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The New Brunswick Telephone Company, Limited

ANNUAL REPORT 1985

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COMPANY DESCRIPTION

The New Brunswick Telephone Company, Limited (NBTel) was incorporated in 1888 and is the major supplier of telecommunications services in the Province of New Brunswick. NBTel provides its 271 000 customers with a broad range of modern telecommunications services.

Following a corporate restructuring in July 1985, NBTel became a wholly owned subsidiary of Bruncor Inc. As a result of this restructuring, NBTel's common shares are no longer publicly traded. NBTel's preferred shares continue to be listed on the Toronto Stock Exchange and The Montreal Exchange.

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NBTel

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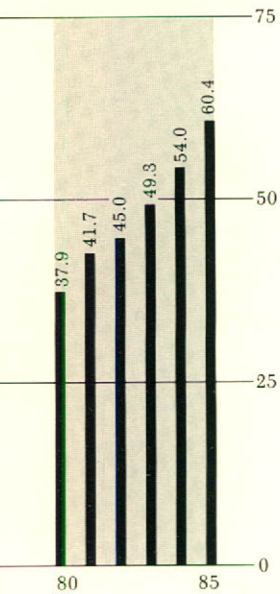
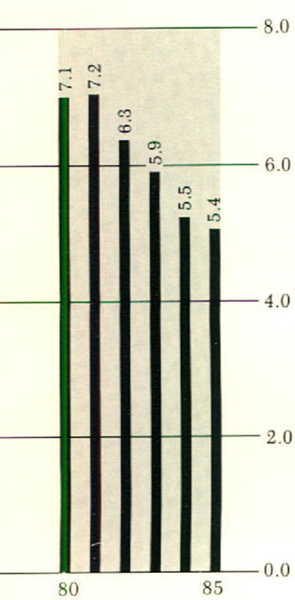


Annual Long-Distance Messages (in millions)



Employees per 1000 Phones

STRONG DEMAND FOR SERVICES CONTINUES

Strong demand from New Brunswickers for telecommunications services continued in 1985 but the immediate effect on financial results produced a bittersweet year for NBTel.

Net income applicable to common shares for the year remained strong at $26.4 million, falling slightly below results of $27.5 million in 1984. NBTel's rate of return on average common equity for 1985 was 14.1%, down from the record results experienced over the last few years. The year's rate of return was based on average common equity of $187.1 million ($176.7 million in 1984).

Increased revenues from long-distance, local and other telecommunications services pushed NBTel's 1985 operating revenues to $243.9 million. This is a 6.3% increase over the previous year. Long distance, the major source of the company's revenues, accounted for 56.1% of total revenues for 1985 (56.3% in 1984).

OPERATING EXPENSE INCREASES REFLECT STRONG GROWTH

The strong surge in the number of new telephones placed in service caused the rate of growth of operating expenses ($170.2 million) to outpace current-year revenue gains in 1985. Meeting these service demands resulted in a 10.2% increase in operating expenses.

This growth in local-exchange business is positive and, over time, increases NBTel's revenues. This is consistent with most utilities where expenditures are immediate while revenues are realized in future years.

Recognizing the importance of controlling expenses, NBTel implemented a new form of productivity-improvement in 1982. Expected to increase efficiency by 10%, the program has been highly successful. As Table A illustrates, the company has operated with decreasing staff levels while meeting increased service demands.

In conjunction with its ongoing efforts to improve productivity, the company has allocated nearly $1 million in 1986 for the development of corporate office-management systems. These will help NBTel managers develop system-integration skills to increase efficiency. The introduction will also improve the company's ability to sell similar products to business customers.

CONSTRUCTION EXPENDITURES – BUILDING FOR THE FUTURE

In 1985, NBTel invested in excess of $60 million with a strong emphasis on modernization reflected in the company's continued conversion to digital switching. As the chart below shows, 14% of NBTel's customers are now served by the digital network. By 1990, 39% of the company's customers will be served by digital technology.

% OF TELEPHONES IN SERVICE BY TYPE OF EXCHANGE

	1985	1990[1]
Digital	14	39
Electronic	15	15
Crossbar	32	30
Step-by-Step	39	16

[1]*Estimated*

In 1985, NBTel's digital conversion programs cost $9.8 million, bringing the total over the last seven years to $43.1 million.

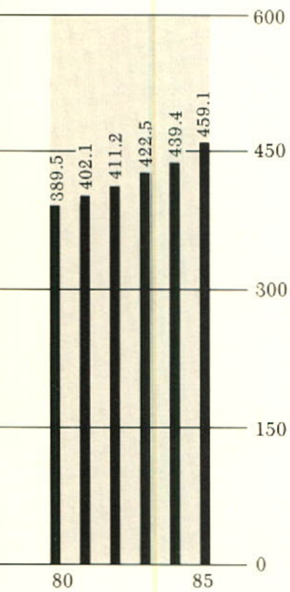
In addition to NBTel's digital programs, the company spent $14.9 million in 1985 to buy and install new telephone sets, data equipment and mobile telephones.

Other major expenditures in 1985 included $2.6 million to expand the company's data-processing facilities, $600 000 as part of an ongoing utility-pole replacement program, $900 000 to expand the company's mobile-telephone network and $1.5 million to provide service to business customers.

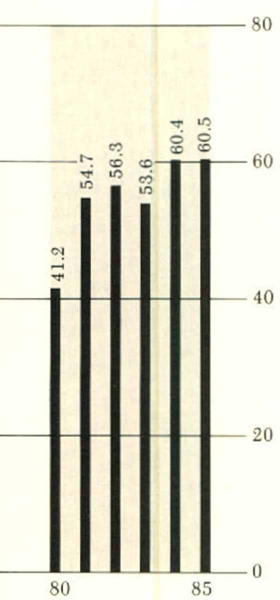
TABLE A: COMPARATIVE OPERATING STATISTICS

	1981	1982	1983	1984	1985	% change 1985/1981
Employees at year end	2 881	2 595	2 477	2 411	2 474	(14.1)
Employees/1000 phones	7.2	6.3	5.9	5.5	5.4	(25.0)
Station movement[1]	148.4	144.6	149.9	154.7	176.6	19.0
Long-distance messages[2]	41.7	45.0	49.3	54.0	60.4	44.8
Telephones in service[1]	402.1	411.2	422.5	439.4	459.1	14.2
Customer trouble reports[1]	170.6	156.8	156.4	162.2	168.6	(1.2)

[1]*in thousands* [2]*in millions*



Total Telephones in Service (in thousands)



Gross Capital Expenditures ($ in millions)

NBTel's current outlook calls for capital spending of $70 million in 1986 to meet present and future service demands. This includes expenditures for work currently in various stages of construction, as well as other investments to meet forecast service requirements for 1987 and beyond. This program reflects a significant increase in construction activity compared with the recent range of $50-$60 million. The increase is caused mainly by the expenditures for two large projects totalling $12.5 million.

The two major projects are the installation of a $6.3 million digital switch in Bathurst and $6.2 million for the start of the company's fibre-optics network.

The use of digital switching and transmission equipment to meet growth and to provide service improvements requires major changes and additions to the existing network. To complement the digital switching program, NBTel will employ fibre-optics technology.

Construction of the new province-wide fibre-optics transmission system (FOTS), in conjunction with similar systems being built by other member companies of Telecom Canada, will begin in 1986. This system will eventually become the backbone of the nation-wide transmission network in much the same way microwave transmission systems have been for the last quarter century. Eventually, fibre optics will extend right into local serving areas and will replace copper wires for all telecommunications transmission requirements.

The company's commitment to digital switching and transmission systems using fibre optics will reduce costs over the long-term, increase the quality of transmission and allow NBTel to introduce useful new services for its customers.

This places increased importance on the telecommunications network as a means of connecting information systems for the offices and homes of the future. NBTel's fibre-optics system will provide an efficient, effective way to meet this requirement.

NON-URBAN SERVICE IMPROVEMENTS REMAIN A PRIORITY

To NBTel's 33 000 residence customers who share their telephone lines, private telephone (single-line) service became more accessible in 1985. As part of continuing efforts to improve service in non-urban areas, the company reduced its provisioning charges for single-line service and customers may pay the fee over a 12-month period. Single-line service is available to all NBTel customers who desire it.

NATIONAL AND PROVINCIAL REGULATORS HAND DOWN MAJOR RULINGS

Decisions by both the Canadian Radio-television and Telecommunications Commission (CRTC) and the New Brunswick Board of Commissioners of Public Utilities (PUB) had far-reaching consequences for NBTel.

In late August, the CRTC denied an application by CNCP Telecommunications to compete with Bell Canada and B.C. Tel in the market for long-distance messages. Approval of the application would have effectively opened the doors to a form of competition for the transmission of voice long-distance messages in Canada.

Although the CRTC concluded increased competition could yield some benefits, it found long-distance competition was not in the public interest at this time for two main reasons:

1. Long-distance telephone rates are currently priced to support the cost of providing local service. Unless CNCP were to make similar contribution payments, sharing the market could threaten the telephone companies' ability to maintain affordable basic local-service rates.
2. The CRTC also noted if CNCP were to pay fair compensation for the use of telephone company facilities, the financial viability of CNCP's service would be highly doubtful. In its decision, the CRTC said it felt the quality of service would be threatened along with the principle of basic universal service.

It is unfortunate the CRTC did not address what NBTel and many others perceive as the real issue of the competition question: Is the utility concept for telephone companies a necessity? For many years, NBTel has stated it believes the sharing of the telecommunications market would jeopardize the concept of universal service.

Of a more immediate concern was a decision by NBTel's provincial regulator to lower the company's allowed rate of return on common equity. In late 1984, the PUB ordered a hearing to review the company's future rate-of-return requirements. At the hearing, NBTel presented evidence indicating a rate of return in the 15% to 16% range would be appropriate in current economic conditions.

In a September decision, the PUB concluded an appropriate rate of return on common equity for the company is 13.5%. However, the decision could allow NBTel to earn up to 14.5% as an incentive to manage its operations well.

The company finds it difficult to understand the decision which effectively gave NBTel the lowest allowed rate of return among Canadian telephone companies. However, the company is pleased the PUB included some opportunity to increase its rate of return through productivity improvements.

As part of the decision, the PUB ordered the company to submit a schedule of rates and tariffs which would yield the allowed rate of return. The company's rates submission was based on a required revenue reduction of $1.9 million from projected revenues for 1986.

After examining all alternatives, the company proposed an adjustment of long-distance rates as the most appropriate means of meeting the PUB's order. This will also help the company with its long-standing goal of rebalancing local and long-distance rates to better reflect their costs. A hearing on NBTel's proposal was held in January and a decision is pending.

1986 PROSPECTS

The 1986 New Brunswick economic outlook calls for continued modest growth in the manufacturing and construction sectors. The construction sector, a prime source for net telephone gains, is expected to show a 6.3% real growth in 1986 over the previous year.

Translated into service-demand indicators, the company expects to show a net telephone gain of 16 200 in 1986 (19 630 in 1985). The volume of long-distance messages is expected to increase by 9.0% to 65.8 million (11.8% and 60.4 million for 1985).

NBTel, BLUE CROSS TO ESTABLISH DATA-PROCESSING OPERATIONS

In early January 1986, NBTel and Blue Cross of Atlantic Canada reached agreement to create a jointly owned data-processing services company. Under terms of the agreement NBTel will be the majority shareholder.

The new company will assume ownership of the data-processing centres currently operated by Blue Cross in Moncton and NBTel in Saint John. The immediate purpose will be to provide all the mainframe data-processing services required by both companies. NBTel will invest approximately $1 million in the venture.

The formation of the company presents several advantages to both owners. It will minimize data-processing costs for NBTel and Blue Cross while providing important back-up facilities in the event of service disruptions at either installation. The firm will also seek additional business opportunities to add to Blue Cross and NBTel profit levels.

EMPLOYEES MAKE OUTSTANDING CONTRIBUTION TO NATIONAL EVENT

The 1985 Jeux Canada Games held in Saint John in August were an unqualified success. Much of the credit for that can be taken by the hundreds of NBTel employees who gave up vacations and thousands of hours of personal time to volunteer in numerous capacities organizing and running many of the sporting and administrative functions.

This kind of dedication to community affairs is not new to NBTel employees and the company's management salutes their efforts.

OFFICER AND DIRECTOR CHANGES

In May 1985, secretary-treasurer John Reid retired after 44 years service. Mr. Reid will long be remembered and respected for his sensitivity and devotion to the company's employees, shareholders and customers. He was succeeded by Berton W. Cosman, 58, former general manager-intercorporate affairs.

In January 1986, vice-president of operations, James A. Coombs, announced his retirement from NBTel effective February 14. He joined NBTel in 1976 as vice-president of finance, and made many valuable contributions over the following decade. Mr. Coombs has been appointed president of Saskatchewan Telecommunications and assumed that post in February. In addition to his responsibilities as a vice-president of NBTel and Bruncor, G. Edwin Graham will assume the duties of vice-president (operations).

At the board of directors meeting held January 27, 1986, three new directors were appointed to NBTel's board. They are: George L. Colter, 39, president of the Diamond Group of companies; Dr. Ginette Gagné-Koch, 42, medical director of The Moncton Hospital; and J. E. (Jack) Sinclair, 49, executive vice-president, corporate, for Bell Canada Enterprises Inc.

The new directors fill the vacancies created by the death of Andrew McCain, the retirement of Burton D. Colter and the resignation of Alfred R. Landry, Q.C., who was recently appointed to the Court of Queen's Bench of New Brunswick. The board thanks Mr. Colter and Mr. Landry for their years of dedicated service to the company.

MISCELLANEOUS STATISTICS

NBTel OPERATING STATISTICS

	1985	1984	1983	1982	1981	1980
Telephones in service, *December 31*	459 076	439 446	422 530	411 193	402 082	389 466
Long-distance messages *(in thousands)*	60 396	54 000	49 273	45 030	41 671	37 946
Gross capital expenditures *(in thousands)*	$60 507	60 363	$53 630	56 308	$54 709	$41 218
Employees, *(December 31)*	2 474	2 411	2 477	2 595	2 881	2 776
Salaries and wages *(in thousands)*	$72 968	$67 222	$63 372	$63 356	$59 378	$45 108

ANALYSIS OF TAXES PAID BY MAJOR CATEGORY

Millions of dollars	1985	1984	1983	1982	1981	1980
Income taxes	29.5	30.5	27.5	24.0	19.7	17.9
Real property and business taxes	6.3	6.1	5.5	7.3	6.7	6.4
Federal employment taxes	1.5	1.4	1.3	1.0	0.9	0.5
Other	0.6	0.5	0.4	—	1.0	0.1
Total	37.9	38.5	34.7	32.3	28.3	24.9

The forms of taxation shown are only those which are readily identifiable. There are indirect taxes which are embedded in the cost of purchases. Consequently it is not possible to identify the nature or the amount of all taxes involved.

CONSOLIDATED INCOME STATEMENT (in thousands)

Year ended December 31	1985	1984
Operating revenues		
Local service	$ 88 045	$ 83 488
Long distance service	136 844	129 336
Other operating revenues	20 015	17 442
Less: uncollectible operating revenues	956	675
	243 948	**229 591**
Operating expenses		
Depreciation	44 395	40 626
Maintenance	30 468	27 584
Other operating expenses	86 525	77 452
Pensions and other employee benefits	8 810	8 815
	170 198	**154 477**
Operating income	**73 750**	**75 114**
Other income		
Allowance for funds used during construction	1 198	1 430
Other	1 117	1 235
	2 315	**2 665**
Income before underlisted items	**76 065**	**77 779**
Other charges		
Interest on long-term debt	17 435	17 672
Amortization of unrealized foreign exchange loss	450	392
Other	1 219	578
	19 104	**18 642**
Income before income taxes	**56 961**	**59 137**
Income taxes	**29 456**	**30 491**
Net income	**27 505**	**28 646**
Dividends on preferred shares	1 112	1 159
Net income applicable to common shares	**$ 26 393**	**$ 27 487**
Earnings per common share — note 4	**$ 1.65**	**$ 1.79**

CONSOLIDATED BALANCE SHEET (in thousands)

ASSETS, December 31	**1985**	**1984**
Telecommunications property (at cost)		
Buildings, plant and equipment	$669 440	$627 889
Less: accumulated depreciation	256 480	230 052
	412 960	397 837
Land, and plant under construction	13 492	14 719
Construction materials	8 115	6 983
	434 567	**419 539**
Investments—note 3	**30 802**	**7 223**
Current		
Cash and temporary cash investments	184	4 776
Accounts receivable	34 423	33 554
Prepayments	2 604	1 488
	37 211	**39 818**
Deferred charges		
Long-term debt expense	1 103	1 303
Unrealized loss on foreign currency	4 249	3 659
Other	759	928
	6 111	**5 890**
Total assets	**$508 691**	**$472 470**

W. H. R. Smith
Vice-President, Finance
The New Brunswick Telephone Company, Limited

Signed on behalf of the Board of Directors:

Marks H. Lockhart
Director

J. T. Richard Savoie
Director

LIABILITIES AND SHAREHOLDERS' EQUITY, December 31	1985	1984
Shareholders' equity		
Capital stock—note 4	$101 530	$ 95 399
Contributed surplus	19 785	19 750
Retained earnings	79 446	83 311
	200 761	**198 460**
Long-term debt—note 5	**183 553**	**162 127**
Current liabilities		
Bank indebtedness	1 466	1 466
Accounts payable and accrued charges	29 208	19 971
Income tax payable	2 602	125
Dividends payable	—	4 623
Interest accrued on long-term debt	4 207	4 235
Long-term debt due within one year—note 5	9 609	2 418
	47 092	**32 838**
Deferred credits		
Deferred income tax	77 285	76 587
Employees' stock plan—note 6	—	2 458
	77 285	**79 045**
Total liabilities and shareholders' equity	**$508 691**	**$472 470**

AUDITORS' REPORT

To the Shareholders of The New Brunswick Telephone Company, Limited:

We have examined the consolidated balance sheet of The New Brunswick Telephone Company, Limited as at December 31, 1985 and the consolidated statements of income, retained earnings, contributed surplus and cash flows for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Saint John, Canada,
January 24, 1986.

Clarkson Gordon
Chartered Accountants

CONSOLIDATED STATEMENT OF CASH FLOWS (in thousands)

Year ended December 31	1985	1984
Internal cash		
From operations:		
Net income	$27 505	$28 646
Items not requiring cash:		
Depreciation	44 395	40 626
Deferred income tax	699	4 389
Miscellaneous	(1 191)	1 577
Less: allowance for funds used during construction	1 198	1 430
	70 210	**73 808**
Cash provided (used) by changes in working capital	5 076	(10 936)
Internal cash generated	**75 286**	**62 872**
Less: dividends	20 598	18 635
Net internal cash generated	**54 688**	**44 237**
Investment of cash		
Capital expenditures (net)	58 226	56 945
Investment in affiliated companies	34 758	794
Total investment	**92 984**	**57 739**
Excess of investment over net internal cash generated	**(38 296)**	**(13 502)**
External financing		
Issue of common shares	6 394	6 586
Increase (decrease) in long-term debt	27 538	(6 981)
Preferred shares purchased for cancellation	(228)	(746)
	33 704	**(1 141)**
(Decrease) in cash and temporary cash investments	**(4 592)**	**(14 643)**
Cash and temporary cash investments at beginning of year	4 776	19 419
Cash and temporary cash investments at end of year	**$ 184**	**$ 4 776**

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS (in thousands)

Year ended December 31	1985	1984
Balance at beginning of year	**$19 750**	**$19 411**
Discount on preferred shares purchased for cancellation	35	54
Premium on common shares issued	—	285
Balance at end of year	**$19 785**	**$19 750**

CONSOLIDATED STATEMENT OF RETAINED EARNINGS (in thousands)

Year ended December 31	1985	1984
Balance at beginning of year	**$ 83 311**	**$ 73 300**
Add: Net income	27 505	28 646
	110 816	**101 946**
Less: Dividends on preferred shares	1 112	1 159
Dividends on common shares	19 486	17 476
Dividend-in-kind — note 3	10 772	—
	31 370	**18 635**
Balance at end of year	**$ 79 446**	**$ 83 311**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATED FINANCIAL STATEMENTS include the accounts of the wholly owned subsidiary, Teldata Limited.

DEPRECIATION is calculated on a straight-line basis over the estimated useful life of telecommunications property by applying rates to the company's investment by class of property. The composite rate for the year ended December 31, 1985, was 6.83 percent (6.73 percent for the year ended December 31, 1984).

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION is included in income and added to the cost of property to provide for a return on capital invested in new telecommunications property while under construction. The rate being applied for 1985 of 13.2 percent reflects the company's rate of return on total invested capital for the previous year (13.1 percent for 1984).

PENSION FUND OBLIGATIONS are computed by annual actuarial reviews and studies, using the aggregate funding method. Under this method, pension costs, including prior service costs, and all changes in cost due to experience or other factors are paid and accounted for over the estimated remaining working lifetime of employees. The provision for pension cost, for the year ended December 31, 1985, computed at 10.0 percent of salaries and wages, was $6 746 000 including the portion capitalized (11.0 percent and $7 355 000 for the year ended December 31, 1984).

LONG-TERM DEBT PAYABLE IN FOREIGN CURRENCY is stated in Canadian dollars at the exchange rate prevailing at the balance sheet date and the resulting unrealized loss is amortized over the remaining life of the debt.

LEASES are classified as capital and operating leases. Assets recorded under capital leases, which substantially transfer the benefits and risks of ownership to the lessee, are amortized on a straight-line basis over the term of the lease. Obligations recorded under capital leases are reduced by rental payments net of imputed interest.

2. RESTRUCTURING

On July 1, 1985 the company carried out its restructuring plan of the NBTel group. Bruncor Inc. was established as the parent corporation of The New Brunswick Telephone Company, Limited through an arrangement under the Business Corporations Act of New Brunswick. Under the restructuring, holders of NBTel common shares became holders of Bruncor Inc. common shares on a one for one basis.

3. INVESTMENTS

The investment in Brunswick Square Ltd. of $30 000 000 and the investment in Telesat Canada of $802 000 are being carried at cost.

On July 25, 1985, the directors declared a dividend-in-kind payable on July 26 to Bruncor Inc., of all of the outstanding common and preferred shares of Bruntel Holdings Ltd. held by the company.

On November 20, 1985, the company acquired 30 000 cumulative, redeemable, convertible Class C Preferred Shares of Brunswick Square Ltd. (par value $1 000 each) at a cost of $30 000 000.

4. CAPITAL STOCK

Description	Number of Shares Authorized December 31 1985	Number of Shares Outstanding December 31 1985	Number of Shares Outstanding December 31 1984	Stated Capital December 31 1985	Stated Capital December 31 1984
Common shares	Unlimited	16 195 583	15 671 982	$ 88 164 568	$ 81 770 978
Preferred shares					
Par value of $20					
$1.37	275 236	275 236	285 236	5 504 720	5 704 720
$1.85	393 064	393 064	396 164	7 861 280	7 923 280
				13 366 000	13 628 000
				$101 530 568	$ 95 398 978

Common Shares (without nominal or par value)

During the year ended December 31, 1985, the company issued 523 601 common shares for cash.

Preferred shares (cumulative redeemable — par value $20 each)

$1.37 The provisions of the $1.37 preferred shares require the company to make all reasonable efforts to purchase for cancellation in the open market up to 10 000 shares in each calendar year, on a noncumulative basis, at a price not exceeding par value. In addition, the company may redeem, at its option, these shares at par value plus a premium of $.60 if redeemed on or before March 15, 1987; the premium thereafter decreasing to $.40 if redeemed on or before March 15, 1990 and at par value plus a premium of $.20 if redeemed thereafter.

During the year ended December 31, 1985, the company purchased 10 000 $1.37 preferred shares in the open market.

$1.85 The company has an obligation under the provisions of the $1.85 preferred shares to redeem, for sinking fund purposes, 30 000 shares on March 15 of

each year. The company may also redeem, at its option, an additional 22 500 shares on the same date. Sinking fund redemptions are at par.

The company may redeem these shares at its option, other than for sinking fund purposes, at par value plus a premium of $1.20 if redeemed on or before March 15, 1986; the premium thereafter decreasing $.20 every three years to March 15, 1998 and at par value plus a premium of $.20 if redeemed thereafter. In addition, the terms of the issue enable the company to purchase these preferred shares in the open market at a price not exceeding this redemption price. Shares acquired during a calendar year, other than through the operation of the mandatory sinking fund, may be applied against the mandatory sinking fund requirement on March 15 of the following year.

On March 15, 1985 the company applied 30 000 $1.85 preferred shares acquired in the open market in 1984 to meet the mandatory sinking fund requirement on that date.

During the year ended December 31, 1985, the company also purchased in the open market 3 100 $1.85 preferred shares.

Serial preferred shares

The company is authorized to issue an unlimited number of serial preferred shares without nominal or par value.

5. LONG-TERM DEBT (in thousands)

Debentures Series	Rate	Date Due	December 31 1985	December 31 1984
Q	9-3/8%	September 15, 1985-2001	$ 19 006	$ 19 094
		(1985 — $13.60 million U.S. Funds)		
		(1984 — $14.45 million U.S. Funds)		
N	8-3/20%	March 2, 1985-1997	12 000	13 000
J	6-1/2%	September 1, 1986	7 000	7 000
S	15-1/2%	June 15, 1987	30 000	30 000
		(extended maturity option) *		
K	7-1/4%	November 15, 1987	6 000	6 000
L	7-3/4%	December 1, 1988	5 000	5 000
M	9-1/4%	June 1, 1990	1 310	1 310
O	9-1/2%	April 15, 1996	20 000	20 000
P	10-7/8%	July 2, 1997	25 000	25 000
R	10%	July 15, 2003	25 000	25 000
			150 316	151 404
Promissory note †			30 000	—
Obligations under capital leases			12 846	13 141
			193 162	164 545
Less: due within one year				
Debenture Series J maturing September 1, 1986			7 000	—
Debenture Series N maturing March 2, 1985-1986			1 000	1 000
Debenture Series Q maturing September 15, 1985-1986 ($850 000 U.S. Funds)			1 188	1 123
Obligations under capital leases			421	295
			9 609	2 418
			$183 553	$162 127

* The maturity date of the Series S Debentures may be extended to June 15, 1992, at the holders' option between September 15, 1986 and March 15, 1987. The company may increase the rate of interest payable on the Series S Debentures prior to February 15, 1987, effective June 15, 1987.

†The promissory note was issued at the Bank of Nova Scotia's prime interest rate, which averaged 10.0% for the period the note was outstanding. It is renegotiable November 19, 1991, and is due November 20, 1992.

Annual repayment of long-term debt for each of the next five years is as follows:

Twelve Months ending December 31	Debentures	Capital Leases	Total
1986	$ 9 188	$421	$ 9 609
1987	38 188	294	38 482
1988	7 188	168	7 356
1989	2 188	175	2 363
1990	3 498	199	3 697

6. EMPLOYEES' STOCK PLAN

As the result of corporate restructuring whereby Bruncor Inc. has become the parent corporation, the employees' stock plan was terminated effective July 1, 1985. Employees may now participate in a plan to purchase shares of Bruncor Inc. under the terms of which the company contributes one dollar for every four dollars contributed by the employees.

7. LEASES (in thousands)

"Buildings, Plant and Equipment" includes office space and leasehold improvements recorded under capital leases as follows:

	December 31 1985	December 31 1984
Cost	$14 791	$14 791
Less: accumulated depreciation	4 489	3 812
	$10 302	$10 979

The future minimum lease payments under capital leases and operating leases that have initial non-cancellable lease terms in excess of one year as of December 31, 1985 are as follows:

Twelve Months Ending December 31	Capital Leases	Operating Leases
1986	$ 1 822	$ 859
1987	1 654	420
1988	1 503	103
1989	1 489	79
1990	1 489	43
Thereafter, to year-end 2006	23 816	37
Total future minimum lease payments	31 773	$1 541
Less: imputed interest, at 9.0% - 10.75%	18 927	
Present value of minimum lease payments	$12 846	

8. RELATED PARTY TRANSACTIONS

During the year ended December 31, 1985, the company entered into transactions with both related and unrelated telecommunications companies. These transactions, which include circuit rentals, leasing of facilities, distribution of revenue, and exchanges of technical information, are common throughout the industry and are required to provide an efficient telecommunications network.

At December 31, 1985 Bell Canada Enterprises Inc. owned 30.7 percent of the common shares of Bruncor Inc., the parent company of The New Brunswick Telephone Company, Limited (31.3 percent at December 31, 1984). During the year ended December 31, 1985, the company purchased from Northern Telecom Canada Limited, a subsidiary of Bell Canada Enterprises Inc., equipment and related supplies in the amount of $26 673 000 ($28 134 000 for the year ended December 31, 1984). The amount due that company at December 31, 1985 was $2 409 000 ($1 501 000 at December 31, 1984).

Bruntel Holdings Ltd., an affiliate of the company, has a 50.0 percent interest in Brunswick Square Ltd. which, under a long-term lease arrangement, provides office accommodations for the company in Saint John, New Brunswick. During the year ended December 31, 1985 the company paid $3 081 000 to Brunswick Square Ltd. for those accommodations ($2 794 000 for the year ended December 31, 1984).

Included in accounts payable and accrued charges at December 31, 1985 is a $5 950 000 demand note due to Bruncor Inc. and affiliated companies.

OFFICERS AND DIRECTORS

OFFICERS

Name	Principal Occupation
Kenneth V. Cox	Chairman of the Board, Chief Executive Officer and President
Lino J. Celeste	Vice-President (planning)
James A. Coombs*	Vice-President (operations)
Berton W. Cosman	Secretary-Treasurer
G. Edwin Graham	Vice-President
William H. R. Smith	Vice-President (finance)

* *Mr. Coombs retired from NBTel effective February 14, 1986.*

DIRECTORS *(as of January 27, 1986)*

Simon L. Bujold†	Company director
John G. Burchill*	Company director
Alfons Buzas†	Manager of Business and Development Elmtree Resources Ltd.
George L. Colter	President, Diamond Group
Kenneth V. Cox*	Chairman, Chief Executive Officer and President The New Brunswick Telephone Company, Limited
Dr. Ginette Gagné-Koch	Medical Director, The Moncton Hospital
W. Brian Hewat	Executive Vice-President-Marketing Bell Canada
Gerald B. Lawson*	Senior Partner Lawson and Lawson
Marks H. Lockhart†	President Lockharts Limited
James A. MacMurray†*	Chairman of the Board Maritime Beverages Ltd.
Raymond Michaud	President and General Manager Kasner's Ltd.
Edward Reevey*	President Battery and Electric Service Limited
J. T. Richard Savoie	General Manager La Fédération des Caisses Populaires Acadiennes Ltée.
John E. Sinclair	Executive Vice-President, Corporate Bell Canada Enterprises Inc.
Orland Tropea†*	Company director

†*Member of audit committee*
**Member of executive committee*