MANAGEMENT'S RESPONSIBILITY
for Financial Statements

The consolidated financial statements and all the information in this Annual Report are the responsibility of management and have been approved by the Board of Directors.

The financial statements are prepared by the management of The Island Telephone Company Limited, which is responsible for the integrity and objectivity of this information. The statements have been prepared using generally accepted accounting principles and methods appropriate to the Company including, where applicable, amounts based on management's best estimates. Financial information elsewhere in this Annual Report is consistent with that in the financial statements.

The Company maintains a system of internal controls designed to provide reasonable assurance that transactions are recorded and executed in accordance with its authorizations practice, that assets are properly safeguarded and that reliable financial records are maintained. This system includes written policies and procedures, an organizational structure that segregates duties and a comprehensive program of periodic audits by the internal auditors.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee, comprised of Directors who are not officers or employees of the Company, meets periodically with management, the Company's internal auditors and the external auditors to discuss audit and financial matters. In addition, this committee reviews the quarterly and 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.

Ernst & Young, Chartered Accountants, the external auditors recommended by the Board of Directors and appointed by the shareholders, are engaged to provide an independent audit of the financial statements in accordance with generally accepted auditing standards. Ernst & Young have full and free access to the Audit Committee.

Barry G Hubley

B.G. Hubley, CMA
Vice President Finance and Comptroller

AUDIT COMMITTEE REPORT

To the Shareholders of The Island Telephone Company Limited:

The Audit Committee oversees the financial reporting process on behalf of the Board of Directors. In order to carry out this responsibility, the Committee, composed entirely of Directors who are not officers or employees of the Company, meets quarterly to review the Company's financial statements and recommends their approval to the Board of Directors. The Audit Committee also reviews, on a continuing basis, any reports prepared by the Company's internal and external auditors relating to its accounting policies and procedures, as well as its internal controls. Financial information prepared for securities commissions and such regulatory bodies is also examined by the Audit Committee before filing. The Committee meets independently with management, internal auditors and external auditors to review the involvement of each in the financial reporting process. These meetings are designed to facilitate any private communication with the Committee desired by each party. The Audit Committee recommends the appointment of the Company's auditors, who are elected annually by the Company's shareholders.

John J. Howatt

John J. Howatt
Chairman of the Audit Committee

AUDITORS' REPORT

To the Shareholders of The Island Telephone Company Limited:

We have audited the consolidated balance sheet of The Island Telephone Company Limited as at December 31, 1997 and 1996, and the consolidated statements of income, retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996, and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Ernst & Young

Charlottetown, Prince Edward Island Chartered Accountants
January 30,1998

CONSOLIDATED INCOME STATEMENT

For the year ended December 31		1997		1996
Revenues				
Local service	$	43,428,900	$	40,041,300
Long distance service		24,465,500		24,190,300
Other revenues (Note 3)		3,807,600		3,578,900
Total Revenues		71,702,000		67,810,500
Expenses				
Depreciation		19,249,900		16,763,100
Other operating		30,104,400		30,345,700
Total Expenses		49,354,300		47,108,800
Operating Income		22,347,700		20,701,700
Other income (Note 4)		64,800		448,500
Income Before Debt Expenses		22,412,500		21,150,200
Interest and other debt expenses (Note 5)		5,289,700		5,818,500
Income Before Income Taxes		17,122,800		15,331,700
Income taxes (Note 6)		7,837,500		7,125,700
Income Before Extraordinary Item		9,285,300		8,206,000
Extraordinary item (Note 2)		(11,306,700)		–
Net (Loss) Income		(2,021,400)		8,206,000
Preference dividends		102,000		483,000
Net (Loss) Income Applicable to Common Shares	$	(2,123,400)	$	7,723,000
Earnings per Common Share Before Extraordinary Item	$	2.51	$	2.15
(Loss) Earnings per Common Share	$	(0.58)	$	2.15

See accompanying notes.

CONSOLIDATED RETAINED EARNINGS STATEMENT

For the year ended December 31		1997		1996
Balance at Beginning of Year	$	38,200,700	$	34,843,000
Net (loss) income		(2,021,400)		8,206,000
Preference dividends		(102,000)		(483,000)
Common dividends		(4,783,700)		(4,501,300)
Other capital items (Note 8)		(164,700)		136,000
Balance at End of Year	$	31,128,900	$	38,200,700
Dividends per Common Share	$	1.30	$	1.25

See accompanying notes.

CONSOLIDATED BALANCE SHEET

As at December 31	1997	1996
Assets		
Telecommunications Property (Note 2)		
Buildings, equipment and facilities in service	$ 216,616,600	$ 216,315,200
Less accumulated depreciation	105,879,500	88,090,600
Net depreciable property	110,737,100	128,224,600
Land and property under construction	323,400	976,100
Construction materials inventory	196,000	230,400
Net Telecommunications Property (Note 9)	111,256,500	129,431,100
Current Assets		
Cash	528,500	507,300
Accounts receivable	12,908,300	13,495,000
Other prepayments	830,500	1,589,000
Total Current Assets	14,267,300	15,591,300
Other Assets		
Deferred long-term debt expenses	408,500	442,900
Prepaid pension cost	3,581,300	2,765,800
Deferred charges	1,328,500	3,214,300
Investments (Note 7)	535,900	728,700
Total Other Assets	5,854,200	7,151,700
Total Assets	$ 131,378,000	$ 152,174,100
Shareholders' Equity and Liabilities		
Shareholders' Equity		
Common stock (Note 8)	$ 9,196,300	$ 9,188,400
Premium on common stock	22,732,300	22,672,600
Retained earnings	31,128,900	38,200,700
Total Common Shareholders' Equity	63,057,500	70,061,700
Preference stock (Note 8)	–	6,250,000
Total Shareholders' Equity	63,057,500	76,311,700
Long-Term Debt (Notes 9 and 11)	41,432,400	43,978,900
Current Liabilities		
Debt due within one year (Notes 10 and 12)	11,059,400	8,596,100
Due to Maritime Telegraph and Telephone Company, Limited and its subsidiaries (Note 12)	1,118,300	608,400
Accounts payable (Note 12)	7,622,400	4,298,500
Income taxes payable	745,800	1,900,900
Interest and other current liabilities	3,767,500	4,254,000
Total Current Liabilities	24,313,400	19,657,900
Other Accrued Liabilities		
Future income taxes	2,141,900	11,949,600
Other deferred credits	432,800	276,000
Total Other Accrued Liabilities	2,574,700	12,225,600
Lease Commitments (Note 13)		
Total Shareholders' Equity and Liabilities	$ 131,378,000	$ 152,174,100

See accompanying notes.

On behalf of the Board

Colin Latham
Director

Frederick D. Morash
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31	1997	1996
Operating Activities		
Net (loss) income	$ (2,021,400)	$ 8,206,000
Non-cash items		
Depreciation	19,249,900	16,763,100
Extraordinary item	11,306,700	–
Other non-cash items (Note 14)	(2,494,300)	(1,755,900)
Other items (Note 15)	(117,000)	(238,700)
Operating cash flow	25,923,900	22,974,500
Change in non-cash working capital (Note 17)	2,997,600	1,559,200
Net operating cash flow	28,921,500	24,533,700
Dividends paid	4,885,700	4,984,300
Net Cash Provided by Operating Activities	24,035,800	19,549,400
Financing Activities		
Issue of common stock (Note 8)	67,600	2,205,600
Redemption of preference stock	(6,250,000)	–
Increase (decrease) in short-term debt	5,331,400	(989,000)
Repayment of long-term debt	(4,904,700)	(4,847,700)
Other financing activities, net	181,000	(87,600)
Cash Used in Financing Activities	(5,574,700)	(3,718,700)
Investing Activities		
Construction program expenditures	18,720,500	17,098,900
Other construction related items	(570,600)	(715,300)
Cash used for construction	18,149,900	16,383,600
Other investing activities, net	290,000	(636,400)
Cash Used in Investing Activities	18,439,900	15,747,200
Increase in Cash	21,200	83,500
Balance at Beginning of Year	507,300	423,800
Balance at End of Year	$ 528,500	$ 507,300

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Island Telephone Company Limited is incorporated by a private statute of the Province of Prince Edward Island.

The term "Company" is used to mean The Island Telephone Company Limited and, where the context of the narrative text permits or requires, its subsidiaries.

The Company operates in a single industry segment, telecommunications, providing telephone, data and a wide range of telecommunications services throughout Prince Edward Island. The Company has been subject to regulation including examination of accounting practices, by the Canadian Radio-television and Telecommunications Commission (CRTC).

During 1997 the CRTC issued a decision that changed the way the Company is regulated from a traditional rate of return approach to price cap regulation. The Company has determined that it no longer meets the criteria necessary for the continued application of the regulatory accounting model. Due to the changed regulatory environment and emerging local exchange competition, the Company has adjusted, as at December 31, 1997, the net carrying values of assets and liabilities to reflect the amounts appropriate under generally accepted accounting principles. These adjustments have been recorded in the income statement as an extraordinary item (see Note 2).

Set out below is a summary of the significant accounting policies followed by the Company to December 31,1997 under the regulatory accounting model. Summarized in Note 1(i) below are the changes to be made to these accounting policies effective January 1,1998.

1.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Consolidation

The accompanying financial statements consolidate the accounts of the Company and its wholly-owned subsidiaries, including Island Tel Advanced Solutions Inc.

b) Telecommunications property

Telecommunications property is recorded at cost. Depreciation is charged on a straight-line basis using rates determined by a continuing program of engineering studies and as approved by the CRTC. These rates provide for depreciation of the assets over their estimated service lives and resulted in an average rate of 8.7% for 1997 (1996,7.9%).

When depreciable telecommunications property is retired, the original cost of such property, adjusted by any disposal proceeds and costs of removal, is charged to accumulated depreciation.

c) Allowance for funds used during construction

As prescribed by the CRTC, the Company provided for the cost of capital invested in new telecommunications property while under construction by including an "allowance for funds used during construction" (AFDC) as an addition to the cost of the property constructed. AFDC is calculated using a rate based on the return on equity and the before-tax cost of debt.

d) Pension costs and obligations

The Company provides retirement benefits for its employees under defined benefit and defined contribution pension plans. Pension costs of the defined benefit plan are actuarially determined on the basis of best estimate assumptions using the projected benefit method prorated on years of service. Adjustments to pension cost and experience gains and losses are amortized to income on a straight-line basis over the expected average remaining service life of pension plan members. Market related values of pension fund assets are calculated using a three-year moving average of year end market values. The cumulative difference between the amount contributed to the pension plan and the amount charged to income is recorded on the balance sheet as prepaid pension cost.

e) Post-retirement benefits other than pensions

The Company contributes to the cost of health care and other benefits for its retirees. The costs of these post-retirement benefits are charged to income when the costs are incurred.

f) Deferred charges

Deferred long-term debt expenses and other deferred charges are being amortized on a straight-line basis over the life or duration of the related item.

g) Income taxes

The Company uses the accrual method of income tax allocation by providing for future income taxes on all timing differences between accounting income and taxable income. Under the accrual method, the future income tax liability is adjusted to reflect current statutory income tax rates.

h) Earnings per common share

Earnings per common share are computed based on the average number of shares outstanding each month during the year. Common shares held by the trustee under the Company stock plans have been excluded for purposes of this calculation.

i) Accounting policy changes

Effective January 1,1998, as a result of the discontinuance of the application of the regulatory model, the Company will implement the following revisions to its accounting policies:

I) Depreciation rates will no longer be subject to the approval of the CRTC. They will continue to be recorded on a straight-line basis using rates determined by engineering studies and will reflect management's best estimates of service lives.

II) The Company will discontinue recording allowance for funds used during construction on property under construction and will record interest during construction using an average cost of debt.

III) Capital expenditures on office equipment and specific telecommunications tools in excess of $200 were previously capitalized. This limit for capitalization will be increased to $1,500.

IV) Costs of employment separation and curtailment, which were previously deferred and amortized on a straight-line basis over five years, will now be expensed as incurred.

2. EXTRAORDINARY ITEM

The Company believes that it no longer meets the criteria for application of the regulatory accounting model as a result of the change in the regulatory environment from rate of return to price-cap regulation, and the beginning of local exchange competition. Prior to the discontinuance of regulatory accounting practices, depreciation on the Company's telephone plant and equipment and the deferral of certain costs and obligations were based on regulatory decisions. Telephone plant and equipment has been adjusted initially through an increase in accumulated depreciation to reflect the difference between recorded depreciation and the amount of depreciation that would have been recorded had the Company not been subject to rate regulation. Other regulatory assets and liabilities have been eliminated from the balance sheet.

As a result of these adjustments, the Company has recorded a non-cash extraordinary charge to income of $11,306,700, net of related income taxes of $8,462,500. The items that make up these adjustments are as follows:

Telephone plant and equipment	$ 17,435,200
Separation costs	1,201,000
Other	1,133,000
Extraordinary item before income taxes	19,769,200
Income taxes	8,462,500
Extraordinary item after income taxes	$ 11,306,700

The decrease in telephone plant and equipment was supported by a depreciation analysis, which identified inadequate depreciation reserve levels that the Company believes were principally due to the cumulative under-depreciation of telephone plant and equipment as a result of the rate of return regulatory process.

3. OTHER REVENUES

	1997	1996
Directory advertising	$ 1,606,800	$ 2,178,600
Net equipment sales and maintenance revenues	477,500	900,800
Miscellaneous operating revenues	2,405,600	1,436,700
Uncollectible operating revenues	(682,300)	(937,200)
	$ 3,807,600	$ 3,578,900

4. OTHER INCOME

	1997	1996
Allowance for funds used during construction	$ 154,600	$ 235,500
Investments and miscellaneous other (expense) income	(89,800)	213,000
	$ 64,800	$ 448,500

5. INTEREST AND OTHER DEBT EXPENSES

	1997	1996
Interest on long-term debt	$ 4,783,700	$ 5,077,200
Amortization of long-term debt expenses	34,400	200,800
Interest on short-term debt	471,600	540,500
	$ 5,289,700	$ 5,818,500

6. INCOME TAXES

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

	1997	1996
Combined basic federal and provincial income tax rates	44.6%	44.1%
Allowance for funds used during construction	0.5	0.4
Large corporations tax	0.3	0.7
Other	0.4	1.3
Effective income tax rate	45.8%	46.5%

7. INVESTMENTS

Investments consist primarily of shares in Telesat Canada which are carried at cost.

8. CAPITAL STOCK

Common stock plans

The Company has a Common Shareholder Dividend Reinvestment Plan (DRP) and an Employees' Stock Savings Plan (ESSP) for which the Company had reserved 156,166 shares at December 31,1997 (1996,156,166 shares). Under the plans, shares are issued at market price and participants in the DRP may acquire common shares through the reinvestment of dividends and may also purchase, to a maximum of $5,000 per quarter, additional common shares at market price. The plans allow the Company the option of distributing treasury shares or shares acquired in the open market by a trustee. Any excess or deficiency of proceeds over cost on resale of shares acquired by the trustee is credited or charged to the retained earnings of the Company. At December 31,1997, 6,724 (1996, 11,071) shares were held in trust.

Employee Stock Option Plan

At December 31, 1997, 136,850 (1996, 140,000) common shares were reserved for issuance under the Company's Employee Stock Option Plan. Options for 60,450 shares had been granted and unexercised at December 31, 1997 (1996, 36,300). The options are exercisable in stages to May 2007 (1996, May 2006) at prices ranging from $21.25 to $27.00. During 1997, 3,150 (1996, nil) options were exercised.

Preference stock

On March 17, 1997 the Company redeemed all preference shares for total consideration of $6,469,100 which included accrued dividends and premiums on redemption.

Authorized		$ 20,000,000			
Issued	Par Value	1997 Number of Shares	1997	1996 Number of Shares	1996
Common Shares Outstanding at January 1	$ 2.50	3,675,360	$ 9,188,400	3,586,520	$ 8,966,300
Issued for cash	$ 2.50	3,150	7,900	88,840	222,100
Common Shares Outstanding at December 31	$ 2.50	3,678,510	9,196,300	3,675,360	9,188,400
Preference					
4 1/2%	$ 10.00	–	–	40,000	400,000
4 3/4%	10.00	–	–	40,000	400,000
5 1/2%	20.00	–	–	37,500	750,000
7 1/4%	20.00	–	–	75,000	1,500,000
9 1/4%	20.00	–	–	100,000	2,000,000
9 1/4% (1977)	20.00	–	–	60,000	1,200,000
Preference Shares Outstanding			–		6,250,000
Total Common and Preference Shares Outstanding			$ 9,196,300		$ 15,438,400

9. LONG-TERM DEBT

Series	Fixed Rate (%)	Maturing	1997 Principal	1996 Principal
Bonds				
Q	11.25	March 15,2006	$ 4,000,000	$ 4,000,000
R	12.25	October 15,2007	5,000,000	5,000,000
S	11.45	July 20,2008	7,500,000	7,500,000
T	10.60	July 14,2009	3,500,000	3,500,000
U	11.15	March 1,2010	6,500,000	6,500,000
V	9.77	March 1,2018	5,000,000	5,000,000
W	8.76	January 15,2019	5,000,000	5,000,000
Notes	7.54%(a)	July 30,1997	–	4,904,700
	6.46%(a)	December 1,1998	2,470,500	2,478,500
	9.82%(a)	January 31,2000	4,932,400	5,000,400
			43,902,900	48,883,600
Less current portion (Note 10)			2,470,500	4,904,700
			$ 41,432,400	$ 43,978,900

Annual repayment of long-term debt is:	
1998	$ 2,470,500
1999	–
2000	4,923,400
2001	–
2002	–
Thereafter	36,500,000
	$ 43,902,900

(a) These notes are issued under long-term floating rate facilities; however at December 31, the Company had in place agreements which effectively fix the interest at the rates noted in the table for the indicated terms.

The Bonds are redeemable at the option of the Company prior to maturity at the prices, times, and conditions specified in each series. The Bonds are secured by a Deed of Trust and Mortgage and by supplemental deeds. These instruments contain a first fixed and specific mortgage, a pledge and charge upon all real and immovable property and equipment of the Company, and a floating charge on all other property of the Company, both present and future.

The Notes are unsecured, except for the 9.82% $4,932,400 note due January 31,2000, which is secured by the Deed of Trust and Mortgage.

10. DEBT DUE WITHIN ONE YEAR

	1997	1996
Short-term debt	$ 8,588,900	$ 3,691,400
Current portion of long-term debt	2,470,500	4,904,700
	$ 11,059,400	$ 8,596,100

11. FINANCIAL INSTRUMENTS

Primary instruments

The Company's primary financial instruments recognized in the balance sheet consist of cash, accounts receivable, current liabilities and long-term debt. The carrying values of the primary financial instruments of the Company, with the exception of long-term debt, approximate fair value due to the short-term maturity and normal trade credit terms of those instruments.

The Company has at any one time a significant number of commitments to extend credit. The accounts receivable are owed from a large number of customers on normal credit terms and therefore there is minimal customer concentration and credit risk.

The fair value of long-term debt has been estimated based upon the present value of expected cash flows at the rates currently available to the Company for debt with similar terms and remaining maturities or quoted market prices for issues of a similar nature. Based on these methods, the fair value of the Company's long-term debt is estimated to be $57,063,358 (1996,$57,643,600) with a carrying value of $43,902,900 (1996,$48,883,600). The Company intends to hold its long-term debt instruments to maturity and therefore does not anticipate that any difference between carrying value and fair value will be recorded for the accounts.

Derivative Instruments

Derivative instruments are primarily used to fix interest rates on floating rate debt and are not undertaken for speculative purposes. The Company utilizes instruments such as interest rate swaps, future rate agreements and interest rate caps in this process.

At December 31,1997, the Company held two interest rate swaps, at rates ranging from 6.46% – 9.82%, to protect floating rate long-term debt of approximately $7,400,000. Additional interest rate swaps, at rates ranging from 4.49 – 4.75%, were held to protect floating rate short-term debt of up to $4,000,000. The maturity dates of the swaps, which range from one to three years, are the

same as the debt instruments they are protecting. The Company intends to hold these instruments until maturity. The fair values of these derivative instruments at December 31,1997 are not material.

The Company contracts derivative financial instruments through Canadian financial institutions that have a minimum rating of A on their senior securities and therefore does not anticipate non-performance by these institutions.

12. RELATED PARTY TRANSACTIONS

Maritime Telegraph and Telephone Company, Limited (MT&T) beneficially owns 52.0% (1996,52.0%) of the Company's issued common shares. BCE Inc. beneficially owns 34.8% (1996,35.5%) of MT&T's issued common shares.

Pursuant to service agreements with subsidiaries of MT&T, during the year the Company paid $3,203,400 (1996,$3,234,700) for the supply of certain management, administrative, engineering and other operations support services and $1,348,300 (1996, $1,114,200) for the purchase of materials, supplies and telecommunications property. Included in debt due within one year at December 31, 1997 is $6,250,000 (1996, $3,000,000) owing to MT&T.

During the year, the Company also purchased telecommunications equipment, related supplies and services in the amount of $8,836,300 (1996, $12,924,100) from controlled investees of BCE Inc. Included in accounts payable at December 31,1997, is $977,146 (1996,$20,000) owing to these controlled investees.

13. LEASE COMMITMENTS

At December 31, 1997, minimum operating lease commitments covering telecommunications facilities are as follows:

1998	$ 1,511,100
1999	1,548,500
2000	1,731,300
2001	1,731,300
2002	176,400

14. OTHER NON-CASH ITEMS

Other non-cash items are revenues or expenses that do not generate or consume cash.

	1997	1996
Future income taxes	$ (2,211,200)	$ (1,239,500)
Allowance for funds used during construction	(154,600)	(235,500)
Amortization of deferred charges	–	(21,900)
Prepaid pension cost	(557,500)	(433,000)
Other	429,000	174,000
	$ (2,494,300)	$ (1,755,900)

15. OTHER ITEMS

Other items are operating items that generate or consume cash but are not included in net income.

	1997	1996
Separation offer costs	$ –	$ (63,000)
Other	(117,000)	(175,700)
	$ (117,000)	$ (238,700)

16. PENSION PLAN

During the year the Company established an optional defined contribution plan for management employees and transferred assets and related obligations of $2,763,000 and $2,560,000 respectively, from the defined benefit plan to the defined contribution plan. As at December 31, 1997, the market related value of defined benefit pension fund assets, less amounts transferred to the defined contribution plan, was $52,185,000 (1996, $47,481,000) and the actuarial present value of accrued pension benefits related to the defined benefit plan was estimated to be $38,120,000 (1996, $36,254,000).

17. CHANGE IN NON-CASH WORKING CAPITAL

	1997	1996
Net change in:		
Accounts receivable	$ 586,700	$ (415,900)
Other prepayments	758,500	2,200
Accounts payable	3,323,900	871,000
Income taxes payable	(1,155,100)	938,100
Interest and other current liabilities	(486,500)	163,800
	3,027,500	1,559,200
Effect of extraordinary item	(29,900)	–
	$ 2,997,600	$ 1,559,200

18. COMPARATIVE INFORMATION

Certain of the comparative information has been reclassified to conform with the presentation adopted in the current year.

YEARS IN REVIEW
FINANCIAL INFORMATION (CONSOLIDATED)

	1997	1996	1995	1994	1993	1992
Financial Position at December 31						
(thousands)						
Telecommunications property	$ 217,136	$ 217,522	$ 213,087	$ 206,246	$ 196,246	$ 187,481
Accumulated depreciation	105,880	88,091	83,508	76,942	70,131	66,596
Current assets	14,267	15,591	15,094	12,604	11,936	9,783
Other assets	5,854	7,152	7,272	4,807	3,764	3,727
Shareholders' equity	63,058	76,312	70,748	65,908	63,750	61,123
Long-term debt	41,432	43,979	53,731	53,835	52,937	43,000
Current liabilities	24,313	19,658	13,818	12,930	12,509	17,281
Other accrued liabilities	2,575	12,225	13,648	14,042	12,619	12,991
Income						
(thousands)						
Revenues						
Local service	$ 43,429	$ 40,041	$ 35,951	$ 32,135	$ 27,390	$ 25,649
Long distance service	24,465	24,190	23,055	24,164	26,126	25,640
Other revenues	3,808	3,579	3,329	3,675	3,461	3,809
Total revenues	71,702	67,810	62,335	59,974	56,977	55,098
Expenses	49,354	47,109	42,790	41,502	39,008	36,966
Other income	65	449	330	355	797	648
Interest and other debt expenses	5,290	5,818	6,225	6,046	5,895	5,609
Income taxes	7,838	7,126	6,514	5,870	5,774	5,925
Net income before extraordinary item	9,285	8,206	7,136	6,911	7,097	7,245
Extraordinary item	(11,307)	–	–	–	–	–
Net (loss) income after extraordinary item	(2,021)	8,206	7,136	6,911	7,097	7,245
Financial Statistics at December 31						
Equity per common share	$ 17.14	$ 19.06	$ 17.98	$ 17.20	$ 16.58	$ 15.82
Embedded debt cost	10.5%	10.2%	10.7%	10.7%	11.0%	11.3%
Capital structure						
Debt (including short-term)	45.4%	40.8%	45.2%	47.0%	47.0%	46.1%
Preference equity	–	4.8	4.9	5.0	5.2	5.5
Common equity	54.6	54.4	49.9	48.0	47.8	48.4
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Financial Statistics for the Year						
Earnings per common share before extraordinary item	$ 2.51	$ 2.15	$ 1.90	$ 1.87	$ 1.92	$ 1.97
(Loss) earnings per common share	$ (0.58)	$ 2.15	$ 1.90	$ 1.87	$ 1.92	$ 1.97
Dividends per common share	$ 1.30	$ 1.25	$ 1.21	$ 1.20	$ 1.17	$ 1.13
Operating cash flow, less preferred dividends per common share	$ 7.06	$ 6.27	$ 5.39	$ 6.13	$ 5.17	$ 5.47
Return on average common equity before extraordinary item	12.8%	11.7%	10.9%	11.2%	11.9%	12.9%
Average common shares (thousands)	3,658	3,589	3,505	3,432	3,448	3,425
Times total interest charges earned – before taxes	4.2	3.6	3.2	3.1	3.2	3.4
Times total interest charges earned – after taxes	2.8	2.4	2.1	2.1	2.2	2.3
Interest and preference dividend coverage	4.1	3.2	2.8	2.7	2.8	2.9

YEARS IN REVIEW *continued*

	1997	1996	1995	1994	1993	1992
Selected Telecommunications and Financial Statistics						
For the Year Ended December 31						
(thousands)						
Revenues	$ 71,702	$ 67,810	$ 62,335	$ 59,974	$ 56,977	$ 55,098
Depreciation	19,250	16,763	15,253	13,835	12,742	11,920
Operating income	22,348	20,702	19,545	18,472	17,969	18,132
Operating cash flow applicable to common shares	25,823	22,506	18,903	21,134	17,825	18,751
Free cash flow after dividends and investing activities	5,596	3,802	(1,853)	(1,902)	(4,213)	(2,233)
Long distance messages						
In-province	9,891	9,860	9,495	9,169	8,711	8,348
Out-of-province	11,218	10,662	8,618	7,665	6,844	6,319
Total long distance messages	21,109	20,522	18,113	16,834	15,555	14,667
Long distance conversation minutes	92,319	89,858	79,755	74,153	*	*
Construction program expenditures	$ 18,721	$ 17,099	$ 16,472	$ 17,867	$ 18,473	$ 16,343
Percent of net capital expenditures internally generated	115.9%	109.8%	95.9%	101.0%	79.9%	96.0%
Salaries and wages	$ 15,307	$ 14,376	$ 14,433	$ 14,875	$ 14,622	$ 14,107
As at December 31						
Network access services						
Residence	54,685	53,757	52,940	51,935	50,924	49,720
Business	28,717	26,918	23,951	22,608	20,750	18,878
Cellular	10,582	9,081	7,417	5,473	3,529	2,451
Total network access services	93,984	89,756	84,308	80,016	75,203	71,049
Employees	314	300	293	338	329	336
Telecommunications property per network access service	$ 2,402	$ 2,430	$ 2,511	$ 2,541	$ 2,581	$ 2,566

** 1993 and prior were not recorded*