Maritime Tel & Tel
Annual Report

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About the Company

1984 Annual Report of the Directors to the Shareholders of Maritime Telegraph and Telephone Company, Limited
Incorporated under the laws of the Province of Nova Scotia

The 1984 Annual Report is a summary of the operations of the Company in its 75th year of serving Nova Scotia. It is prepared for those who have invested in our Company, for those who are interested in the Company's performance, and for our employees.

Maritime Tel & Tel is an investor-owned, provincially-regulated company, providing telephone and a wide range of other telecommunications services throughout Nova Scotia. The Company has over half a million telephones in service, connected through a $800 million network of local and long distance switching, transmission and terminal equipment, in more than 170 equipment offices throughout the province.

Notice of Annual Meeting
The annual general meeting of the shareholders of Maritime Telegraph and Telephone Company, Limited will be held at the Head Office of the Company, on Tuesday, the 26th day of March, 1985 at 11:00 a.m.

Head Office
Maritime Centre
1505 Barrington Street
P.O. Box 880
Halifax, Nova Scotia
Canada B3J 2W3
Telephone (902) 421-4311

Our Cover

For MT&T, 1984 was a year of reorganization and planning for a rapidly changing environment in our industry. The text of this report gives different perspectives of these issues, as seen through the eyes of the people guiding the company — our Executive. The cover image symbolizes the planning process. Individual personalities and different disciplines are linked in a circle from which many analogies can be drawn: The resolution of complex and sometimes conflicting issues that happens in 'round table' discussions or the strategy and game planning of a football huddle spring to mind. The circle is one of shared and common communication but the element, the telephone, acknowledges a critical link to and from the outside world as well as one which is internal.

Additional information or copies of the Annual Report may be obtained by writing to:
Treasury Department
Maritime Tel & Tel
P.O. Box 880
Halifax, Nova Scotia
B3J 2W3.
Residents in the Halifax area may also call 421-4068, and residents elsewhere in Canada and the United States may call free of charge by dialing 1-800-565-7168.

Report Highlights

	1984	1983	% Change
Operating Statistics *(thousands)*			
Revenues	$ 282 180	$ 253 253	11.4
Expenses	193 260	166 393	16.1
Net income applicable to common shares	31 367	28 440	10.3
Construction program expenditures	93 017	64 611	44.0
Telecommunications property	837 101	762 489	9.8
Financial Statistics			
Earnings per common share	$ 4.68	$ 4.42	5.9
Dividends declared per common share	$ 2.58	$ 2.43	6.2
Return on average common equity	15.9%	16.1%	(1.2)
Return on average invested capital	13.2%	13.1%	0.8
Equity per common share, at December 31	$ 30.44	$ 28.34	7.4
Average common shares *(thousands)*	6 699	6 440	4.0
Debt ratio, at December 31	50.2%	49.2%	2.0
Other Statistics			
*Network access services, at December 31	370 830	356 855	3.9
Long distance messages *(thousands)*	56 576	51 221	10.5

*Starting this year we will be referring to **Network Access Services** rather than main telephone lines, main services or terminals in quoting company statistics. This definition is now standard within most Canadian telephone companies and more accurately reflects a company's real status in an environment where customers may own some or all of their terminal telephone equipment. Numerically it is the same as the main telephone definition we've used up to and including last year.

Table of Contents

Without a doubt, 1985 will mark a turning point for MT&T. We will become a competitive entity and we will be directly involved in the unfolding issue of fundamental, philosophical change in our industry.

LETTER TO THE SHAREHOLDERS

THE TELECOMMUNICATIONS INDUSTRY IN CANADA has been in the public eye a great deal during 1984. Here at MT&T we've been involved in hearings and regulatory decisions on the issues of customer ownership of telephone sets, PBXs and other terminal telecommunications equipment in Nova Scotia. Elsewhere in Canada the issues of inter-exchange competition, rate restructuring, and service costing have been publicly debated and scrutinized in print, on radio and television as well as at regulatory hearings. Maritime Tel & Tel has not been in the eye of this storm which has commanded so much of the media's attention but, because everything that affects our colleague Canadian telcos now, affects us significantly or marginally, sooner or later, we have been actively involved in all that is happening.

It is the nature of the telephone business that it is always in transition: technological changes over the years have ensured that this was so. But now, the whole telecommunications industry is in a state of flux, partly as a result of the things made possible by technological change, and partly due to questioning of the ways in which telecommunications services have been provided over the past several decades. In Canada, people inside the business and out are trying to assess the impact of the industry deregulation in the United States and trying to determine how relevant it is to the situation here and what lessons can be learned from that country's experiences.

FOR US, 1984 was an extremely busy year. We underwent a corporate reorganization that established an internal structure suited to the competitive environment in which we will be operating after January 1, 1985. This is an organizational change which supports the company's shift in focus from a traditional monopoly business to a market and customer-driven organization. We created a Marketing division to head the company's operations in this competitive sphere and aligned our other functions to provide the necessary support both for this new element and for all our other, more traditional, communications business which still continues and grows.

If I had to put a caption on 1984 it would be "business as usual": the corporate walls reverberated with the noise of alterations for the future while, at the same time, we coped successfully with a massive volume of day-to-day business. We're still catching up with the renewed demand for services after the 1981-82 recession; we've serviced an extraordinary local business boom in the Halifax-Dartmouth area; we've successfully handled the complex communications requirements of a flotilla of Tall Ships, a Papal entourage, a Federal and a Provincial election and at the same time have managed to prepare our company for the changes that will occur in 1985. This combination of circumstances provided both challenge and, at times, frustration for our employees and they deserve our thanks for their resourcefulness and hard work in rising to the challenges and their patience in coping with the frustrations.

FINANCIALLY, too, it was a very successful year. In spite of the vastly increased capital spending required to support the renewed demand for services and for general growth, we maintained our pattern of improvement in common share earnings and were able to achieve this without increasing rates. Each common share earned \$4.68 in 1984 compared to \$4.42 in 1983 and the rate of return on average common equity was 15.9%, compared to 16.1% last year. In December, the Board of Directors decided that at the company's annual general meeting in March, shareholders will be asked to approve a three-for-one split of the common shares. We feel this move will improve the liquidity of our shares and allow for their wider distribution.

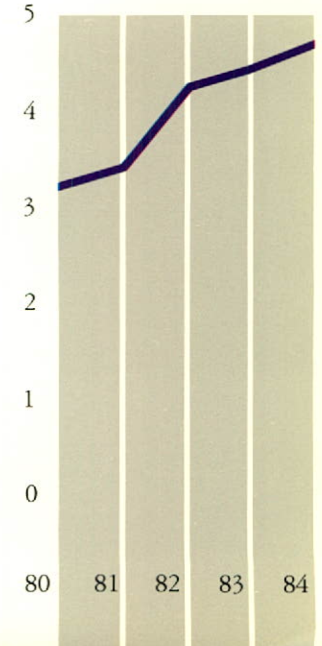
IN THIS report you'll find details of some of our significant undertakings in 1984, our view of what we'll be facing in the coming years and how we will be coping with the challenges. Without a doubt, 1985 will mark a turning point for MT&T. We will become a competitive entity in another major area of service provision; we will be directly involved in the unfolding issue of fundamental, philosophical change in our industry and we will be installing new technology at an almost unprecedented rate. There is always a feeling of ambivalence at leaving an established and secure way of doing business but corporately we feel comfortable, well-prepared and eager to deal with whatever challenges the future may present us.

Struan Robertson

Struan Robertson
Chairman of the Board
and President
Halifax, Nova Scotia
February 14, 1985

We underwent a corporate reorganization that supports the company's shift in focus from a traditional monopoly business to a market and customer-driven organization.

Earnings per
Common Share
dollars

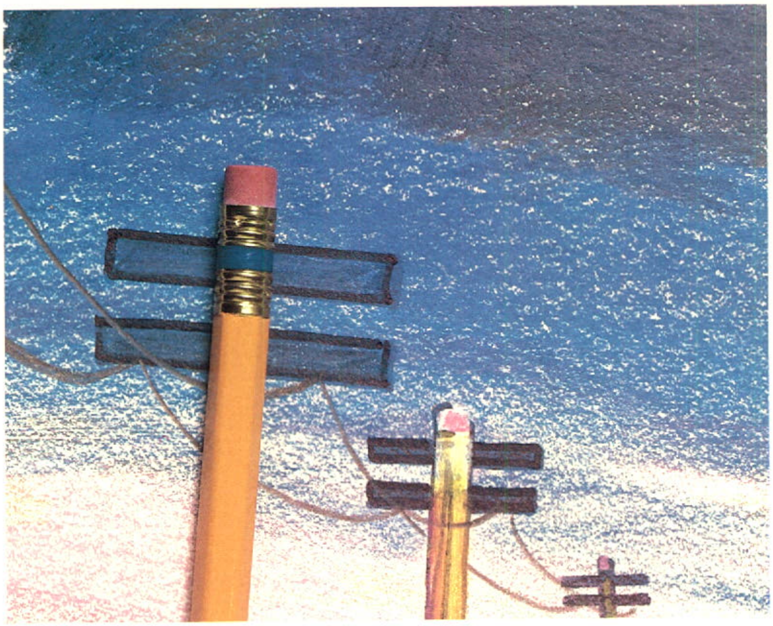


Spurred by a healthy provincial economy and a strong sales effort, we experienced significant growth in every sector of our business.

HEADLINERS

FINANCIAL POST AWARD

In February 1984 MT&T won the Financial Post Business in the Arts Award in the Community Support category. The Financial Post created these awards six years ago to recognize companies that had made significant contributions to the Arts in Canada through donations of materials, service, money and expertise. Several provincial non-profit arts organizations, including Neptune Theatre, Scotia Chamber Players, Mermaid Theatre, The Symphony Musicians' Trust Fund, The Art Gallery of Nova Scotia and the Nova Scotia Drama League, all of which had been assisted by MT&T's programs, nominated the company as a public expression of their gratitude for our continuing support. In 1984 MT&T was able to assist more than 200 organizations in arts, education, health and welfare, sports and recreation, to the tune of $370,000.



TELEPHONE POLLS

Amongst multi-million dollar projects, burgeoning work volumes and constant outside pressures for change, sometimes it's easy to lose sight of your customers and their opinions. For this reason, every two years, we undertake a survey of our residential customers across the province to find out how they view our service, our efforts to improve it, our rates and anything else they'd like to tell us. Almost 60% of the 6,000 residence customers surveyed in 1984 took time and trouble to answer and, in just about every way, they are more satisfied with our operations now than they were two years ago — which pleases us, of course. But they were honest and forthright in their opinions and dissatisfactions so we know where we still have to make special efforts to improve. We've incorporated many of these issues into our future plans, particularly in items such as local service improvements throughout the province.

In 1984, for the first time on a major scale, we approached our business customers for the same types of information. These customers' opinions will help ensure that our future market efforts are appropriate to their needs and that causes of irritation in our service are eliminated. We're very glad we asked . . . and that they took the time to answer.

MORE IN STORE

In 1984 we opened two new public display areas where our customers can come for information and assistance. In June we inaugurated a **Mobile Communications Centre** which consolidated all the company's mobile and data installation, repair and testing facilities for the Halifax-Dartmouth area. This Centre also has display and demonstration equipment placed so that customers can see and handle various types of mobile and paging equipment in a working set-up. And in November **The Communications Place** opened its doors to business customers, particularly those in the small-to-medium-size range. These customers are accustomed to shopping for their computer and office equipment in settings where they can compare systems and prices, ask questions and do some hands-on operating experiments. Opening **The Communications Place** is one of MT&T's strategies for making sure our commercial customers know that we're competitive in our outlook and eager for their business.

ANIKDOTE

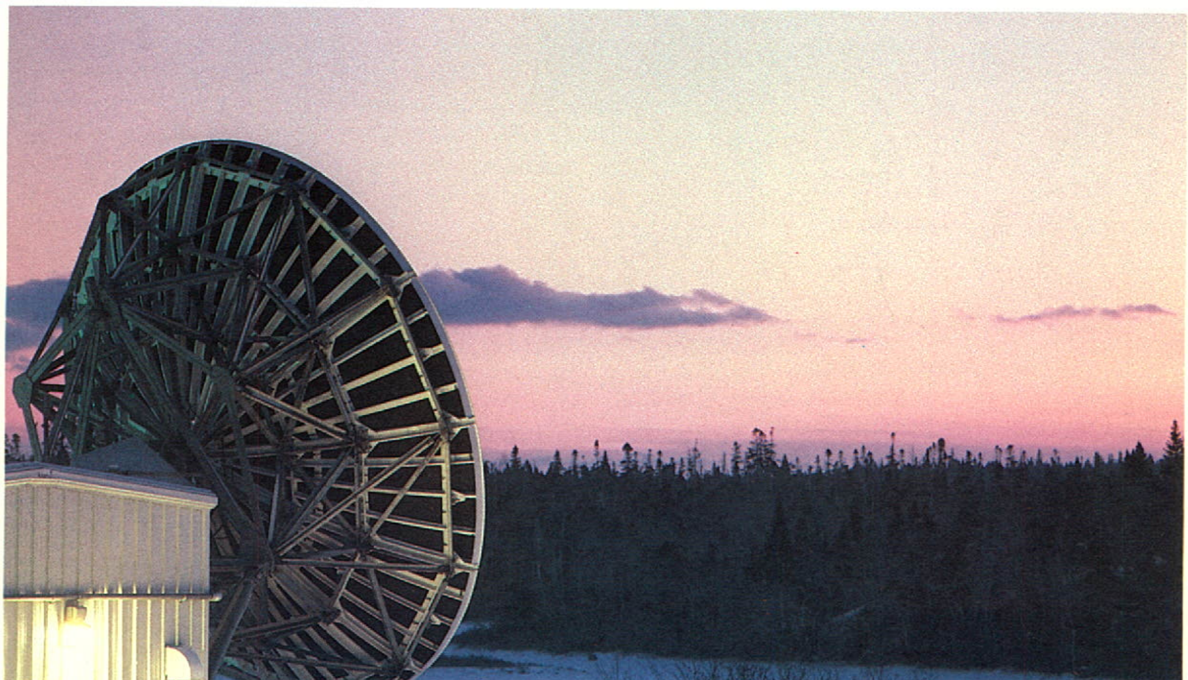
In 1984 we became first-hand operators of a satellite system developed to improve our delivery of telecommunications services to our offshore customers. In September we replaced our two existing earth stations on Sable Island with a single permanent one of greater capacity which communicates with the higher-powered Anik C satellite, and installed a similar facility just outside Halifax so that voice, data and teletype transmissions could be delivered directly to the offshore drilling facilities without having to route them over land to Ontario for beaming up to the satellite. This $2.1 million change puts us in direct control of services for the offshore, gives us much more scope in the services we can offer these customers and reduces our associated operating costs.

UP, UP & AWAY!

For MT&T it's quite likely that in the years to come, 1984 will be the year against which others are measured. Spurred by a healthy provincial economy (Nova Scotia's projected Real Domestic Product increase for 1984 is 4.3% compared to a 3.9% national average increase) and a strong sales effort, we experienced significant growth in every sector of our business as the following figures show. With growth rates of 3.1% and 7.2% respectively, our residential and business terminal gain was the highest in 10 years; long distance calling increased 10.5% which was the highest growth in four years and our sales of new large business systems (PBXs) were up 6.0%.

Compared to last year, mobile sales increased 24.6%; data sales, including services to our offshore customers, increased 35.6%; directory advertising was up 20.6% and coin sales were up 10.6%. Usage directly attributable to our customers of the data services Datapak and Envoy (Telecom Canada's electronic mail service) grew up 36.1% and 124.3% respectively. By the end of the year our new Halifax-Dartmouth dial mobile telephone service, Autotel, exceeded its first-year market objective with 84 customers connected since it was established in March.

Pleasing as this activity was, it was not an unmixed blessing. At times the volume of work and the number of customers requesting new or changes of service stretched our resources to the limit and in some cases our customers didn't receive the speed of service we usually offer. We're working quickly and boosting our technical forces to overcome this problem and we expect to have it corrected by mid-1985.



What we're undergoing now, throughout our organization, is a complete change of corporate culture to prepare us for even more extensive competition in the future.

Marketing

Ivan Duvar

Vice President

THE TWO MAIN FACTORS THAT AFFECT any industry — supply and demand — are in a stage of rapid change in the telecommunications sector. The rate at which this change is happening is increasing and in all likelihood will accelerate in the future. This is causing us to change our traditional ways of doing business. Rapid advances in technology are allowing the industry to develop sophisticated new products; micro technology, digital technology and software control are enabling telecommunications suppliers to provide enhanced products and services at much lower costs than previously and to introduce some that weren't even possible before. The result is that business customers now have at their disposal many readily available and easy-to-use new tools to improve their methods of doing business.

Telephone companies have been very successful in introducing new technology into their business and in creating an awareness and a demand in their customers for the new products and services — to the point where many businesses now find it necessary to use these services to maintain their competitive edge. It has also made certain segments of our business very attractive to alternative suppliers who can see a distinct competitive advantage in the gap between their 'cost-based' rates and the traditional 'value-of-service' based telco rates. Add to this a national climate that has shifted in the past two decades to a decided public sympathy for competition in traditional telephone company operations, which is seen as producing higher quality, lower cost services and a wider range of products, and you have an environment that begs competition.

We know the market, we know the technology and we have skilled, dedicated people . . . we fully expect to continue to be the dominant supplier of telecommunications services in Nova Scotia.

WE REALIZED several years ago that these industry trends would affect MT&T, that they would intensify in the future, and that we could expect the first significant impact to be in the area of terminal equipment. In mid-1983 we applied to the Public Utilities Board for permission for MT&T's customers to choose the suppliers of their telephone sets, PBXs, and other terminal telecommunications equipment and thereby join the 85% of Canadians already having that ability. In the time between application in 1983 and implementation, which will take place in stages between January and May 1985, we have been readying our organization to take best advantage of the opportunities that will be opened up by competition. Approximately 10% of our revenues are currently open to competition; the new regulations will increase this to in excess of 20% and, if inter-exchange services are added at some future point, about 70% of our revenues will be vulnerable to competition. For this reason, in 1984, we organized many of our company's operations to confront these threats directly.

This has meant change . . . organizational change and thinking change. Since a significant portion of our revenues is generated by our business customers, (our large multi line customers pay close to $20.0 million in annual revenue) and it's upon them that we expect our competitors to focus their efforts, it makes sense for us to concentrate considerable energy there too. We've done this by aligning all the forces responsible for providing service to businesses, government and institutions in one management group and we're changing our corporate focus to one that is 'market-driven'. This means, simply stated, that we will find out what our customers want and we will provide it for them. Most other competitive businesses are aiming to continuously increase their market share and thereby improve profitability. Since we are beginning with 100% of this market, we will be working to minimize our market share loss and improve our profitability.

To ensure that this happens we've formed a Marketing division comprising a Market Development arm and a Business Services arm. Since its formation in mid-1984 the Market Development staff has been developing comprehensive market strategies around the major areas of business activity and is preparing products and promotion plans to enable the sales staff to compete effectively. The Business Services thrust during 1984 has been to expand and develop our sales forces to operate in a competitive environment and to ensure that we are providing a high quality of installa-

We will find out what our customers want and we will provide it for them.

tion and repair services. The people responsible for planning, providing and delivering business services now all work together with interdependent goals and objectives.

IT IS DIFFICULT for anyone outside the industry to fully appreciate the amount of work our employees have to do to be properly prepared for competition. Corporately we've had experience with competitive operations because our data and mobile services have always been fully competitive but relatively few of our employees work in these areas. What we're undergoing now, throughout our organization, is a complete change of corporate culture to prepare us for even more extensive competition in the future. We have had to build quickly, by studying and analyzing our customer base and by training intensively — not just our sales forces but all who work in teams with them. This way, everyone realizes that the answers to competing successfully lie in a dedication to meeting customers' needs; in having the best products and knowledgeable employees and by providing excellent service, the latter only being achievable by teamwork. Concentration on these factors will ensure our success.

AS WE BRACE for the challenge that will start this year, we're not complacent — we don't know all the answers and to some degree we'll be learning as we go. We made the deliberate decision to start with the base of knowledge embodied in our own staff and management, and to supplement this with external expertise when we were lacking. All our plans and programs have built-in goals and evaluations so we'll know how we're doing and when, and if, our strategies need to be changed.

We know the market, we know the technology and we have skilled, dedicated people. By building on our strengths and eliminating our weaknesses, we fully expect to continue to be the dominant supplier of telecommunications services in Nova Scotia.

1984 was a good solid year and we accomplished a great deal. We expect our 1985 capital spending to reach $115.4 million —almost double that of two years ago.

FINANCE

Ed Hicks

Vice President

SIGNIFICANT CHANGE MAY BE relatively new to some other sectors of MT&T but it is nothing new to our financial departments. In one way or another we cope with change every year and under seemingly unreconcilable pressures. Services must be upgraded; growth demands new construction which must be paid for long before it recovers its costs; the company's earnings must grow and keep pace with those of our counterpart companies in order to keep the company stock a good investment for shareholders but, at the same time, rate increases must be kept at an appropriate level. And, of course, the vicissitudes of national and local economies have to be accommodated and generally overcome. Whether the years in question are those of the Depression, the 70s boom, the 1981-82 recession or 1985, which will reflect the effects of a change to a competitive environment, the financial balance must be maintained.

I AM VERY proud of our company's financial integrity. Over the years we have instituted a number of planning processes which have allowed us to better meet our financial objectives and we've now seen 11 years of continuous improvement in our financial performance. From a financial strategy point of view we've been able to raise the capital we've needed to pay for our construction programs while at the same time safeguarding our earnings.

1984 was a good solid year and we accomplished a great deal. As is mentioned elsewhere in this report, our capital program needs have increased almost 50% from last year and we predict that capital spending will continue to grow: our capital programs for 1985 are estimated to be $115.4 million.

By the time this report is printed we will have applied to our regulator for permission to increase some of our rates. MT&T's last general rate increase was almost three years ago. If approved as requested, with a June 1 effective date, our rate revisions will yield $7.7 million in 1985, an increase of 2.5% in the total revenue required by the company for the year. Generally speaking, there are no increases proposed for terminal equipment or the per-minute rate of in-province long distance calls. The proposed changes affect, by various percentages, network exchange service, service charges and other miscellaneous items.

We also ventured into international capital markets for the first time during 1984 with a $30 million Euro-Canadian bond issue, as part of our regular financing activities. We decided to use this medium because, at that time, it had a significant cost advantage over other forms of financing and this was our main criterion. It was a successful move and, apart from the financial benefit, the company's name is now known in a market which could prove useful in the future and we have expanded our financing options.

IN 1985 AND beyond, as we contend with continuing business and economic uncertainties and strive to provide the best of services to our customers, our concern with the company's strong financial performance and integrity remains paramount. Without this financial strength and flexibility we would be limited in our ability to meet our other goals.

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SOMETIMES IN AN ANNUAL REPORT THERE IS THE tendency to concern ourselves with *our* image as an investment and to overlook the value to us of those businesses in which we invest. We would be remiss to overlook the value of either ForceTen or Island Tel.

ForceTen

In 1984, MT&T's computer services subsidiary, formerly Maritime Computers Limited, completed a major reorganization and recapitalization. Through agreements with Industrial Estates Limited of the Province of Nova Scotia and Benmore Holdings Limited of Toronto, the company received a capital injection of $6.1 million and access to a further $2.0 million in the form of a line of credit. As a result of this agreement, MT&T retains a 73.2% interest in the company.

This reorganization also involved engaging a new senior management team and changing the corporate name to ForceTen Enterprises Incorporated. The capital provided by Maritime Tel & Tel and the new shareholders enables ForceTen to sustain its commitment to delivering leading technology to its traditional markets based in Atlantic Canada and to the development of international markets. ForceTen is developing applications software for markets such as manufacturers, distributors and warehousing firms; dental, medical and veterinary practices; users of computer based training systems as well as telecommunications and utilities industries.

In 1984 ForceTen launched a significant research and development program requiring expenditures of more than $20 million over a five-year period and which placed ForceTen in the forefront of Canadian firms producing software products for international sale. Three new products are planned for introduction in 1985. During 1984 ForceTen's staff more than doubled to 139 people and revenues from the operation in sales in Atlantic Canada increased significantly. The decision to recapitalize ForceTen was, in part, based on the knowledge that the company's newly developed business plan called for a significant up-front investment in new products, product packaging and other support activities. The business plan also deals with the resulting short-term deficits by absorbing these up-front costs now rather than capitalizing and deferring them to later years.

Island Tel

Since 1929 MT&T has been a major shareholder in Island Tel, which is the sole telephone company supplying telephone, data, mobile and other telecommunications services in Prince Edward Island. Fully dial in its operations since 1977, the company currently has over 75,000 telephones in service, close to 51,000 network access service lines and is growing at the rate of approximately 3.5% per year. In 1984 Island Tel's revenues were $30.5 million and the company's assets stood at $73.2 million. With earnings per share consistently growing and a current return on average common equity of 15.5%, our investment in Island Tel is a valuable asset. MT&T's current ownership in Island Tel is 37.4%.

In a practical way, too, the close relationship of the companies is a mutually beneficial one. Our physical proximity makes it relatively easy for the two companies to share technological expertise and some support services which can be more economically supplied in a single package. Island Tel has a contractual arrangement with MT&T for a number of management, engineering, accounting and other services and typically buys services such as customer billing from MT&T, which is a much more economical method than purchasing and operating its own independent systems.

From an engineering standpoint, the continuing challenge is to develop, design and place the new technology when it is needed and to train the people to maintain it.

OPERATIONS

Glen Geldert

Vice President

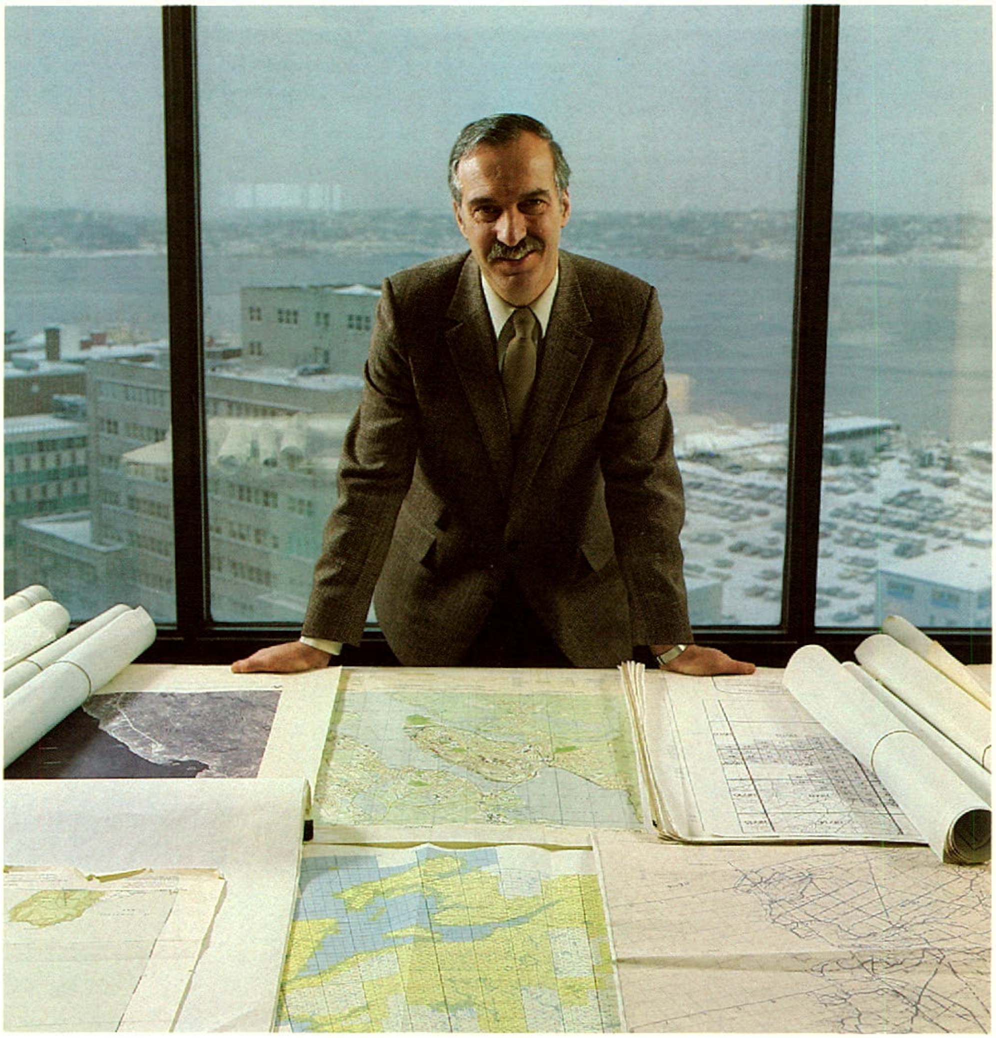
FOR OUR ENGINEERING AND operations groups, 1984 was a year of extraordinary challenge. The capital expenditure figures alone give some idea of the magnitude: \$93.0 million for 1984 compared to \$64.6 million the year before. In many respects this was a welcome challenge because it represented the return to more normal growth patterns after the severe slowdown of 1981 and 1982; however, after any program reduction undertaken because of economic slowdown there is always the risk that the economy will suddenly bounce back and leave you scrambling. This is what happened to us. During the recession period growth slowed and we delayed or cutback many programs. When the recovery came, it came fast, and at the end of 1983 we were left with many of our reinstated programs deferred to 1984 due to heavy workloads and even then there were signs indicating 1984 would also be a high-growth year. It turned out to be almost 30% higher than our September 1983 predictions, in fact, with a total terminal gain for the year of 13,975, which represents an increase of 3.9% over last year. This rapid turnaround meant that our resources were taxed to the limit in an effort to provide high-quality service to existing and new customers.

Yet, as we add staff and look ahead to proposed capital programs of \$115.4 million in 1985, almost double 1983's expenditures, we have to be concerned that we are accurately predicting the national and local economic trends. Surely one of the biggest challenges for any operations group in a business such as ours is to pinpoint accurately what new facilities we will need and when we will need them, so that our provisioning meets our growth needs but does not exceed them and so tie up capital in unused facilities or equipment . . . an eternal dilemma for any utility.

IT IS PROBABLY true to say that to an industry such as ours, technology is both a blessing and a bane. From an engineering standpoint, the continuing challenge is to develop, design and place the new technology when it is needed and to train the people to maintain it. With today's speed of change, building and maintaining high levels of expertise is not always easy. For many of the company's technical employees the adaptation to the various types of digital computerized switching equipment is almost like changing career mid-way through, so different is it from the older mechanical and electromechanical systems. The level of human support we give to the new sophisticated systems must be extremely high because, while computerized, self-diagnostic equipment has a much higher level of reliability, there is the potential for widespread rather than local disruption when a problem does occur.

And, of course, there are the times when technology doesn't seem to move quite fast enough and we have to commit capital to facilities which we know could be technologically superseded in a few years. For instance, during the next two years we'll be investing \$1.6 million in a new digital radio system to carry long distance calling between Nova Scotia and Newfoundland. We expect that within five years an undersea fiber optic cable may do the job better and more cost-effectively but the technology needed to cover that distance without repeaters isn't quite here yet and, since the facilities will be needed early in 1987, we can't wait. The digital radio system will, of course, serve the function perfectly adequately and it has an anticipated life of 15-20 years but the more choices we have at our disposal the better we can make effective decisions. Such decisions are all part of the complex, constantly shifting equation of need, cost and equipment that we juggle daily.

IT'S DIFFICULT to know which of all our current projects to call out for special attention but the following are certainly significant. Within a few months we will start the process of transforming our provincial telephone repair operations — a program which will be completed in 1987. A computerized data base will replace all the various paper records we use now and the functions of customer answering, testing, dispatching and record-keeping will be coordinated, and made much easier and more efficient. Not only will it mean much more effective use of our human and equipment repair resources but the system's tracking and analysis capabilities will also help us to identify seemingly isolated occurrences which are symptomatic of larger problems and enable us to fix them before they become serious. All of this, on a day-to-day and a long-term basis, means improved customer service and more cost-effective repair operations. This two-year program will cost \$7.0 million.



M*y experiences make me confident that we'll all settle quickly into this new way of doing business and that we will continue to provide high-quality service to all our customers.*

Another process which will start in 1985 involves the complete computerization of all customer records in our business offices. This multi-stage program dovetails into our computerized billing system and will, over the next few years, provide computer-generated work orders and a host of tracking and support systems which will improve the quality and accuracy of our customer information. This program, which has eight discrete phases, will take several years to complete but we project that its $5.7 million capital and expense cost will net $27.0 million in savings over a ten-year period — savings that will start to accrue with Phase One in 1985.

CONTINUOUS evolution is the nature of the telecommunications business. As we computerize or streamline one operation, another becomes increasingly time-consuming or complicated to manage. I anticipate that the competitive environment will be one of those issues for our Operations Department employees during 1985, if for no other reason than most of them are 'front-line troops' when it comes to answering customers' questions. My experiences over the years make me confident that we'll all settle quickly into this new way of doing business and that we will continue to provide high-quality service to all our customers.

As the company picks up the challenge of competition in 1985, we'll be there with the people, the programs and the tools that we'll need to succeed.

CORPORATE SERVICES

Don Farmer

Vice President

FOR AN ORGANIZATION TO BE STRONG, whatever the direction of its external thrusts, all its component parts must be strong and vital. Most of the departments comprising Corporate Services are not obviously visible to the public, the investor or the competitor but their day-to-day work is critical to the health of the whole company and their policies must be as progressive and their focus as finely tuned as any other corporate group.

We've seen some far-reaching corporate steps taken in 1984 and many of these originated in the 'back rooms' within the Corporate Services groups.

ONLY A FEW people outside our organization ever get to know our Regulatory Affairs staff but they were the driving force on a team which, during 1983 and 1984, successfully managed the complicated and exhausting process of creating a new tariff of rules and regulations and developing the supporting evidence, to accommodate the connection of customer-owned equipment. This tariff had to give our customers what they wanted, give the company the rate structure and rules that would enable it to compete effectively and at the same time be acceptable to our regulator, the Board of Commissioners of Public Utilities for the Province of Nova Scotia. The result of the group's efforts was subjected to public hearings and extensive scrutiny in 1984 before a Decision was rendered on November 28. The Public Utilities Board's Decision accepted our proposals to 'unbundle' or separate the charges for service into network (access) charges and terminal charges and to use Long Run Incremental Costing (LRIC) as our costing philosophy. It also permitted customers to obtain most of their terminal equipment from alternative suppliers, if they wish. We're confident that this acceptance of our costing principles and tariff structure will enable us to meet our competitors on an equal footing and that's a good feeling to have as we launch a new venture of this size.

WE WERE ALSO active at the Inter-Exchange Competition hearings in Ottawa, in late 1984, when the Canadian Radio-Television and Telecommunications Commission (CRTC) examined the issues of inter-exchange competition, including applications by CNCP and BC Rail to compete on long distance routes in Ontario, Quebec and British Columbia. Since any decision made on long distance issues in any part of Canada has the potential, both now and in the future, to affect MT&T's customers or its revenues, it was essential for us to be active in the forum where these decisions were being made. We believe that if long distance competition is to be a reality, then we too will compete, but that we must be allowed to compete on equal terms. We can accept inter-exchange (long distance) competition only if a mechanism can be found to pay us properly for the use of our exchange network. Fair payment will enable us to proceed without jeopardizing the universal availability of affordable telephone service, which has been one of our primary objectives since the formation of the company. This complex and far-reaching issue will command a considerable amount of our attention in the months and years to come.

Internationally our industry is breaking new soil: the USA has recently witnessed the break-up of the giant Bell System and the start of long distance competition, Great Britain is de-nationalizing and in Canada we seem to be working towards regulated competition or, as in the case of cellular radio, what's been called a 'duopoly'. This will mean a changing regulatory climate with some new benefits and some new headaches.

PROGRESS, in technology or anything else, is useless without the people to use it. Our Personnel Department is facing a considerable challenge to project the skills the changed organization will need, both now and five years ahead, and to start building for them now with specialized training, retraining and development. It's no longer sufficient to react to technology or other industrial trends after the fact: we must have well-trained people ready when the company needs them. To help accomplish this we expanded our in-house training capabilities during 1984 and reshaped our programs so that they link all our various operational systems and support our corporate business plan rather than serving isolated departmental needs. Our staff base, reduced mainly by attrition during the recession period, is building again and we now have 231 more employees than at the end of last year.

DECISIONS about the 'when, what and how' of new technology don't come from a crystal ball either. Planning groups of engineering and costing experts examine all the permutations of service needs, options for filling the needs, balance costs against future service options and predicted developments, and then indicate when the company should move and with what equipment. 1984 was the year we decided to move into fiber optics on a large scale and by the end of 1985 the company will have its first major route, one of slightly more than 100km, on the province's south shore, linking six communities to Halifax via an intermediate digital radio system. This is the first of several large fiber optic systems planned for the next few years and the beginning of

We believe that if long distance competition is to be a reality, then we too will compete, but that we must be allowed to compete on equal terms.

a long evolutionary process with fiber optic technology. The Planning Department also has begun a three-year service costing project which will enable us to isolate and operate 'pieces' of the company's business on a cost centre basis.

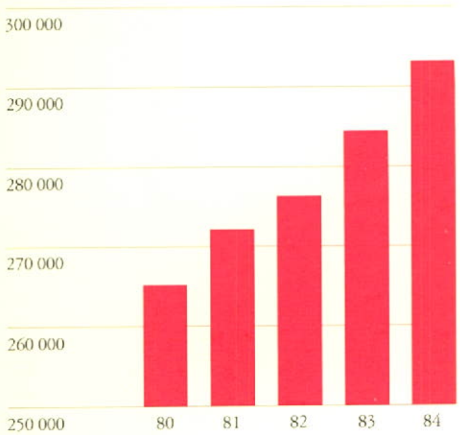
And year by year we're harnessing internal computer power for corporate profitability as the Systems Development group develops computerized systems which have substantial economic paybacks or operational benefits. Eight major projects implemented during the last four years, for example, have estimated 10-year savings to the company of $23.3 million. One typical project completed in 1984, a computerized depreciation system, replaced a relatively primitive system and now we have the capability to calculate precise, accurate capital recovery schedules. As the company is not yet fully computerized, there is plenty of scope for further operational improvement and cost savings — areas we're exploiting as quickly as is practical.

As the company picks up the challenge of competition in 1985, we'll be there with the vital support — the corporate road map, the people, the programs and the tools — in fact, everything from tape to trucks (mostly down-sized and all fuel-efficient), that we'll need to succeed. Challenging and interesting times lie ahead, I believe.

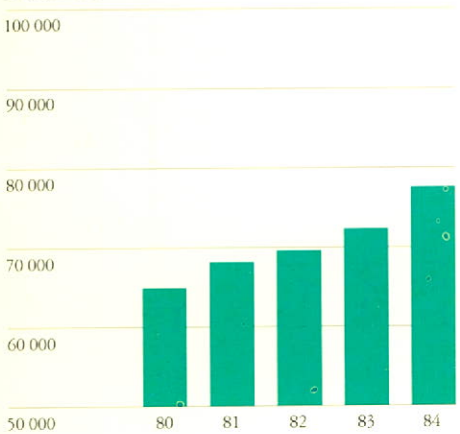
Service Improvements

NETWORK ACCESS SERVICES
Starting this year we will be referring to **Network Access Services** rather than main telephone lines, main services or terminals in quoting company statistics. This definition is now standard within most Canadian telephone companies and more accurately reflects a company's real status in an environment where customers may own some or all of their terminal telephone equipment. Numerically it is the same as the main telephones definition we've used up to this year.

Residence



Business



By the end of 1982 we had achieved our objective of reducing the occupancy of customers on rural services to fewer than four customers per line. We have continued to add facilities to keep this number shrinking and at the end of 1984 the average number of customers on each rural line was 2.8. The following is a summary of our 1984 and proposed 1985 service improvements:

	1984	1985
*Automatic Number Identification		
Exchanges	6	14
Customers	5 299	11 200
Cost	$ 195 000	$ 495 000
*Base Rate Extensions		
Exchanges	11	18
Customers	3 182	5 756
Cost	$ 2 800 000	$ 3 600 000
*Extended Area Service		
Exchanges	6	13
Customers	145 946	199 672
Cost	$ 757 000	$ 1 200 000

**on dialed long distance calls*

**enlargements to the area of an exchange within which single-party service can be obtained without monthly mileage charges*

**expansion of the area that can be called without long distance charge*

Digital Switching

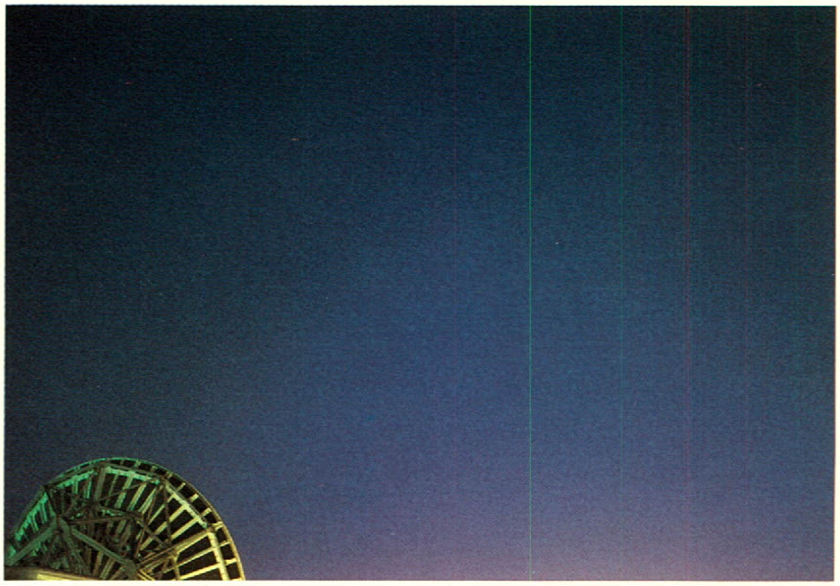
We converted three switching centres, including two major ones in Halifax-Dartmouth, to digital technology in 1984, at a cost of $10.0 million and replaced two large Federal Government Centrex installations, one in Halifax, one in Sydney, at a total cost of $6.9 million, with the latest generation of electronic Centrex facilities. The conversion of the Halifax government system, which serves 24,000 federal employees including the Department of National Defence, was a successful culmination of two and a half years of complex work by MT&T and the Government Telephone Authority of the Department of Communications. Digital switching capital costs totalled $10.1 million in 1984.

We have major digital installations planned for Cheticamp, Arichat and Antigonish in 1985 at a cost of $5.6 million and remote digital units for Eastern Passage, Dartmouth (Woodlawn) and Mira Road at a cost of $3.4 million. In 1986, conversions in Kentville and Halifax (Rockingham) will cost $4.4 million. At this point 52% of our customers will have access to digital services upon request and this will represent a major step in our program of updating our local switching facilities.

Also moving apace is our program of replacing analog radio long distance facilities with digital systems. A $3.5 million expenditure in 1984, of a total project costing $5.9 million, completes our present programs and in 1985 we're starting a major South Shore digital radio and fiber optic project, a Halifax to Charlottetown route, and laying the groundwork for a system from Nova Scotia to Newfoundland.

Long Distance Services

In 1985, the next three stages in MT&T's long-term, province-wide program of installing computerized technology for operator-assisted long distance and direct dialed overseas calling will occur. As part of this program, some of our existing long distance centres will close and their operations will be consolidated with those of other centres. In 1985, the Bridgewater long distance centre will close and the Sydney and Kentville centres will be converted to the new equipment which will enable customers served through those centres to dial their own collect, person-to-person and other operator-assisted calls and to dial most of their own overseas calls. At the end of the year, 80% of MT&T's customers will have access to the improved services. By the end of 1987 two of the remaining three centres will have closed, the last centre will have been updated and all customers throughout the province will have access to the improved services.



Earnings

Earnings per average common share rose 5.9%, in 1984, from $4.42 to $4.68. The return on average invested capital increased from 13.1% last year to 13.2% and the rate of return on average common equity was 15.9% in 1984 compared to 16.1% last year. At year-end, equity per common share was $30.44 up from $28.34 at the end of last year. Dividends declared for the year, per common share increased from $2.43 in 1983 to $2.58. and the quarterly dividend payment was increased from 63 cents to 66 cents per share, effective with the October 15, 1984 payment. In December the Board of Directors decided that at the Annual General Meeting, to be held in March, the shareholders will be asked to approve a three-for-one split of the company's common shares.

Operating Revenues and Expenses

In 1984, operating revenues totalled $282.2 million, up 11.4% from the 1983 total of $253.3 million. Operating expenses increased 16.1% in 1984, to $193.3 million from $166.4 million in 1983. In 1984, income before taxes was $66.7 million, up 3.4% from 1983; income taxes increased 0.9% to $33.2 million, resulting in net income of $34.4 million for 1984 compared to $31.6 million in 1983, an increase of 8.8%. After payment of $3.0 million in preferred share dividends, $31.4 million represented the net income applicable to common shares in comparison to $28.4 million the previous year. In 1984 $17.2 million was paid in common share dividends and the remaining $14.2 million was retained and reinvested in telecommunications plant and equipment. At year-end the total shareholder investment was $246.3 million compared to $227.0 million last year.

Financing and Capital Structure

As part of an ongoing program of financing capital expenditures, in September 1984 the company negotiated and sold a $30 million Euro-Canadian bond issue. These 13¼% Series AA First Mortgage Bonds have a 10-year term.

At the end of 1984, 42.5% of the company's capital was represented by common equity, a strength unmatched since 1973. At year-end 1984 the company's debt ratio was 50.2%, compared to 49.2% last year and reflecting the September bond issue.

Capital Programs 1984-1986

Capital spending totalled $93.0 million in 1984, less than the $96.9 million forecast. The forecast for 1985 had been increased to $115.4 million and programs totalling $128.1 million are planned for 1986. These planned expenditures are in response to a return to the normal growth patterns established prior to the 1981-82 recession.

Rate Application

For the first time since early 1982, the company has applied to the Public Utilities Board for a general rate increase. (The recent tariff restructure to accommodate customer ownership of equipment yielded no extra revenue to the company.) If approved as requested, the company's proposed rate increases are expected to yield $7.7 million in additional revenue in 1985, representing 2.5% of the revenue requirement for the year. The changes, which we've requested to take effect on June 1, affect various items of service by different percentages. It is an increase of 7.8% in 1985 revenues for services on which adjustments are proposed in this application.

Management's Responsibility for Financial Statements

The consolidated financial statements have been prepared by management, which is responsible for the integrity and objectivity of this information. The statements have been prepared in conformity with generally accepted accounting principles and, where appropriate, include amounts based on management's estimates. Financial information elsewhere in this Annual Report is consistent with that in the financial statements.

The Company has a system of internal accounting controls designed to provide reasonable assurance that transactions are recorded and executed in accordance with its authorizations, that assets are properly safeguarded, and that reliable financial records are maintained.

Clarkson Gordon, Chartered Accountants, the external auditors appointed by the shareholders, are engaged to provide an independent audit of the consolidated financial statements. Their report is set out to the right.

The Audit Committee of the Board of Directors, comprised entirely of outside Directors, meets periodically with management, the internal auditors and the external auditors to discuss audit and financial matters. In addition, this committee reviews the annual financial statements of the Company and submits its report to the Board of Directors. The financial statements are submitted to the Board for approval.

Ed Hicks
Vice President
Finance

Auditors' Report

To The Shareholders of Maritime Telegraph and Telephone Company, Limited

We have examined the consolidated financial position statement of Maritime Telegraph and Telephone Company, Limited as at December 31, 1984 and the consolidated 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 consolidated financial statements present fairly the financial position of the company as at December 31, 1984 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson Gordon

Chartered Accountants
Halifax, Canada
January 25, 1985

Consolidated Income Statement

for the year ended December 31 — *in thousands of dollars*

	1984	1983
Revenues		
Local service	$ 107 915	$ 101 089
Long distance service	155 916	141 627
Other, net of uncollectible revenue	18 349	10 537
	282 180	253 253
Expenses		
Depreciation	46 442	42 744
Operating including maintenance	79 432	68 897
General and administrative	55 191	42 521
Pensions and benefits	12 195	12 231
	193 260	166 393
	88 920	86 860
Other Income		
Allowance for funds used during construction	1 980	717
Other *(Note 2)*	3 452	2 962
	94 352	90 539
Interest and Other Debt Expenses *(Note 3)*	27 655	26 026
	66 697	64 513
Income Taxes	33 241	32 943
	33 456	31 570
Minority Interest in Net Loss of Subsidiary Company	903	—
Net Income	34 359	31 570
Preferred dividends	2 992	3 130
Net Income Applicable to Common Shares	$ 31 367	$ 28 440
Earnings per Common Share	$ 4.68	$ 4.42

See accompanying notes

Consolidated Retained Earnings Statement

for the year ended December 31 — *in thousands of dollars*

	1984	1983
Balance at Beginning of Year	$ 88 475	$ 75 525
Additions		
Net Income	34 359	31 570
Contributed surplus on preferred shares purchased for cancellation	176	205
Other	80	26
	34 615	31 801
Deductions		
Preferred dividends	2 992	3 130
Common dividends	17 244	15 700
Capital stock expenses	18	21
	20 254	18 851
Balance at End of Year	$ 102 836	$ 88 475

See accompanying notes

Consolidated Financial Position Statement

as at December 31 — *in thousands of dollars*

ASSETS	1984	1983
Telecommunications Property		
Buildings, equipment and facilities in service	$ 797 416	$ 731 176
Less accumulated depreciation	276 989	247 472
	520 427	483 704
Land, and property under construction	31 365	24 146
Construction materials inventory	8 320	7 167
	560 112	515 017
Investments *(Note 4)*		
Investment in affiliated company	9 428	8 854
Other investments	790	741
	10 218	9 595
Current Assets		
Cash	617	1 022
Accounts receivable	47 150	41 778
Income taxes recoverable	5 268	—
Prepayments	5 165	5 171
	58 200	47 971
Deferred Charges		
Unamortized long-term debt expenses	2 951	2 528
Other deferred charges (at cost)	3 821	3 514
	6 772	6 042
	$ 635 302	$ 578 625

LIABILITIES AND SHAREHOLDERS' EQUITY	1984	1983
Shareholders' Equity		
Common stock *(Note 5)*	$ 69 073	$ 66 762
Premium on common stock *(Note 6)*	38 320	33 992
Retained earnings	102 836	88 475
	210 229	189 229
Preferred stock *(Note 5)*	36 047	37 722
	246 276	226 951
Minority Interest in Subsidiary Company	756	—
Long-Term Debt *(Note 7)*	240 364	217 364
Current Liabilities		
Accounts payable	24 583	22 499
Income taxes payable	—	2 231
Interest accrued	5 988	4 960
Dividends payable	5 169	4 885
Debt due within one year *(Note 8)*	7 848	2 614
Other current liabilities	6 480	5 398
	50 068	42 587
Deferred Credits		
Income taxes	97 807	91 595
Other deferred credits	31	128
	97 838	91 723
Commitments *(Note 10)*		
	$ 635 302	$ 578 625

See accompanying notes

On behalf of the board

Director Stewart Robertson Director

Consolidated Statement of Changes in Financial Position

for the year ended December 31 — *in thousands of dollars*

	1984	1983
Source of Cash		
Operations		
Net income	$ 34 359	$ 31 570
Cash provided (used) by changes in working capital *(Note 11)*	(10 153)	(5 645)
Items not requiring cash		
Depreciation	46 442	42 744
Deferred income taxes	6 212	3 056
Allowance for funds used during construction	(1 980)	(717)
Other, net	(167)	230
	74 713	71 238
Employees' stock savings plan	5 269	4 640
Common shareholder dividend reinvestment plan	1 370	882
Long-term debt	30 000	—
Proceeds from issue of shares by subsidiary company to minority shareholders	2 100	—
	113 452	76 760
Application of Cash		
Cash used for construction		
Construction program expenditures	93 017	64 611
Change in construction materials inventory	1 153	174
	94 170	64 785
Less charges not requiring cash outlay	4 621	2 509
	89 549	62 276
Dividends	20 236	18 830
Preferred shares purchased for cancellation	1 499	1 487
Repayment of long-term debt	—	5 000
Other, net	2 573	(576)
	113 857	87 017
Cash		
Increase (decrease)	(405)	(10 257)
Balance at beginning of year	1 022	11 279
Balance at End of Year	$ 617	$ 1 022

See accompanying notes

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

a) System of accounts:
The Company is subject to regulation, including examination of accounting practices, by the Board of Commissioners of Public Utilities for the Province of Nova Scotia. The system of accounts and accounting practices are similar to those being used by other companies in the telecommunications industry.

b) Consolidation:
The accompanying financial statements consolidate the accounts of the Company and its majority-owned subsidiary, ForceTen Enterprises Inc.

c) Investment in affiliated company:
The investment in The Island Telephone Company Limited is accounted for by the equity method, whereby the investment is carried at its cost plus the Company's share of retained earnings since acquisition.

d) Telecommunications property:
Telecommunications property is recorded at cost.

Construction materials inventory consists of items which will be used in the construction program.

Depreciation is charged on a straight-line basis using rates for classes of property, determined by a continuing program of engineering studies, as approved from time to time by the Board of Commissioners of Public Utilities for the Province of Nova Scotia. These rates provide for depreciation of the assets over their estimated service lives and resulted in an average rate of 6.2% for 1984 (1983, 6.1%).

e) Income taxes:
Deferred tax accounting has been followed with respect to all timing differences. Income tax expense is based on income reported in the Income Statement. The Company defers the payment of a portion of the income tax expense in arriving at taxable income by deducting certain expenses in amounts greater than are charged in the Income Statement. Taxes deferred in this manner appear in the Financial Position Statement as a deferred credit.

f) Allowance for funds used during construction:
The Company is allowed a return on capital invested in new telecommunications property while under construction by including an "allowance for funds used during construction" as an addition to the cost of the property constructed. The allowance is calculated using a rate based on the cost of equity and the after tax cost of debt.

g) Unamortized long-term debt expenses:
Unamortized long-term debt expenses are being amortized on a straight-line basis over the duration of the various debt issues.

h) Earnings per common share:
Earnings per common share are computed based on the average of the average number of shares outstanding each month during the year.

2. Other Income

Consists principally of the Company's share of The Island Telephone Company Limited net income of $1 417 000 (1983, $1 273 000) which includes dividends received amounting to $843 000 (1983, $794 000).

3. Interest and Other Debt Expenses

	1984	1983
Interest on long-term debt	$ 25 635 000	$ 24 934 000
Amortization of long-term debt expenses	409 000	394 000
Interest on bank and other	1 248 000	410 000
Interest on deposits held	363 000	288 000
	$ 27 655 000	$ 26 026 000

4. Investments

Investment in affiliated company consists of shares in The Island Telephone Company Limited. At December 31, 1984 the Company's ownership interest in The Island Telephone Company Limited was 37.4% (1983, 38.3%). Other investments consist principally of shares in Telesat Canada at a cost of $738 000.

5. Capital Stock

Par value $10 per share

	1984	1983
	Shares	Shares
Authorized:	13 596 866	13 764 366

Issued:

	Shares Outstanding at Jan. 1, 1984	Issued For Cash	Redemptions and Purchases of Preferred Shares for Cancellation	Shares Outstanding at Dec. 31, 1984
Common	6 676 202	231 121	—	6 907 323
Preferred				
7.00%	150 000	—	—	150 000
7.10%	686 264	—	22 500	663 764
7.65%	1 273 475	—	45 000	1 228 475
8.60%	700 000	—	30 000	670 000
9.40%	962 500	—	70 000	892 500
	3 772 239	—	167 500	3 604 739
	10 448 441	231 121	167 500	10 512 062

As confirmed by order of the Supreme Court of Nova Scotia, the Company's authorized share capital as at December 31, 1984 was reduced from $137 643 660 to $135 968 660.

For the year 1984, the Company reserved 250 000 common shares for issuance under the Employees' Stock Savings Plan and during the year issued 190 562 shares to employees under the terms and conditions of the Plan. These shares are generally issued in December of each year after the completion of twelve months of contributions at a purchase price equivalent to 80% of the average market price of the stock.

The Company has a Common Shareholder Dividend Reinvestment Plan, whereby holders of common shares have the option to acquire additional common shares through the reinvestment of dividends. These shareholders may then elect to purchase additional common shares through the investment of specified amounts of cash. During the year 40 559 shares were issued under the terms and conditions of the Plan.

By amendment to the Company's Act of Incorporation in 1966 any shareholder or group of associated shareholders owning 1 000 or more voting shares (common or 7% cumulative preferred) is limited to 1 000 votes at any meeting of the shareholders.

Preferred Shares:
All series have a par value of $10.00 per share.

7% cumulative preferred carry one vote per share and are non-redeemable.

All series (7.10%, 7.65%, 8.60%, 9.40%) of cumulative, redeemable preferred shares are non-voting unless six quarterly dividends are in arrears. The other provisions attached to each series are:

7.10% — The Company shall attempt to purchase for cancellation 22 500 shares at or below par value in each calendar year. The Company may redeem all or part of the outstanding shares after April 15, 1981 at a premium of $0.40 per share. This premium applied until April 15, 1984 after which time the premium decreases $0.10 every three years until April 15, 1990 and thereafter may be redeemed at $10.10.

7.65% — The Company shall attempt to purchase for cancellation 45 000 shares at or below par value in each calendar year. The Company may redeem all or part of the outstanding shares after August 22, 1983 at a premium of $0.525 per share. This premium applied until August 22, 1984 after which time the premium decreases $0.075 every year until August 22, 1990 and thereafter may be redeemed at $10.00.

8.60% — The Company shall retire 30 000 shares by May 28 of each year, either by calling for redemption at par value or by purchasing for cancellation at a price not exceeding the price at which such shares are otherwise redeemable. The Company may redeem all or part of the outstanding shares after May 28, 1982 at a premium of $0.60 per share. This premium applies until May 28, 1985 after which time the premium decreases $0.10 every three years until May 28, 1997 and thereafter may be redeemed at $10.10.

9.40% — The Company shall retire 70 000 shares by April 15 of each year, either by calling for redemption at par value or by purchasing for cancellation at a price not exceeding the price at which such shares are otherwise redeemable. The Company has the option to redeem an additional 52 500 shares at par value by April 15 of each year. The Company may redeem all or part of the outstanding shares after April 15, 1983 at a premium of $0.60 per share. This premium applies until April 15, 1986 after which time the premium decreases $0.10 every three years until April 15, 1998 and thereafter may be redeemed at $10.10.

6. Premium on Common Stock

	1984	1983
Beginning of year	$ 33 992 000	$ 31 040 000
On shares issued during year	4 328 000	2 952 000
End of year	$ 38 320 000	$ 33 992 000

7. Long-Term Debt

Series	Rate	Maturing	1984 Principal	1983 Principal
M	5½%	May 1, 1985	$ —	$ 7 000 000
Y	16½%	July 15, 1986	30 000 000	30 000 000
N	6½%	March 15, 1987	10 000 000	10 000 000
Z*	15¾%	May 15, 1987	30 000 000	30 000 000
Q	9¼%	June 1, 1990	1 364 000	1 364 000
R	8⅜%	May 1, 1991	12 000 000	12 000 000
T	8¾%	December 15, 1993	20 000 000	20 000 000
S	8⅝%	August 1, 1994	12 000 000	12 000 000
AA	13¼%	October 15, 1994	30 000 000	—
U	10¾%	November 1, 1995	20 000 000	20 000 000
V	11 %	June 15, 1996	25 000 000	25 000 000
W	10¾%	March 15, 1997	25 000 000	25 000 000
X	10⅞%	June 15, 1999	25 000 000	25 000 000
			$ 240 364 000	$ 217 364 000

*The holder of any Series Z Bond will have the right to elect that such Series Z Bond shall mature on May 15, 1992. Such right may be exercised only after August 15, 1986 and prior to February 15, 1987. The Company may, by notice given prior to January 15, 1987, increase the rate of interest payable on the Series Z Bonds effective May 15, 1987.

Interest on Series AA Bonds is payable annually. Interest on all the remaining bonds is payable semi-annually.

The Bonds are secured by a trust indenture and mortgage and by deeds supplemental thereto containing a first fixed and specific mortgage and charge upon all real and immovable property of the Company and a first floating charge on all other property both present and future of the Company.

8. Debt Due Within One Year

	1984	1983
Bank and other notes	$ 848 000	$ 2 614 000
First mortgage bonds, Series M 5½%, due May 1, 1985	7 000 000	—
	$ 7 848 000	$ 2 614 000

Debt due within one year is normally refinanced out of the proceeds of longer term financing. This amount is included in total capital in computing capitalization ratios and rates of return on capital.

9. Pension Fund
Pension fund obligations are accounted for and paid over the estimated future working lifetime of employees of the Company. The total contribution to the pension fund for the year ended December 31, 1984 amounted to $10 473 000 (1983, $10 161 000). The actuarial review as of December 31, 1983, based on earnings and service to that date, shows that all vested benefits are fully funded.

10. Commitments
At December 31, 1984, minimum operating lease commitments covering building space, tenant improvements and circuits are as follows:

1985	$ 5 926 000
1986	3 526 000
1987	3 422 000
1988	3 104 000
1989	3 004 000
Thereafter	20 979 000
	$ 39 961 000

11. Consolidated Statement of Changes in Financial Position
Cash provided (used) by changes in working capital is computed as follows:

	1984	1983
(Increase) decrease in accounts receivable	$ (5 372 000)	$ (5 179 000)
(Increase) decrease in income tax recoverable	(5 268 000)	—
(Increase) decrease in prepayments	6 000	1 054 000
Increase (decrease) in accounts payable	2 084 000	7 491 000
Increase (decrease) in income taxes payable	(2 231 000)	(10 191 000)
Increase (decrease) in interest accrued	1 028 000	(212 000)
Increase (decrease) in dividends payable	284 000	582 000
Increase (decrease) in bank and other notes	(1 766 000)	617 000
Increase (decrease) in other current liabilities	1 082 000	193 000
	$ (10 153 000)	$ (5 645 000)

12. Related Party Transactions
The Company provides management, administrative, engineering and other operations support services (including the sale of materials, supplies and telecommunications property) to The Island Telephone Company Limited and under this arrangement received $3 106 000 during the year (1983, $3 192 000).

13. Income Taxes
The Company's subsidiary has a loss for income tax purposes of approximately $3 600 000 which expires in 1991. Potential tax savings resulting from the utilization of this loss have not been reflected in these consolidated financial statements.

14. Dominant Industry Segment
The Company operates in the telecommunications industry, providing telephone, data and a wide range of telecommunications services.

Reporting the Effects of Changing Prices

Unaudited

Introduction

Inflation has caused a decline in the purchasing power of the dollar, and technological improvements, changes in supply and demand and productivity gains continuously cause the prices of most products and services to move upward or downward. The effects of these factors are not apparent in the conventional historical-cost financial statements, so there are recognized limitations in the usefulness of those statements for assessing the financial performance of an enterprise.

The Canadian Institute of Chartered Accountants (CICA) has issued a standard (Section 4510) on current cost accounting (Reporting the Effects of Changing Prices) establishing that supplementary information about the effects of changing prices be included in the annual reports of large, publicly held enterprises with fiscal years starting on or after January 1, 1983. In recognizing that there is a need for both flexibility and experimentation, the CICA has not recommended a comprehensive restatement of financial statements on a current cost basis. Instead, it has decided that the preparation and use of partial information, with the requirement to disclose information necessary to compute several versions of income, will contribute to the development of current cost concepts.

Current Cost Accounting

Current cost accounting is an attempt to reflect net income and telecommunications property based on current replacement cost of these assets.

The data that follows has been prepared in compliance with this CICA standard.

Table A presents the Company's Income Attributable to Common Shares on a Current Cost Basis under an Operating Capability Concept of Capital, for the year 1984 (with comparative data for 1983 expressed in 1984 dollars). Under this concept of capital, income is not available for distribution to common shareholders until the physical operating capacity of telecommunications property is maintained. The format used identifies the nature of adjustments to the historical cost income statement.

Table B shows other current cost and general purchasing power supplementary information.

Table A

Consolidated Income Attributable to Common Shares on a Current Cost Basis under an Operating Capability Concept of Capital.

Unaudited — *in thousands of dollars*

For the Year Ended December 31,	1984	1983*
Historical Cost Net Income	$ 34 359	$ 32 944
Less Current Cost Adjustments:		
Depreciation Expense (Note 2)	13 797	19 625
Equity Investment (Note 3)	422	567
Add: Minority Shareholders' Portion of Depreciation Expense Adjustment	11	—
Net Income on a Current Cost Basis	20 151	12 752
Financing Adjustment (Note 4)	4 915	6 976
Less Preferred Dividends	2 992	3 266
Net Income Attributable to Common Shares on a Current Cost Basis under an Operating Capability Concept of Capital	$ 22 074	$ 16 462

* *The 1983 comparative amounts have been restated in 1984 dollars.*

The accompanying notes are an integral part of Table A.

1) In accordance with the requirements of the CICA, no adjustments have been made to reflect any effects of inflation on provisions for income taxes or interest charges. The current portion of income taxes is $27 029 (1983, $31 188) and the deferred portion is $6 212 (1983, $3 189).

2) The depreciation expense adjustment represents the additional amount that is chargeable to income to provide for the eventual replacement of the year's consumption of operating capability of telecommunications property measured at current cost. Most other operating expense items are current year transactions, therefore, they are already recorded at current cost amounts.

3) The equity investment adjustment reflects the Company's share of depreciation expense adjustment made in The Island Telephone Company Limited, net of the financing adjustment.

4) The financing adjustment represents that portion of the depreciation expense adjustment which may be provided by additional debt and need not be charged against income attributable to common shareholders. This adjustment assumes the continuance of the present proportions of debt and equity financing.

Estimation Techniques

The current cost of telecommunications property has been calculated by applying indices to investments in each of the major telephone plant accounts. Central Office equipment has been adjusted to reflect technological improvements assuming that this class of plant will eventually be replaced with the latest technology. Other classes of plant have not undergone as significant a technological change, so they have not been adjusted for this factor. It is assumed that they will be replaced using existing technology.

Accumulated depreciation and depreciation expense have been restated using a methodology consistent with the calculation of the current cost of telecommunications property.

Limitations of Current Cost Accounting

The Company recommends caution in interpreting these experimental disclosures for the following reasons:

a) No one method of stating current cost income has yet proved superior to any other. There is also the question of how the data should be used or interpreted. The Company believes that the data may provide useful insights into the measurement of operating results but for purposes of valuation of the corporation or for information based on traditional measures of financial returns, its suitability is limited.

b) The disclosures represent only a partial accounting model. For example, the CICA recommendations require that no adjustment be made to reflect any effects of inflation on provisions for income taxes or interest charges.

c) Determining current costs is largely a subjective process for which guidance and experience are limited. For instance, for property such as Central Office equipment where there have been significant technological changes, estimates and assumptions must be used to reflect these changes. The reader should also bear in mind that these assumptions assume replacing working capacity with what is available on the market today. Actual replacement will take place over many years and will use the appropriate equipment then available. It may not be possible to make comparisons among different companies, even among telephone companies, since their plants and plans for replacement may reflect different philosophies, programs and equipment.

Table B

Other Current Cost and General Purchasing Power Supplementary Information.

Unaudited — *in thousands of dollars*

	1984	1983*
Amount by which current cost of telecommunications property would have increased if computed by reference to changes in general price levels, as measured by the consumer price index.	$ 29 110	$ 35 450
Increase (decrease) in current cost of telecommunications property as calculated by applying indices.	(4 514)	22 684
Difference, due to benefits of new technologies and the price movements of telecommunications property.	$ 33 624	$ 12 766
Gain In General Purchasing Power from having Net Monetary Liabilities. *(Note 1)*	$ 9 465	$ 11 618
Financing Adjustment Based on the Amount of Change During the Year of Telecommunications Property. *(Note 2)*	$ (1 608)	$ 8 063
Telecommunications Property, net of Accumulated Depreciation, at current cost.	$ 801 168	$ 803 905
Net Assets (Common Shareholders' Equity) at current cost. *(Note 3)*	$ 462 962	$ 480 880

** The 1983 comparative amounts have been restated in 1984 dollars.*

The accompanying notes are an integral part of Table B.

1) During periods of inflation borrowers of money experience a gain due to the fact that the amounts owed by them will be repaid in dollars having less purchasing power than the dollars originally borrowed. This gain in general purchasing power (using the consumer price index) from having net monetary liabilities does not provide funds to the Company.

2) The CICA requires the calculation of two financing adjustments, one based on current cost adjustments made to income for the period, the other based on the amount of change during the year of telecommunications property. In the Company's opinion, the first approach is more relevant for income measurement purposes and it has therefore been used to calculate net income attributable to common shares on a current cost basis.

3) The CICA designates the amount of net assets as common shareholders' equity at historical cost plus the difference between net telecommunications property at current cost and net telecommunications property at historical cost.

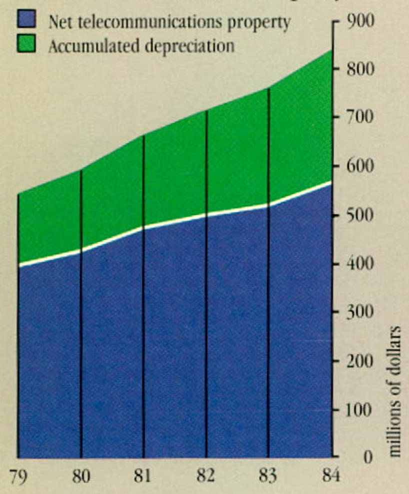
Years in Review

	1984	1983	1982	1981	1980	1979
Financial Position at December 31 *(thousands)*						
Telecommunications property	$ 837 101	$ 762 489	$ 715 540	$ 664 145	$ 592 800	$ 542 686
Accumulated depreciation	276 989	247 472	220 083	195 235	170 964	148 231
Investments	10 218	9 595	9 117	8 723	8 996	8 453
Current assets	58 200	47 971	54 103	38 084	30 262	27 044
Deferred charges	6 772	6 042	6 680	6 372	4 207	4 534
Shareholders' equity	246 276	226 951	210 171	194 281	182 842	174 877
Minority interest in subsidiary company	756	—	—	—	—	—
Long-term debt	240 364	217 364	217 364	192 364	162 364	162 364
Current liabilities	50 068	42 587	49 107	54 571	49 009	32 079
Deferred credits	97 838	91 723	88 715	80 873	71 086	65 166
Income *(thousands)*						
Revenues						
Local service	$ 107 915	$ 101 089	$ 93 945	$ 80 024	$ 70 481	$ 66 968
Long distance service	155 916	141 627	133 176	119 676	104 171	93 854
Other, net of uncollectible revenue	18 349	10 537	8 740	7 602	6 912	6 102
	282 180	253 253	235 861	207 302	181 564	166 924
Expenses	193 260	166 393	154 418	142 019	122 046	111 801
Other income	5 432	3 679	3 476	2 563	1 597	1 127
Interest and other debt expenses	27 655	26 026	25 755	22 690	17 679	15 838
Income taxes	33 241	32 943	29 884	21 627	21 500	19 033
Minority interest in subsidiary net loss	903	—	—	—	—	—
Net income	34 359	31 570	29 280	23 529	21 936	21 379
Financial Statistics at December 31						
Equity per common share	$ 30.44	$ 28.34	$ 26.60	$ 25.02	$ 23.93	$ 22.69
Embedded debt cost	11.8%	11.6%	11.5%	10.7%	9.6%	9.5%
Capital structure						
Debt (including short term)	50.2%	49.2%	51.6%	52.8%	50.8%	49.1%
Preferred equity	7.3%	8.5%	9.1%	10.0%	11.5%	13.4%
Common equity	42.5%	42.3%	39.3%	37.2%	37.7%	37.5%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

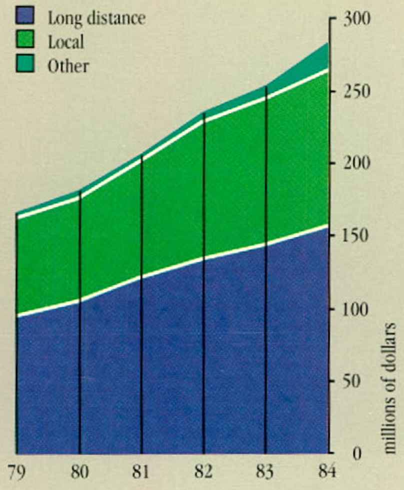
	1984	1983	1982	1981	1980	1979
Financial Statistics for the year						
Earnings per common share	$ 4.68	$ 4.42	$ 4.23	$ 3.42	$ 3.22	$ 3.16
Dividends declared per common share	$ 2.58	$ 2.43	$ 2.22	$ 2.01	$ 1.84	$ 1.80
Return on average common equity	15.9%	16.1%	16.4%	13.9%	13.8%	14.3%
Average common shares *(thousands)*	6 699	6 440	6 139	5 872	5 685	5 547
Return on average invested capital	13.2%	13.1%	13.0%	12.0%	11.1%	11.2%
Return on rate base	10.9%	10.6%	10.3%	9.8%	9.1%	9.1%
Times bond interest earned - before taxes	3.7	3.6	3.6	3.8	3.9	3.9
Times total interest charges earned - before taxes	3.4	3.5	3.3	3.0	3.5	3.6
Interest & preferred dividend coverage	2.8	2.8	2.6	2.3	2.5	2.4
Other Statistics at December 31						
Network access services						
Residence	293 241	284 502	276 366	272 203	265 338	259 180
Business	77 589	72 353	69 716	68 263	65 116	61 606
	370 830	356 855	346 082	340 466	330 454	320 786
Total Company telephones	570 722	548 203	532 470	519 328	498 239	474 308
Employees - Maritime Telegraph and Telephone Company, Limited	3 553	3 322	3 375	3 597	3 578	3 621
Employees - subsidiary company	139	65	54	65	50	68
Telecommunications property per network access service	$ 2 257	$ 2 137	$ 2 068	$ 1 951	$ 1 794	$ 1 692
Other Statistics for the year						
Long distance messages *(thousands)*						
In-province	38 916	35 716*	38 560	37 982	35 175	32 093
Out-of-province	17 660	15 505	14 196	13 695	12 170	10 707
	56 576	51 221	52 756	51 677	47 345	42 800
Construction program expenditures *(thousands)*	$ 93 017	$ 64 611	$ 70 091	$ 84 067	$ 61 826	$ 52 693
Salaries and wages - Maritime Telegraph and Telephone Company, Limited *(thousands)*	$ 92 473	$ 83 956	$ 81 689	$ 76 523	$ 65 326	$ 58 879
Salaries and wages - subsidiary company *(thousands)*	$ 3 737	$ 1 973	$ 1 914	$ 1 483	$ 1 061	$ 740

**A major expansion in Extended Area Service eliminated approximately five (5) million in-province long distance messages in 1983.*

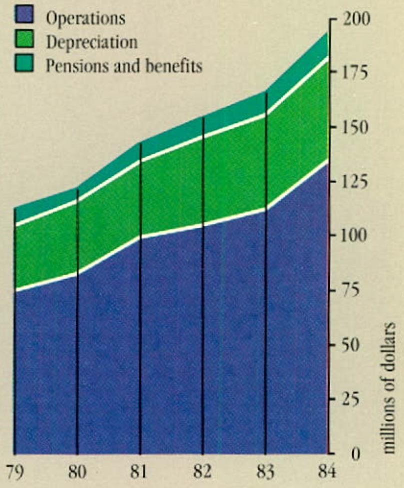
Telecommunications Property



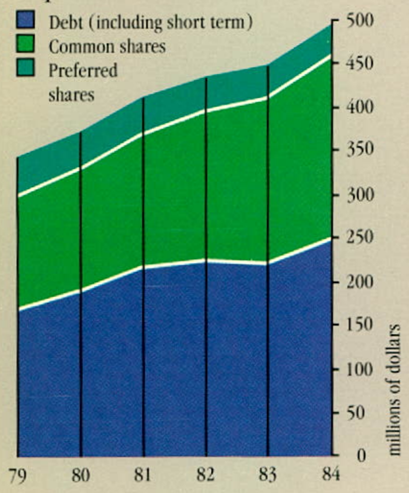
Revenues



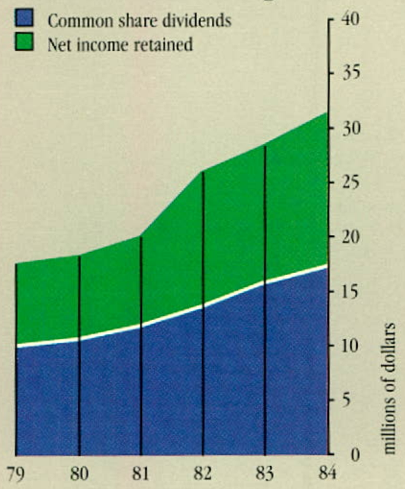
Expenses



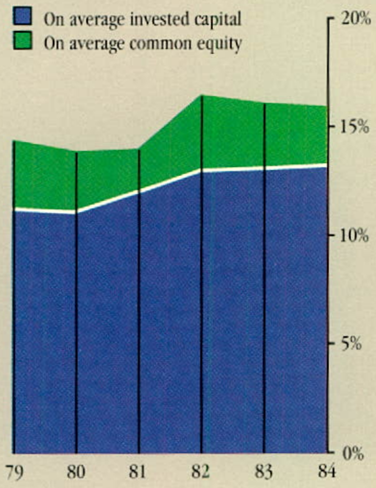
Capital Structure



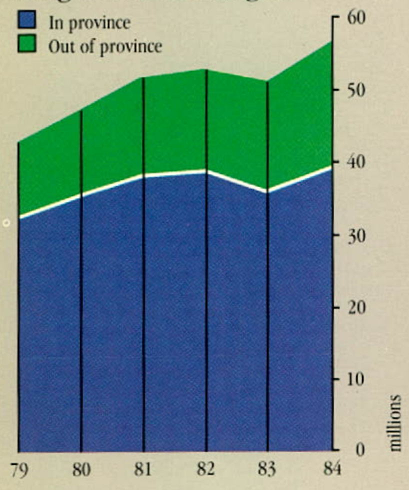
Common Share Earnings



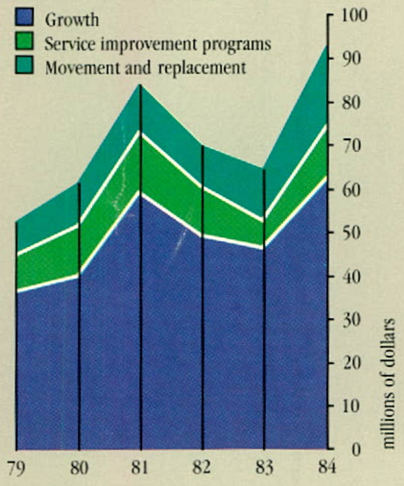
Rates of Return



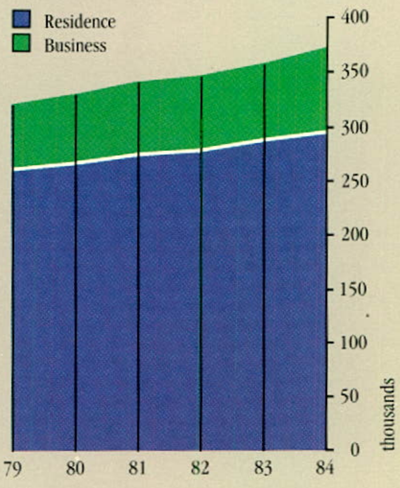
Long Distance Messages



Construction Program



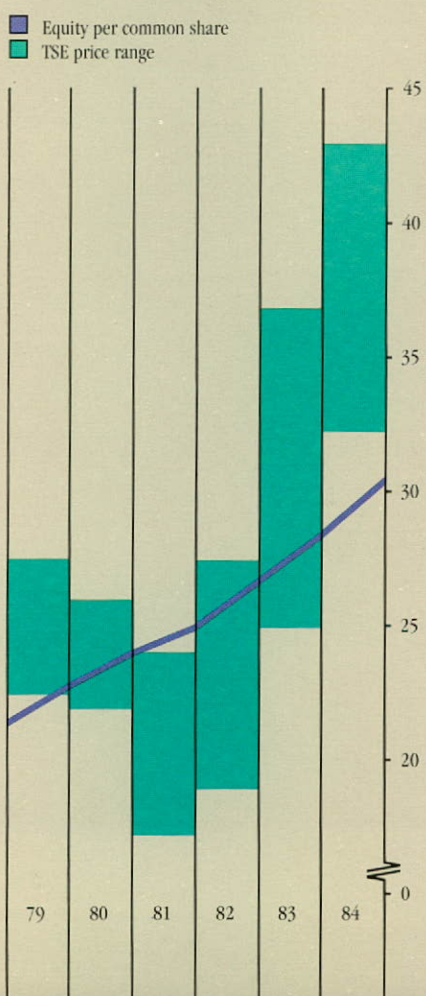
Network Access Services



Selected Information for Shareholders

	1984	1983
Number of holders of common shares at December 31	12 461	12 511
Number of common shares outstanding at December 31	6 907 323	6 676 202
Distribution of shareholders		
Nova Scotia	63.8%	62.0%
Other Canadian	35.0%	36.9%
Other	1.2%	1.1%
	100%	100.0%
Volume of common shares traded		
Toronto	545 810	662 470
Montreal	329 770	112 670
	875 580	775 140
The Toronto Stock Exchange		
Price ranges (high - low)		
First quarter	\$ $36\frac{1}{4}$ - $34\frac{5}{8}$	\$ $28\frac{3}{4}$ - $25\frac{1}{4}$
Second quarter	35 - $32\frac{7}{8}$	$35\frac{1}{2}$ - $29\frac{1}{2}$
Third quarter	$37\frac{3}{4}$ - $33\frac{5}{8}$	35 - $30\frac{1}{2}$
Fourth quarter	$42\frac{3}{4}$ - $36\frac{1}{2}$	$36\frac{7}{8}$ - $33\frac{1}{8}$

Equity per Common Share and Market Trading Range



Valuation Day Prices *(December 22, 1971)*	
Common shares	\$ 22.13
7% preferred shares	\$ 9.63

Directors and Officers

Directors

John L Bragg
President
Oxford Frozen Foods Limited
Oxford

D Andrew Eisenhauer*
President
ABCO Plastics Limited
Lunenburg

Howard B Fuller
President
Evangeline Farms Limited
Wolfville

Frederick E Ibey
Executive Vice President
Bell Canada
Montreal

Seymour W Kenney
President
Baken Realty Limited
Yarmouth

John J MacDonald*
Executive Vice President
St. Francis Xavier University
Antigonish

J William E Mingo, QC
Barrister
Stewart, MacKeen & Covert
Halifax

Derek Oland
President and
Chief Operating Officer
Moosehead Breweries
Dartmouth

George C Piercey, QC*
President and Managing Director
Piercey Investors Limited
Halifax

Sidney A Reeves
Chairman of the Board
Maritime Builders Limited
Sydney

Struan Robertson
Chairman of the Board
and President
Maritime Telegraph &
Telephone Company Limited
Halifax

Donald C R Sobey
President
Empire Company Limited
Stellarton

J Stuart Spalding
Executive Vice President, Finance
Bell Canada Enterprises Inc.
Montreal

F Thomas Stanfield
President
Stanfield's Limited
Truro

Catherine T Wallace
Retired, former President
of Mount Saint Vincent
University
Halifax

Officers

Struan Robertson
Chairman of the Board
and President

Ivan E H Duvar
Vice President
Marketing

Donald F Farmer
Vice President
Corporate Services

Glen H Geldert
Vice President
Planning

Edward J Hicks
Vice President
Finance

A Douglas Hartt
Secretary-Treasurer

David S Inkpen
General Manager
Accounting

Stephen B Barry
Assistant Secretary

Operations

Philip G Henderson
General Manager
Planning

Herbert C Kingsbury
General Manager
Personnel

Colin Latham
General Manager
Business Services

M John McGrath
General Manager
Engineering

Fred D Morash
General Manager
Administration

Paul D Murphy
General Manager
Operations

Donald B Quinn
General Manager
*Internal Audits
and Security*

James D Sullivan
General Manager
Market Development

**Member of the Audit Committee*

General Information

Stock Registrar
Maritime Telegraph and Telephone Company, Limited, 1505 Barrington Street, Halifax, Nova Scotia is the Registrar for 7.0% preferred.

Canada Permanent Trust Company, at its offices in Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver, is the Registrar of common shares of the capital stock of the Company.

Common shares, 7.10%, 8.60%, 9.40% and 7.65% preferred shares listed:
Montreal Stock Exchange
Toronto Stock Exchange

Stock Transfers Offices
Maritime Telegraph and Telephone Company, Limited, 1505 Barrington Street, Halifax, Nova Scotia (common shares, 7.0% preferred shares, 7.10% preferred shares, 8.60% preferred shares, 9.40% preferred shares and 7.65% preferred shares).

Common shares, 7.10%, 8.60%, 9.40% and 7.65% preferred can also be transferred at the offices of Canada Permanent Trust at the following locations:

600 Dorchester Boulevard West
Montreal, Quebec H3B 1N4

20 Eglinton Avenue, West
Toronto, Ontario M4R 2E2

433 Portage Avenue
Winnipeg, Manitoba R3B 2E1

1778 Scarth Street
Regina, Saskatchewan S4P 2G1

311 Sixth Avenue, S.W.
Calgary, Alberta T2P 0R6

701 West Georgia Street
Vancouver, British Columbia
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Cover 2 7 8 11 12

George Georgakakos
4 5 15

Illustration
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4 5

Type
McCurdy Printing & Typesetting

Film
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Printing
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