
		<u>9,858,124</u>	<u>9,397,113</u>
	Shareholders' Equity		
	Capital Stock (Note 5)		
	Preference shares _____	8,844,000	8,924,000
	Common shares _____	14,934,772	14,934,772
	Retained earnings _____	<u>9,039,037</u>	<u>10,325,251</u>
		<u>32,817,809</u>	<u>34,184,023</u>
	Total Liabilities and Shareholders' Equity _____	<u>\$74,358,293</u>	<u>\$78,145,856</u>

T.J. McKenney, Secretary-Treasurer

Statement of Income

For The Years Ended December 31

	1985	1984
Operating Revenues		
Local service _____	\$14,001,219	\$13,021,975
Long distance service _____	10,704,856	9,891,148
Other _____	3,417,552	2,998,882
Total Operating Revenues _____	28,123,627	25,912,005
Operating Expenses		
Maintenance and repairs _____	4,616,268	4,376,671
Depreciation _____	4,499,462	3,911,637
Taxes other than income taxes _____	2,058,775	1,910,699
Other _____	8,416,122	8,081,488
Total Operating Expenses _____	19,590,627	18,280,495
Net operating revenues _____	8,533,000	7,631,510
Other Income		
Dividends _____	1,019,860	1,218,735
Debenture interest and other income _____	909,750	1,061,579
Total Other Income _____	1,929,610	2,280,314
Income before underlisted items _____	10,462,610	9,911,824
Interest Charges		
Interest on long-term debt _____	2,786,784	2,402,783
Other _____	157,830	200,644
Total Interest Charges _____	2,944,614	2,603,427
Income before income taxes _____	7,517,996	7,308,397
Income taxes (Note 2) _____	3,367,406	3,105,112
Net Income _____	4,150,590	4,203,285
Dividends on preference shares _____	536,517	544,117
Net Income Applicable to Common Shares _____	\$ 3,614,073	\$ 3,659,168
Earnings per Common Share _____	\$ 1.19	\$ 1.20
Dividends declared per common share* _____	\$ 0.75	\$ 0.7125
Average common shares outstanding _____	3,043,657	3,043,657

*excludes special dividend of \$0.86 per share in 1985 (\$1.00 in 1984)

Statement of Changes in Financial Position

For the Years Ended December 31

	1985	1984
Cash Provided From (Used For) Operating Activities		
Net Income _____	\$4,150,590	\$4,203,285
Items not affecting cash		
Depreciation _____	4,499,462	3,911,637
Deferred income taxes _____	466,424	1,036,760
Other _____	17,155	(112,588)
Increase in working capital (Note 9) _____	(716,104)	(818,966)
	<u>8,417,527</u>	<u>8,220,128</u>
Cash Provided From (Used For) Financing Activities		
Proceeds from long-term debt _____	—	5,970,000
Reduction of long-term debt _____	(1,375,000)	(3,225,000)
Redemption of preference shares _____	(80,000)	(80,000)
Long-term debt issue costs _____	—	(88,451)
	<u>(1,455,000)</u>	<u>2,576,549</u>
Cash Provided From (Used For) Investing Activities		
Capital expenditures (net) _____	(7,334,081)	(6,711,399)
Reduction in investment in affiliated company _____	6,467,150	2,080,000
Increase in other assets _____	(312,891)	(688,175)
	<u>(1,179,822)</u>	<u>(5,319,574)</u>
Dividends Declared _____	<u>(5,436,804)</u>	<u>(5,742,790)</u>
Bank Indebtedness		
Decrease (increase) during the year _____	345,901	(265,687)
At beginning of year _____	(662,336)	(396,649)
At end of year _____	<u>\$ (316,435)</u>	<u>\$ (662,336)</u>

Statement of Retained Earnings

For the Years Ended December 31

	1985	1984
Balance at Beginning of Year _____	\$10,325,251	\$11,864,756
Add:		
Net Income _____	4,150,590	4,203,285
	14,475,841	16,068,041
Deduct:		
Dividends on preference shares _____	536,517	544,117
Dividends on common shares		
Regular _____	2,282,742	2,155,016
Special - \$0.86 per share in 1985 (\$1.00 in 1984) _____	2,617,545	3,043,657
	5,436,804	5,742,790
Balance At End of Year _____	\$ 9,039,037	\$10,325,251

Notes to Financial Statements

1. Accounting Policies

The Company is subject to regulation, including examination of accounting practices, by the Ontario Telephone Service Commission for the Province of Ontario. The system of accounts and accounting practices are similar to those being used by other companies in the telecommunications industry.

Leases

The sales revenue, for leases which qualify as sales-type leases, is recorded at the inception of the lease.

Depreciation

Depreciation is charged on a straight line basis using rates, which are approved by the Ontario Telephone Service Commission, by classes of property, determined by a continuing program of engineering studies. When depreciable telecommunication property is retired, the amount at which such property has been carried in Telecommunications Plant is charged to Accumulated Depreciation.

These rates provide for depreciation of assets over their estimated service lives and resulted in the composite depreciation rate of 5.78% for the year ended December 31, 1985 (5.72% in 1984).

Income Taxes

The Company uses the tax allocation basis of accounting for income taxes. Deferred income taxes result principally from deductions for tax purposes, in respect of plant, being in excess of amounts currently charged to operations.

2. Income Taxes

A reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

	1985	1984
Statutory income tax rate	51.9%	51.0%
i) Non taxable dividend income	(7.0)	(8.5)
ii) Other	<u>(0.1)</u>	<u>—</u>
Effective income tax rate	<u>44.8%</u>	<u>42.5%</u>

Details of the Company's income taxes are as follows:

Current	\$2,900,982	\$2,068,352
Deferred	<u>466,424</u>	<u>1,036,760</u>
Total	<u>\$3,367,406</u>	<u>\$3,105,112</u>

3. Investments

Investments, at cost, in Telebec Ltée, an affiliated company:

	1985	1984
Debentures*	\$ 9,003,700	\$11,083,700
First Preferred Shares		
227,288 Series 1, cumulative, dividend of \$2.625, redeemable at \$25.00 each**	5,682,200	11,364,350
42,464 Series 2, non-cumulative, dividend of \$0.60, redeemable at \$10.00 each	<u>424,640</u>	<u>424,640</u>
Total	15,110,540	22,872,690
Less: Portion of debentures redeemable within one year	<u>785,000</u>	<u>2,080,000</u>
Total	<u>\$14,325,540</u>	<u>\$20,792,690</u>

*The weighted average interest rate on these debentures at December 31, 1985 was 8.57% (8.84% in 1984).

At December 31, 1985, the amount of debenture redemptions receivable in the following years are: \$785,000 in 1986; \$3,122,700 in 1987; \$756,000 in 1988; \$756,000 in 1989; \$756,000 in 1990; and \$2,828,000 in 1991-95.

**Telebec Ltée may at its own option redeem on April 1st of each year, up to 75,762 First Preferred

Shares Series 1 at a redemption price per share equal to the par value of \$25.00 of each such share plus all accrued and unpaid dividends. This right may be exercised cumulatively, in whole or in part, at any time thereafter. On September 1, 1985, 227,286 shares were redeemed for consideration of \$5,682,150. At December 31, 1985, 151,524 shares (stated value \$3,788,100) were available for redemption at Telebec's option and the remaining 75,764 shares (stated value \$1,894,100) become available for redemption on April 1, 1986.

4. Long-term Receivables

Long-term receivables consist of:

	1985	1984
Total lease payments receivable	\$2,046,564	\$1,395,754
Less: Unearned interest income	<u>623,562</u>	<u>496,900</u>
Net investment in leases	1,423,002	898,854
Less: Current portion of lease payments included in accounts receivable	<u>311,810</u>	<u>123,822</u>
	1,111,192	775,032
Mortgage receivable	<u>29,641</u>	<u>31,063</u>
Total	<u>\$1,140,833</u>	<u>\$ 806,095</u>

Finance income related to these leases is recognized over the term of the lease payments.

Future minimum lease payments receivable under sales-type leases are: \$524,247 in 1986; \$428,202 in 1987; \$410,781 in 1988; \$372,749 in 1989; \$197,417 in 1990; and \$113,168 in 1991-92.

5. Capital Stock

	No. of Shares	Series	Dividend Per Share \$	Stated Capital	
				1985	1984
Authorized Preference shares					
First preference	500,000	—	—	\$10,000,000	\$10,000,000
Second preference	<u>128,200</u>	—	—	<u>2,564,000</u>	<u>2,564,000</u>
Total preference	<u>628,200</u>	—	—	<u>\$12,564,000</u>	<u>\$12,564,000</u>
Common shares	<u>6,500,000</u>	—	—	<u>\$35,000,000</u>	<u>\$35,000,000</u>
Issued and Outstanding Preference shares					
First preference - cumulative, redeemable					
75,000	75,000	A	1.10	\$ 1,500,000	\$ 1,500,000
50,000	50,000	B	1.10	1,000,000	1,000,000
100,000	100,000	C	1.10	2,000,000	2,000,000
25,000	25,000	D	1.10	500,000	500,000
64,000*	<u>64,000*</u>	E	1.90	<u>1,280,000</u>	<u>1,360,000</u>
	<u>314,000</u>			<u>6,280,000</u>	<u>6,360,000</u>
*68,000 in 1984					
Second preference - cumulative, redeemable					
7,853	7,853	A	1.00	157,060	157,060
120,347	<u>120,347</u>	B	1.05	<u>2,406,940</u>	<u>2,406,940</u>
	<u>128,200</u>			<u>2,564,000</u>	<u>2,564,000</u>
Total preference	<u>442,200</u>			<u>\$ 8,844,000</u>	<u>\$ 8,924,000</u>
Common shares	<u>3,043,657</u>			<u>\$14,934,772</u>	<u>\$14,934,772</u>

All the preference shares, with the exception of the First Preference Series "E" shares, are redeemable at the Company's option at \$20.40 per share.

The First Preference Series "E" shares were not redeemable, except for sinking fund purposes, prior to October 1, 1983, but may be redeemed thereafter, at the Company's option, at \$20.00 per share plus a premium of 7% diminishing by 1% in each subsequent year to October 1, 1990 and thereafter at \$20.00 per share. Pursuant to the conditions attached to the issue of these shares the Company shall call for redemption, for sinking fund purposes, on the first day of October of each year, 4,000 of these shares at a price of \$20.00 per share, plus any accrued and unpaid dividends to the date of redemption. To meet this requirement, on October 1, 1985, 4,000 shares were redeemed (4,000 in 1984).

6. Long-term Debt

Maturity Date	Rate of Interest	Series	1985	1984
20 year Sinking Fund Debentures				
May 1, 1987	6.5 %	H	\$ 4,062,000	\$ 4,112,000
December 15, 1994*	10.625%	J	—	2,219,000
20 year Serialized Debentures				
April 30, 1993	8.25 %	I	5,600,000	6,300,000
January 15, 1995	11.0 %	K	4,000,000	4,000,000
15 year Serialized Debentures				
May 31, 1997	17.5 %	L	3,775,000	4,000,000
November 1, 1999	13.75 %	M	<u>6,000,000</u>	<u>6,000,000</u>
Total			<u>23,437,000</u>	<u>26,631,000</u>
Less: Debt due within one year			<u>1,337,000</u>	<u>3,156,000</u>
Total			<u><u>\$22,100,000</u></u>	<u><u>\$23,475,000</u></u>

*The holders of Series J Debentures exercised their option to have these debentures prepaid on June 15, 1985 for \$2,219,000.

Sinking fund and maturity payments required in the following years with respect to the above debt are: \$1,337,000 in 1986; \$5,400,000 in 1987; \$1,350,000 in 1988; \$1,675,000 in 1989; \$1,675,000 in 1990; \$7,100,000 in 1991-95; and \$4,900,000 in 1996-99.

7. Debt Due Within One Year

	1985	1984
Long-term debt due within one year	\$ 1,337,000	\$ 3,156,000
Bank demand notes	<u>877,000</u>	<u>1,098,000</u>
Total	<u><u>\$ 2,214,000</u></u>	<u><u>\$ 4,254,000</u></u>

8. Pensions

The Company has contributory plans which provide for service pensions for its employees. Total contributions to these plans by the Company during the year were \$1,016,004 (\$791,000 in 1984).

As at December 31, 1985, unfunded liabilities for these plans, as determined by actuarial valuations, due to improvements in benefits and early retirements amount to approximately \$474,000 (\$1,142,000 in 1984).

9. Statement of Changes in Financial Position		1985	1984
	Decrease (increase) in working capital provided by change in		
	Accounts receivable	\$ (911,699)	\$ (548,368)
	Investment redeemable within one year	1,295,000	(580,500)
	Other current assets	62,054	(92,074)
	Accounts payable	282,722	369,642
	Advance billing for service	31,771	27,605
	Dividends payable	23,297	24,886
	Income taxes payable	560,506	(279,147)
	Interest accrued	(19,755)	107,990
	Debt due within one year	(2,040,000)	151,000
		<u>\$ (716,104)</u>	<u>\$ (818,966)</u>
	Increase in working capital		

10. Related Party Transactions

Goods and Services

For the year ended December 31, 1985, the Company purchased goods and services amounting to \$40,729 (\$40,023 in 1984) from Bell Canada Enterprises Inc. (BCE), the parent company and \$4,514,742 (\$2,473,831 in 1984) from other affiliated companies.

Investment Transactions

For the year ended December 31, 1985, the Company declared dividends of \$5,010,933 (\$5,321,923 in 1984) and paid net short-term investment interest of \$46,891 (\$7,662 earned in 1984) to (from) BCE, the parent company. The Company earned \$1,019,860 (\$1,218,735 in 1984) in preferred share dividends and \$862,730 (\$1,031,219 in 1984) in debenture interest from Telebec Ltée, an affiliated company.

Accounts Receivable and Accounts Payable

As at December 31, 1985, the accounts receivable from affiliated companies were \$412,762 (\$577,096 in 1984). The net amount payable to BCE, the parent company, was \$616,080 (\$599,926 in 1984) and to other affiliated companies was \$321,189 (\$415,813 in 1984).

Statistics

	1985	1984	1983	1982	1981
Financial Results (\$)					
Operating revenues	28,123,627	25,912,005	23,609,038	21,052,296	18,636,360
Operating expenses	19,590,627	18,280,495	16,988,806	15,353,732	13,672,225
Other income	1,929,610	2,280,314	2,441,780	2,564,694	2,627,780
Other charges	2,944,614	2,603,427	2,580,185	2,471,602	2,062,907
Income taxes	3,367,406	3,105,112	2,682,495	2,308,376	2,173,221
Net income	4,150,590	4,203,285	3,799,332	3,483,280	3,355,787
Total payroll	9,885,634	9,677,460	9,064,900	8,171,997	7,203,314
Construction expenditures	7,701,000	6,901,000	5,944,000	7,742,000	7,004,000
Financial Ratios (\$)					
Earnings per common share	1.19	1.20	1.07	.96	.92
Dividends declared per common share	1.61	1.7125	.68	.6475	.58
Balance Sheet Data (\$)*					
Total investment in plant & equipment	76,735,333	72,443,083	68,054,242	64,019,306	57,701,675
Plant & equipment less depreciation	50,927,778	48,023,079	45,483,859	43,158,636	38,849,741
Common equity	23,973,809	25,260,023	26,799,528	25,621,600	24,668,405
Preferred equity	8,844,000	8,924,000	9,004,000	9,084,000	9,164,000
Long-term debt (Including due within 1 year)	23,437,000	26,631,000	23,044,000	25,547,000	21,593,500
Additional Statistics					
Number of employees*	290	302	313	311	314
Total telephone numbers*	51,496	50,691	49,666	48,856	48,207
Business	9,457	9,113	8,749	8,508	8,468
Residence	42,039	41,578	40,917	40,348	39,739
Percentage residence of total	81.6	82.0	82.4	82.6	82.4
Number of central offices*	31	31	31	31	30
Long distance calls (thousands)	7,499	7,142	6,890	6,756	6,753
Number of shareholders (preferred and common)*					
In Canada	1,324	1,410	1,559	1,625	1,685
Elsewhere	32	35	36	34	33
Total shareholders	1,356	1,445	1,595	1,659	1,718

