



commerce
e-commerce
Electronic Transaction
e-trading
Online Shopping

The most northerly community Northwestel serves is Grise Fiord, population 150, on Ellesmere Island, 1,100 kilometres north of the Arctic Circle.



The most easterly community Northwestel serves is Qikiqtarjuaq, population 500, 3,500 kilometres from Whitehorse.

1999 Annual Report

Data transfer across 4 million square kilometres for 110,000 people

 Northwestel

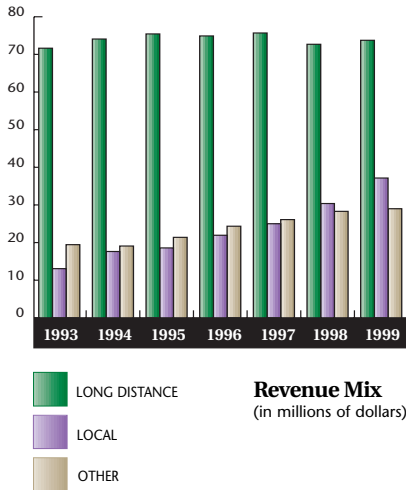


The most westerly community Northwestel serves, and the most westerly community in Canada, is Beaver Creek, population 120, 3,500 kilometres from Iqaluit.



The most southerly town Northwestel serves is Fort Nelson, B.C., population 4,400. Fort Nelson is 2,800 kilometres from Grise Fiord.

Northwestel Financial Highlights



Management Discussion and Analysis

Operating revenues increased by \$8.5 million (6.5%) from 1998. During the year, Northwestel continued to “rebalance” rates by increasing local access fees. Long distance rates decreased but were partially offset by settlement revenues from other telephone carriers.

The depreciation and amortization expense increase of \$2.5 million (9.5%) over 1998 includes the effect of amortizing the new billing/service order system activated during the year.

Operating expenses remained stable between 1999 and 1998.

The positive free cash flow of \$4.8 million in 1999 results from management's focus on cash generation and debt reduction. This focus will continue into 2000.

Capital expenditures of \$30.5 million reflect investments in the company's new Service Management System, digital transport facilities, new cellular sites, and telephone infrastructure to accommodate high growth in the new territory of Nunavut.

The lowest recorded temperature in Canada was in (Snag, Yukon -63°C)

Mission

To be the preferred supplier of high-value communications solutions to northern customers for their advantage and enjoyment.

Our Values

Employees:

We respect one another. We value integrity, initiative and commitment. We foster personal growth to full potential.



Customers:

We value customer loyalty and recognize it must be earned by surpassing expectations.



Systems Thinking:

We value a "systems thinking" approach and continuous process improvement as a way of managing our business.



Communities:

We value cultural diversity and are committed to our communities' long-term growth and prosperity. We actively participate in making them better places to live.

Northwestel Inc. Selected Financial and Other Data (Consolidated)

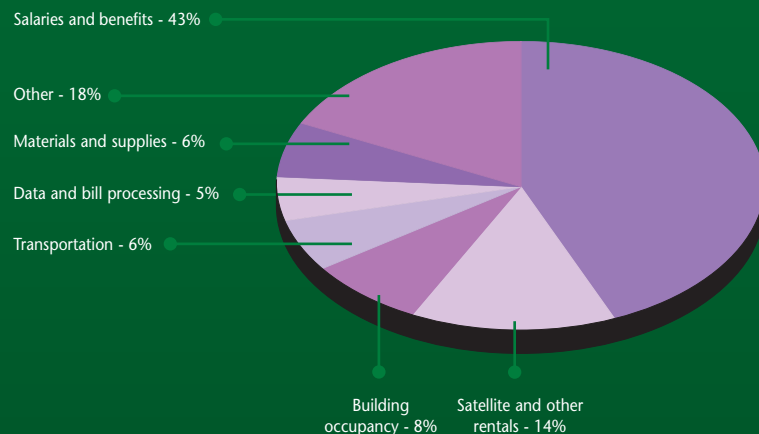
Includes Northwestel Cable Inc., effective May 1, 1996, and Northwestel Mobility Inc., effective May 1, 1997

Selected Financial Results (in \$000s)	1999	1998	1997	1996	1995	1994	1993
Operating revenues	139,890	131,359	126,797	121,199	115,408	110,797	105,275
EBITDA (a)	66,637	57,013	56,095	54,898	52,021	47,044	42,882
Net income (b)	13,105	10,295	10,271	12,140	12,668	12,066	12,007
Operating cash flow	44,741	36,315	36,182	35,877	36,586	30,424	29,850
Capital expenditures	30,539	33,400	35,563	32,360	26,599	31,576	29,254
Dividends - regular	7,693	7,693	7,693	7,341	7,341	7,341	7,204
Dividends - special	1,015	1,186	1,394	1,649	1,964	2,354	4,025
Free cash flow	4,823	(10,231)	(12,863)	(27,572)	2,999	(12,445)	(16,016)
Financial Ratios							
Earnings per share	\$14.99	\$11.78	\$11.75	\$14.55	\$15.19	\$14.46	\$14.39
Regular dividends per share	\$8.80	\$8.80	\$8.80	\$8.80	\$8.80	\$8.80	\$8.64
Return on average common equity							
for regulatory purposes (c)	12.6%	11.6%	11.4%	11.7%	12.1%	12.0%	12.5%
Interest coverage ratio	2.6	2.2	2.3	2.5	2.6	2.5	2.5
Balance Sheet Data (in \$000s)							
Total investment in buildings, plant and equipment	451,618	427,825	411,059	381,103	363,043	341,042	327,427
Investment in buildings, plant and equipment, less accumulated depreciation	259,660	255,550	253,344	242,630	228,466	224,028	210,859
Debt as a % of invested capital (d)	54.9%	56.9%	54.1%	50.1%	47.1%	48.8%	45.8%
Other Statistics							
Telephone network access lines (e)	95,790	90,688	86,004	80,842	73,375	67,265	61,373
Number of toll calls (thousands)	25,874	25,572	26,414	26,773	25,675	21,128	19,437
Average full-time equivalent employees (consolidated) (f)	568	568	582	584	592	639	624

Notes

- (a) Earnings before interest, taxes, depreciation and amortization
- (b) 1998 balance represents net income before write-down of assets; net income after write-down is \$6.1 million
- (c) For 1999, the allowable return on average common equity, for regulatory purposes as established by the CRTC, is between 11.25% and 13.25% for telephone operations (excluding operations of subsidiaries)
- (d) Debt consists of retractable preferred shares, long-term debt, and bank indebtedness
- (e) For 1999, number of network access lines is as of January 31, 2000
- (f) 1999 balance includes 30 employees in Northwestel Cable Inc. and Northwestel Mobility Inc. combined

Operating Expenses Expenses \$75,761,000



Northwestel Chairman's Report



*Murray Makin
Chairman and
Chief Executive
Officer of
Northwestel*

During 1999, Northwestel directed its efforts toward preparing the company for the information era that lies ahead. We improved the quality of our service. We expanded northern access to the information highway. And we convinced regulators that Canada's far north is an area with unique challenges, requiring unique solutions if we are to maintain viable and affordable telecommunications services.

In 1999 Northwestel implemented one of the largest projects the company has ever undertaken: the installation and implementation of a new Service Management System (SMS). The \$18-million system is an integrated customer care and billing system. It enhances our ability to retrieve and process customer information.

As part of the project's first phase, a new invoice format was introduced to our customers in December 1999. The next step in the project will be the development of a data warehouse and an integrated network management system.


Installation of the Service Management System was only one undertaking in a year characterized by large projects. We were also very focused on ensuring a smooth transition to the year 2000. Our objective was to ensure that all Northwestel systems, network elements, products and services that are dependent on date-sensitive information continued to work seamlessly into the year 2000. Throughout 1999, we conducted an exhaustive review of all elements of our systems, replacing hundreds of non-

compliant applications. We developed our own contingency plans and provided essential information to customers and other organizations to aid in developing their own readiness strategies.

While northerners celebrated the dawn of a new millennium, a number of Northwestel employees worked through the night and over the next few days to monitor the transition from 1999 to 2000. Thanks to the diligent efforts of Northwestel employees over the past two years, we are proud to report that all of the company's systems continued to operate smoothly and that New Year's Day 2000 arrived without any unanticipated challenges.

The introduction of long distance competition and the related high-cost serving area proceedings also continued to be a critical focus in 1999.

At the end of 1997, the CRTC initiated proceedings to investigate how to provide quality telecommunications services at reasonable rates to all Canadians. They were particularly concerned with areas where costs to provide service were much higher than in



*We operate in the farthest reaches of Canada,
with some of the harshest weather in the world,
across a landmass that could hold Ontario and
Quebec with space left over.*

*The 110,000 people of Canada's far north deserve
reliable, affordable and state of the art
telecommunications service.*

Like the people in the rest of Canada.

other areas and where competition may not be an appropriate solution. Our presentations to the CRTC in 1998 and early 1999 supported the concept that northern customers should be able to choose their suppliers even in our remote and sparsely populated area. We also maintained, however, that a new funding mechanism was needed to reduce long distance rates and sustain a competitive marketplace.

In October 1999, the CRTC issued its decision on telephone service to high-cost serving areas. In the decision, the CRTC identified the basic services that should be available to as many Canadians as feasible. These include such services as single line touch-tone service with local access to the Internet.

The decision also identified Northwestel's serving area as unique in Canada, primarily because of our immense operating region combined with an extremely low population density. In light of these circumstances, the CRTC felt that Northwestel may not have the

means to achieve the basic service objective under similar terms and conditions as in southern Canada.

Consequently, the CRTC initiated a public proceeding to assess Northwestel's requirements to achieve the basic service objective, address the terms and conditions needed to permit long distance competition in our operating territory, and determine if any supplementary funding would be required. The CRTC directed Northwestel to file a Service Improvement Plan (SIP) early in the year 2000 to show how the basic service objective will be achieved over time, including upgrading the quality of long distance service. The SIP is to identify the maintenance costs of the service, the revenue from the service, and the revenue shortfall that will require a subsidy.

In the last quarter of 1999 Northwestel began consultations with numerous government and other organizations to obtain feedback on the best way to provide the specified basic services to northerners. We also began to

develop our proposal for the introduction of long distance competition.

To meet customer demand for lower long distance rates, in 1999 we completed another stage of our rate rebalancing program. In August, monthly single line residential and business access rates were increased by \$6, making them more comparable with rates charged in other parts of Canada. These local rate increases were offset by decreases in long distance rates. In February, we introduced our lowest rate ever – a 15 cent per minute rate between 3 p.m. Saturday and 8 a.m. Sunday from anywhere in our operating area to anywhere in Canada. Customer reaction was very favourable, and we extended the program throughout 1999 and into 2000.

The availability of quality telecommunications services throughout the North continues to be a preoccupation for Northwestel.

It costs us \$50 - \$90 per month for a residential access line Residents pay \$26.33

The story of competition in Canada's only true high-cost serving area



At Northwestel, we believe the North deserves rates and services comparable to those in the south. We believe

northerners should reap the benefits provided by new technologies. Northwestel also believes in competition...but competition that will benefit all customers, in small communities as well as the large ones.

For many years in the North, the revenues from long distance service have offset the high costs of providing basic service. To prepare for long distance competition, Northwestel has been increasing the rates for

local access to bring them closer to the costs of providing service. Correspondingly, long distance rates have been decreasing, in response to customer demand for lower rates.

Carcross, Yukon



However, the costs of providing high quality service are much higher than elsewhere in Canada because of vast distances, a harsh climate and a small population base. For example,

Northwestel Chairman's Report

To improve service quality and to position ourselves for the future, we invested \$25 million in expansion and upgrades to our network in 1999. This investment provides access to leading-edge technology and the information highway to a larger group of northern customers. It also improves the day-to-day service our customers have come to rely upon.

A key Northwestel objective is to develop a fully digital long distance network. The introduction of a new digital radio link between Fort Simpson and Fort Nelson has increased the penetration of digital facilities within our network to 93 percent. Using Nortel Networks' SONET radio technology, the new link improves clarity, data speeds and reliability for customers in the Northwest Territories, the Yukon and northern British Columbia. The link has also enabled the introduction of high-speed Internet service in Yellowknife, and it greatly improves the quality of service between Yellowknife and Whitehorse.

Nearly half the 1999 budget for local access projects was spent in Nunavut, the fastest growing region in Northwestel's operating area. The establishment of the new territory in

April 1999 and the growing demand for telecommunications services, particularly in Iqaluit, put considerable pressure on the company to meet the demand, to which we were able to respond successfully.

At Northwestel we believe that the technology we provide to our customers can open new business opportunities, lower the cost of doing business in the North, and assist in the expansion of the northern economy.

Working closely with the Government of the Northwest Territories, the Ardicom network provided technology to enable Internet access, video-conferencing and client server applications to 58 communities in the Northwest Territories and Nunavut. By the end of the year, commercial Internet service was available in 31 of these communities using this information highway access, and new gateway services were launched to improve circuits to southern locations. As part of its services, Ardicom also established a video-conferencing centre in Iqaluit.

Northwestel signed a letter of intent with the Yukon Government in 1999 to build the network that will be part of the "Connect Yukon" project. This project will upgrade the microwave radio transmission network from Dawson to Whitehorse and provide Internet and high-speed data to 11 communities. Construction is scheduled over a two-year period starting in 2000. The Yukon Government will finance the majority of the \$13-million capital requirement.

We continued to survey and monitor customer needs and develop solutions that will assist northerners to participate fully in today's knowledge-based society. Our Advanced Communications group has responded with a number of new solutions, including wider and faster access to the Internet and new platforms to expand our network's capabilities.

In 1999, Advanced Communications concentrated on multimedia applications and server infrastructure that will position Northwestel to offer Intranet streaming video and e-commerce services. The second phase

We have the largest operating area in the western hemisphere (4 million sq. km.)



basic telephone access today actually costs Northwestel over \$90 per month per residential customer in more than 80 percent of the communities we serve. Yet residential customers all across the North pay the same monthly network access fee of \$26.33.

The discussion about competition in long distance services for northern customers was first raised in 1996 with the Canadian Radio-television and Telecommunications Commission (CRTC), the body that regulates

Northwestel's rates. Our response has consistently been that the CRTC should recognize our unique serving area and determine how competition in long distance services could be introduced without jeopardizing affordable local service in the North.

In 1998, the CRTC announced that long distance competition would be introduced into the North. However, prior to that, the CRTC will be conducting proceedings to determine the timing and the rules for the introduction of long distance competition.

Repulse Bay, Nunavut

of the Yukon telemedicine project, which provides the communications and information technology infrastructure to capture medical information from patients in Teslin, Ross River and Dawson and convey it to the Whitehorse General Hospital, was completed in April.

Our new Carrier Services group was also involved in providing solutions to our customers. Their role is to negotiate agreements with wholesalers for a carrier system that responds to our traffic volume and traffic patterns. In 1999 the group developed a new process for settling accounts with the contracted carriers and other wholesale customers, including Internet Service Providers.

Northwestel's two subsidiaries, Northwestel Cable Inc. and NMI Mobility Inc., also made advances in 1999. New products, increased market penetration and cable advertising sales allowed Northwestel Cable to meet its revenue and expense goals. High demand for cellular service in the expanding oil and gas exploration industry, especially in the Fort Liard area, along with the introduction of cellular service in Iqaluit accounted for much of NMI's revenue growth.

1999 was a year filled with challenges and change.

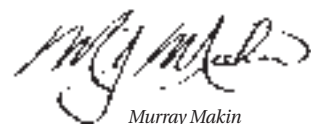
The bargaining agent for the employee body, the International Brotherhood of Electrical Workers (IBEW), ratified a memorandum of settlement in January 1999, for a three-year collective agreement from January 1, 1999 to December 31, 2001. One of the key initiatives under the agreement is pay equity, which will be addressed over the next year, for introduction in the third year of the contract.

Bell Canada acquired Northwestel from BCE Inc. this past year. Northwestel had been a wholly owned subsidiary of BCE since 1988. This year BCE and SBC/Ameritech announced a strategic partnership which gives SBC/Ameritech a 20-percent minority stake in Bell Canada. This partnership led to a reorganization of Bell Canada, with certain investments transferred from BCE to Bell Canada. One of these investments was Northwestel. Bell Canada now owns 100 percent of Northwestel Inc.

There were also changes to the Board of Directors. Rolf Hougen and Helen Parker, both long serving members of the Board, retired this year. The Board appreciates the valuable

contribution they made to the company over many years. Bea Firth of Whitehorse, Louise Vertes of Yellowknife, Charles Labarge of Harrowsmith, Ontario and Donald Mackinnon of Toronto joined the Board of Directors in 1999.

1999 was an extremely busy and challenging year for Northwestel employees as we prepared for the new millennium. The Northwestel Executive and Board thank the employees for their significant efforts during this period. Our employees are a key element in our success. Their skills and knowledge of telecommunications combined with their experience in the North position the company well for the future. In the coming year, we look forward to participating in the development of a unique competitive environment that will provide the North with services and rates comparable to those enjoyed by the majority of Canadians.



Murray Makin
Chairman and Chief Executive Officer

In October 1999, the CRTC issued a landmark decision on telephone service to high-cost serving areas. The CRTC defined a high-cost serving area as a geographic area where the incumbent local carrier's monthly costs to provide basic service are greater than the associated revenues generated by an affordable rate as approved by the Commission. The whole of Northwestel's operating area has been defined as high cost.

Dawson City, Yukon



Northwestel Year in Review

Knowing Our Customers

Across the North, Northwestel is working hard for the privilege of serving telecommunications customers. We're breaking new ground and providing new services. In the past five years we've greatly expanded cellular telephone service in the North. We've worked with the public sector to extend the information highway to 58 communities in the Northwest Territories and Nunavut. We've introduced high-speed Internet services in Whitehorse and Yellowknife. We are providing advanced communications platforms that support video-conferencing, e-commerce and knowledge networks. And this year, a letter of understanding was signed with the Yukon Government to bring advanced telecommunications services to 11 Yukon communities.

In 1999, Sympatico dial-up Internet service was extended to more than 2,500 customers in six communities. By the end of 1999, our new Sympatico high-speed Internet service was accessible to over 80 percent of residential households in Whitehorse and approximately 70 percent of Yellowknife households. Sympatico dial-up Internet service was also extended to Norman Wells and Inuvik, with more locations to be added in 2000.

To handle increasing customer expectations, we upgraded our network, modernized our operating systems, established new gateways to handle growing frame relay volume, and negotiated new contracts with wholesalers who provide access to our system.

We undertook many changes in 1999 in response to customer requests for products and services. More than ever before, we talked to our customers. We met with our larger customers. We conducted needs surveys with both business and residential customers. Most importantly, we acted on what customers told us.

They said they want products that will help build their businesses; products that will provide communications within and outside the North; products that are affordable; products that will assist in the economic and cultural development of the area we serve.

Our customers also asked for lower long distance rates. This year, we introduced the lowest rate we've ever offered. Daytime long distance rates were reduced as much as 40 percent for some communities, while night discount rates dropped 50 to 60 percent.

We completed the first phase of implementation of our new Service

Management System, and by year-end we were testing our new billing system. The immediate benefits to customers are more readable invoices, with a wider range of messages, that are printed both sides to reduce paper usage.

A local market research company conducted a survey of some of our long distance customers, to better understand a number of customer issues, including price sensitivity. Results will assist us in the development of competitive plans and strategies for next year.

Growing Our Network

Several new services were introduced to Iqaluit, including Sympatico dial-up Internet service and NMI Mobility cellular service. Through Ardicom, we established public video-conferencing facilities in Iqaluit. We also published a new, bilingual (Inuktitut/English) telephone directory. Previously, eastern Arctic communities were included in one directory with western Arctic communities.

Exchange modifications in Whitehorse, Yellowknife, Fort Nelson and Iqaluit improved local access and will enable the introduction of long distance competition into Northwestel's



Our efforts to explain the unique situation in the North have been successful. The Commission concluded that while it encourages competition for the provision of telecommunications services, high-cost serving areas might not benefit from such competition. Northwestel was singled out as a telecommunications company whose challenges warranted special consideration.

At the same time, the CRTC defined the basic level of

Northern Yukon

operating areas. A large part of the 1999 capital budget was allocated to basic network upgrading, maintenance and service expansion. These expenditures support our high standards of reliability and ensure that we meet all environmental and safety requirements.

To improve reliability and flexibility of our network, a remote maintenance program is continuing. All compatible PBX systems in the eastern portion of the network are now remotely maintained. Introduction of remote maintenance for the western portion of the network will be completed in early 2000.

Newer technologies replaced high-frequency radio service in the North in 1999. Demand for this service had dwindled to less than three dozen users, and the equipment used to provide the service was obsolete. MSAT mobile radio offers higher quality service with more flexibility.

The high levels of customer service achieved in 1998 were maintained in 1999. Overall system availability was 99.97%, while the new SONET digital radio system introduced in the Fort Simpson/Fort Nelson area in September provided 100 percent reliability and availability.

New ways of measuring network performance and reliability were introduced, and statistics are now presented for urban, rural and total company performance. During 1999 in the urban centres, we achieved an average availability of 99.96% and for four of the 12 months achieved 100 percent.

A customer callback process has been introduced to review previous day access for repair requests. Analysis and development of processes to improve the handling of trouble tickets should enable us to further improve response in 2000. To meet service requirements in Nunavut, particularly in smaller, more isolated communities where we do not have resident staff, we have negotiated an arrangement with the Northwest Territories Power Corporation to have their staff handle some of our routine fieldwork.

A new Data Services Group was formed to support the growing use of data services by Northwestel customers. The Data Services group focuses on providing coordinated and timely data circuit provision, trouble identification and resolution, and network support. Together with the Advanced Communications group, Data

Services is also exploring and developing new service and revenue opportunities such as managed customer data network services.

Employee Development

Dedicated employees, working together to exceed the expectations of our customers, are the foundation of our competitive strategy.

The Employee Development group focused on training required for employees who work with the new Service Management System (SMS). Training modules were prepared and over 200 employees attended specialized courses at centres established in Iqaluit, Yellowknife and Whitehorse.

The Employee Capability Development program continued its work of matching the skills required for each position with the skills of the incumbent. Where there are gaps in an employee's skills, an individual training plan is set up to allow the employee to acquire those skills.

We serve close to 100 far north communities Only 10 have over 2,000 people



Kakisa, Northwest Territories

telecommunications service that, over time, should be provided to as many Canadians as feasible in all regions of the country, including the North. This basic level of service includes:

- single line touch-tone service with local access to the Internet,
- enhanced calling features, including access to emergency services, voice message relay for the hearing impaired and features that protect privacy,
- access to operator and directory assistance services,
- access to the long distance network, and
- a copy of a current local telephone directory.

The CRTC recognized that Northwestel may not have the means to achieve the basic

service objectives under the same terms as those that apply in southern Canada. Northwestel was directed to file a Service Improvement Plan indicating how the company could meet the basic service objectives over time.

The Commission also directed Northwestel to calculate the costs and potential revenues of introducing these services across its service area, and to determine the revenue shortfall that may require supplementary funding.

In the last quarter of 1999, a large Northwestel project team began working on the company's



Deline, Northwest Territories

Northwestel Year in Review

With additional training, an expanded employee communications plan, and clear corporate goals and objectives, the productivity of our staff continues to improve. In 1999, with slightly fewer employees than the previous year, we successfully managed a five-percent increase in local access connections.

Northwestel Cable Inc.

In 1999, Northwestel Cable focused on three areas: maximizing penetration of premium services, upgrading networks to improve reliability and allow for future services, and diversifying the revenue stream with new products.

The company achieved a five-percent increase in penetration of tiered services through increased marketing and the launch of three new cable channels. These services allowed us to increase the value of the cable package and maintain cable revenues despite competition from direct-to-home satellite services in our market.

Network improvements included the installation of 15 kilometres of fibre optic cable in Yellowknife. This moves the company closer to offering state-of-the-art entertainment and

data services. Late in 1999, the company began testing high-speed Internet service.

Revenues from cable advertising continued to grow, increasing by 56 percent over 1998. Northwestel Cable operates in 11 communities outside Yellowknife, one fewer than last year. High capital and operating costs have limited the opportunities for further development of community cable systems. We will continue to closely monitor the contribution to the parent company.

NMI Mobility Inc.

In 1999 there was a 22-percent increase in cellular service users, and the established business market grew by 30-percent. We introduced cellular service in Iqaluit in January, and high demand in Nunavut's new capital resulted in achieved targets for the full year in fewer than nine months.

Our paging portfolio grew by more than 70 percent in 1999, proving once again the viability of this form of wireless communications. Of particular interest is the appeal of these services to younger

consumers, who comprise almost half of all paging subscribers.

Our MSAT base grew by 45 percent in 1999 despite the turmoil in the satellite-based communications industry. With the release of the newest generation, GlobalStar, we retained our position as the leader in wireless service for remote and rural environments.

Cellular services growth was strongest in the resources sector, largely based on oil and gas activity in northern British Columbia and the southwestern Northwest Territories. Investments in new infrastructure in that region have proven both timely and rewarding. To satisfy service demand there, we purchased six microwave sites from Westel Ltd., provided digital upgrades and offered new cellsites to our customers.

Future plans include the expansion of cellular services to smaller communities in partnership with local and regional investors, the launch of prepaid cellular service and the bundling of some services with Northwestel Cable.

Costs in the North are higher than those in the provinces (From 20 to 80 percent)



Northwestel Directors and Officers



Board of Directors

Left to right: David Searle, Senior Partner, Davis and Company (Vancouver); Donald Mackinnon, Vice-President, Finance, Bell Ontario (Toronto); Bea Firth, Director (Whitehorse); Jim Barber, Vice-President, Slocan Group, Fort Nelson Operations (Fort Nelson); Bernadette Tungilik, Vice-President, Finance, Nunavut Tunngavik Inc. (Rankin Inlet); Murray Makin, Chairman and CEO, Northwestel Inc., and Chairman and CEO Northern Telephone Limited (Toronto); Frank Hansen, Director (Inuvik); Louise Vertes, Director (Yellowknife). Missing: Charles Labarge, The Windenstone Group (Harrowsmith).



Officers

Left to right: Peter Boorman, President (Whitehorse); Rick Hardy, Corporate Secretary (Yellowknife); Claude Vachon, Vice-President, Network (Yellowknife); Ray Wells, Vice-President, Corporate (Whitehorse); Ray Hamelin, Chief Financial Officer (Whitehorse); Murray Makin, Chairman and CEO (Toronto). Missing: Mike Parry, Vice President, Customer Service and Solutions (Yellowknife).



submission to the CRTC. The Commission's decision, which will establish the appropriate conditions for long distance competition and determine the level of supplementary funding

Mackenzie River Delta

required to achieve the basic service objective, is expected in the last quarter of 2000.

This is a critical time for telecommunications service in Canada's North. The massive changes that have swept through the industry and the rest of Canada are about to have an impact on all aspects of service in the North. For the people of Northern Canada, the Commission's decision will determine the future of their telecommunications services.

Northwestel's key objective in the new competitive environment is to fulfil our mandate as the full-service telecommunications provider across the North, to

ensure that all Northerners enjoy the benefits of quality telecommunications services at affordable rates.



Exploration site in Fort Liard area

Management Responsibility for financial statements

The accompanying financial statements of Northwestel Inc. and all information in this annual report are the responsibility of management, and have been approved by the Board of Directors.

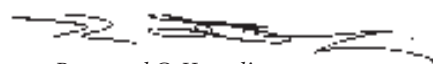
The financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada. The financial statements include some amounts that are based on best estimates and judgments. Financial information used elsewhere in the annual report is consistent with that of the financial statements.

The management of the Corporation in furtherance of the integrity and objectivity of data in the financial statements, has developed and maintains a system of internal accounting controls and supports a program of internal audits. Management believes the internal accounting controls provide reasonable assurance that financial records are reliable and form a proper basis for preparation of financial

statements, and that assets are properly accounted for and safeguarded.

The Board of Directors carries out its responsibility for the financial statements in this annual report principally through its audit committee. The audit committee reviews the corporation's annual financial statements and recommends their approval by the Board of Directors. The shareholder's auditors have free and independent access to the audit committee.

These financial statements have been examined by the shareholder's auditors, Deloitte & Touche, Chartered Accountants, and their report is presented below.



Raymond G. Hamelin
Comptroller, Treasurer & Chief
Financial Officer

Auditor's Report

To the Shareholder of Northwestel Inc.

We have audited the consolidated balance sheet of Northwestel Inc. (a wholly-owned subsidiary of 3588378 Canada Inc.) as at December 31, 1999 and the consolidated statements of income, retained earnings, contributed surplus and cash flow for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 Corporation as at December 31, 1999 and the results of its operations and the cash flow for the year then ended in accordance with generally accepted accounting principles.



Deloitte & Touche LLP
Chartered Accountants
February 4, 2000

Consolidated Statement of Income*Year ended December 31, 1999 (thousands of dollars)*

	1999	1998
Operating Revenues		
Local telephone service	\$ 37,151	\$ 30,374
Long distance telephone services	73,750	72,690
Private network, directory, cable television and other services	28,989	28,295
Total Operating Revenues	<u>139,890</u>	<u>131,359</u>
Operating Expenses		
Depreciation and amortization	29,345	26,801
Operating	75,761	75,997
Total Operating Expenses	<u>105,106</u>	<u>102,798</u>
	34,784	28,561
Amortization of Provision for Future Losses (Note 11)	<u>367</u>	<u>2,000</u>
Net Operating Revenues	35,151	30,561
Other Income	2,508	1,651
Income before Financing Cost, Income Taxes and Write-down of Assets	<u>37,659</u>	<u>32,212</u>
Financing Cost		
Interest on long-term debt	12,569	12,573
Interest and bank charges	1,269	1,135
Amortization of deferred foreign exchange losses	462	826
Dividends paid on retractable preferred shares	341	360
Total Financing Cost	<u>14,641</u>	<u>14,894</u>
Income Before Income Taxes and Write-down of Assets	23,018	17,318
Income Taxes (Note 10)	<u>9,913</u>	<u>7,023</u>
Income from Operations	13,105	10,295
Write-down of Assets (Note 2)	—	4,220
Net Income	<u>\$ 13,105</u>	<u>\$ 6,075</u>

Consolidated Statement of Retained Earnings*Year ended December 31, 1999 (thousands of dollars)*

Balance Beginning of Year	\$ 53,758	\$ 55,376
Net Income	13,105	6,075
Transfer from Contributed Surplus (Note 4)	1,015	1,186
	<u>67,878</u>	<u>62,637</u>
Dividends		
Common shares - regular	(7,693)	(7,693)
Common shares - special	(1,015)	(1,186)
Balance, End of Year	<u>\$ 59,170</u>	<u>\$ 53,758</u>

Consolidated Statement of Contributed Surplus*Year ended December 31, 1999 (thousands of dollars)*

Balance, Beginning of Year	\$ 10,245	\$ 11,431
Transfer to Retained Earnings (Note 4)	1,015	1,186
Balance, End of Year	<u>\$ 9,230</u>	<u>\$ 10,245</u>

Consolidated Balance Sheet

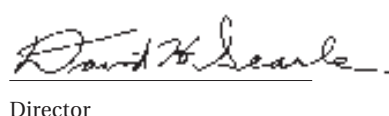
Year ended December 31, 1999 (thousands of dollars)

ASSETS	1999	1998
Current		
Cash held in trust	\$ —	\$ 164
Accounts receivable	28,386	25,889
Income taxes recoverable	1,162	1,862
Materials and supplies	4,276	3,799
Contracts receivable	7	39
Other	655	1,218
	<u>34,486</u>	<u>32,971</u>
Telecommunications Property		
Buildings, plant and equipment (Note 3)	440,966	403,495
Less: Accumulated depreciation (Note 3)	191,958	172,275
	<u>249,008</u>	<u>231,220</u>
Land	3,407	3,297
Plant under construction	7,245	21,033
	<u>259,660</u>	<u>255,550</u>
Other		
Deferred income taxes (Note 4)	9,230	10,245
Unamortized foreign exchange losses	2,567	5,325
Deferred charges (Note 6)	6,559	7,172
Deferred pension cost (Note 7)	4,264	5,112
Contracts receivable	7	51
	<u>22,627</u>	<u>27,905</u>
	<u>\$ 316,773</u>	<u>\$ 316,426</u>
LIABILITIES		
Current		
Bank indebtedness (Note 8)	\$ 19,034	\$ 22,976
Accounts payable	20,010	18,505
Customers' deposits	416	584
Dividends payable	2,178	2,220
Current portion of long-term debt (Note 9)	572	605
	<u>42,210</u>	<u>44,890</u>
Long-Term Debt (Note 9)	<u>126,242</u>	<u>128,707</u>
Deferred Credits		
Income taxes	17,405	15,461
Provision for future losses (Note 11)	—	367
	<u>17,405</u>	<u>15,828</u>
Preferred Shares (Note 12)	<u>6,016</u>	<u>6,498</u>
Commitments (Note 15)		
COMMON SHAREHOLDER'S EQUITY		
Stated capital of common shares (Note 13)	56,500	56,500
Contributed surplus (Note 4)	9,230	10,245
Retained earnings	59,170	53,758
	<u>124,900</u>	<u>120,503</u>
	<u>\$ 316,773</u>	<u>\$ 316,426</u>

Approved by the Board



Director



Director

Consolidated Statement of Cash Flow*Year ended December 31, 1999 (thousands of dollars)*

Net Inflow (Outflow) of Cash Related to the following activities:	1999	1998
Operating		
Net income	\$ 13,105	\$ 6,075
Items not affecting cash		
Depreciation	28,551	26,055
(Recovery) write-down of assets	(141)	4,220
Deferred income taxes	2,916	433
Amortization of deferred foreign exchange losses	462	826
Amortization of employee termination incentive costs	794	747
Amortization of early retirement incentive plan costs	692	583
Amortization of provision for future losses	(367)	(2,000)
Allowance for funds used during construction	(1,335)	(613)
Loss (gain) on sale of property	64	(11)
Operating cash flow	44,741	36,315
Net change in non-cash balances relating to operations (Note 14)	(340)	(2,120)
Decrease (increase) in deferred pension cost	156	(739)
Employee termination incentive costs	(416)	(207)
Cash flow from operations	44,141	33,249
Investing		
Capital expenditures	(30,539)	(33,400)
Deferred charges	235	(887)
Dismantling costs	(681)	(618)
Salvage proceeds	375	304
	(30,610)	(34,601)
Dividends		
Common shares - regular	(7,693)	(7,693)
Common shares - special	(1,015)	(1,186)
	(8,708)	(8,879)
Free Cash Flow	4,823	(10,231)
Financing		
Proceeds from long-term debt	—	17,500
Repayment of long-term debt	(150)	(13,906)
Repayment of capital leases	(554)	(1,130)
Decrease (increase) in unamortized foreign exchange losses	2,295	(2,564)
(Decrease) increase in long term debt from foreign exchange losses	(2,295)	2,564
Preferred shares redeemed	(341)	(250)
	(1,045)	2,214
Cash Increase (Decrease) During the Year	3,778	(8,017)
Bank Indebtedness, Beginning of Year	(22,812)	(14,795)
Bank Indebtedness, End of Year	\$ (19,034)	\$ (22,812)
Comprised of:		
Cash held in trust	—	164
Bank indebtedness	(19,034)	(22,976)
	\$ (19,034)	\$ (22,812)

Notes to the Consolidated Financial Statements

Year ended December 31, 1999

1. Accounting Policies

The accompanying consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles modified as described in this note to be in conformity with the regulatory accounting principles outlined by the Canadian Radio-Television and Telecommunications Commission (CRTC). The CRTC is an agency of the Canadian government and has jurisdiction over various aspects of the Company's operations including rates, costing and accounting practices.

The CRTC is reviewing the manner in which it regulates the telephone companies under its jurisdiction and is engaged in a series of proceedings to implement a framework to increase competition and reduce regulation. In the case of the Company, the CRTC has released PN 99-21, Northwestel Inc. – Implementation of Toll Competition and Review of Regulatory Framework, Quality of Service and Related Matters. The CRTC is expected to render its decision on this matter in the fourth quarter of 2000.

Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Northwestel Cable Inc. and Northwestel Mobility Inc. All significant intercompany balances and transactions have been eliminated.

Materials and supplies

Materials and supplies have been valued at the lower of cost or estimated utility or sales value for obsolete and scrap material.

Telecommunications property

Telecommunications property is carried at cost. Depreciation is computed by the straight-line method based on the estimated useful lives of the assets. The depreciation rates are reviewed and approved annually by the CRTC as part of the rate-setting process. In 1999, the effective depreciation rate was 6.83 percent.

Leases

Property and equipment taken on leases which transfer substantially all of the benefits and risks of ownership to the Company are recorded as capital leases, as though assets had been purchased and liabilities incurred. All other equipment on lease is accounted for as operating leases.

Allowance for funds used during construction

The CRTC requires telecommunication companies to provide for a return on total capital invested in new telecommunication plant while under construction by including an allowance, based upon the prior year's return on investment, for funds used during construction as an item of income during the construction period and also as an addition to the cost of the telecommunications property constructed. Such income is currently not realized in cash but will be realized over the service life of the plant.

Deferred charges

As directed by the CRTC, costs associated with the implementation of employee termination incentive plans are capitalized and amortized on the straight-line basis over a period of five years, commencing in the month employment ceases.

A mortgage assistance plan has been established for the benefit of employees who are relocated within the Company's operating territory. Advances under this plan are forgivable in certain circumstances; accordingly, the portion of the deferred charge that is estimated to be ultimately forgivable is expensed.

Income taxes

As directed by the CRTC in July, 1989, Northwestel Inc. uses the liability method of income tax allocation in relation to its telecommunications operations. The Company's subsidiaries use the deferral method. Under both methods, the provision for income taxes is based on income as reported in the income statement regardless of when such income is subject to tax. The difference between taxes payable and taxes accrued is accounted for under deferred credits-income taxes.

Under the liability method, the accumulated deferred credits-income taxes are adjusted to reflect changes in tax rates and will affect income tax expense in the period in which the change in tax rates occurs.

Notes to the Consolidated Financial Statements

Year ended December 31, 1999

Pensions

The Company maintains a contributory defined benefit pension plan which covers substantially all of its employees. The plan provides pensions to retired employees based on years of service and final average earnings at retirement.

Pension costs are determined using the projected benefit obligation method prorated over years of service and are based on management's best estimates. A valuation is performed each year to determine the actuarial present value of accrued pension benefits. Pension plan assets are valued at market value.

Pension expense is charged annually to operations and comprises the total of the following:

- (i) The cost of pension benefits provided in exchange for employees' services rendered during the year, as calculated using the projected benefit obligation method prorated on years of service;
- (ii) Amortization on the straight-line basis over the employees' expected average remaining service life of adjustments arising from changes in the plan or in assumptions, experience gains or losses, and transition adjustment (the excess of plan assets over plan obligations) as at January 1, 1987, when the present accounting standards became effective; and,
- (iii) As directed by the CRTC, amortization on the straight-line basis over a period of five years of prior service costs arising from early retirement incentive plans accepted by employees. Such amortization commences in the month employment ceases.

The cumulative difference between the amount expensed or credited to earnings and the estimated required funding is recorded on the balance sheet as either a deferred pension cost or a pension liability.

Foreign exchange

Transactions completed in foreign currencies are reflected in Canadian dollars at the rates prevailing at the time of the transactions. Debt payable in U.S. funds is reflected in the financial statements at the Canadian dollar equivalent at the balance sheet date.

Currency gains and losses are reflected in net income for the year except for unrealized foreign currency gains and losses on long-term debt which are reported as a deferred item and amortized over the remaining life of the related debt on a straight-line basis.

2. Write-down of Assets

Assets that were not year 2000 compliant or whose net recoverable value was less than their carrying value and having a net book value of \$7,357,000 were written down during 1998. Recoverable deferred income taxes were recorded of \$3,137,000 as a result of the write-down in 1998 and netted against the write-down.

3. Telecommunications Property

	1999			1998
	Original Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Buildings and towers	\$ 65,295,000	\$ (28,362,000)	\$ 36,933,000	\$ 36,154,000
Cables and outside plant	71,768,000	(30,084,000)	41,684,000	41,198,000
Radio and satellite	85,431,000	(43,456,000)	41,975,000	45,071,000
Switches	72,488,000	(39,116,000)	33,372,000	32,638,000
Other plant	145,984,000	(50,940,000)	95,044,000	76,159,000
	<u>\$ 440,966,000</u>	<u>\$ (191,958,000)</u>	<u>\$ 249,008,000</u>	<u>\$ 231,220,000</u>

Depreciation expense for the year amounted to \$28,551,000 (1998 - \$26,055,000).

4. Deferred Income Taxes/Contributed Surplus

BCE Inc. purchased from Canadian National Railway Company all outstanding common shares of the Corporation on December 1, 1988. Pursuant to the terms of the purchase, the capital cost allowances taken for purposes of computing the tax remittances to Canadian National Railway Company have reverted back to the Company. In recognition of this, the Company recorded \$42,210,000 as a deferred tax debit with a corresponding amount as contributed surplus. As and when these tax benefits are realized, the Company will transfer a like amount from contributed surplus to retained earnings and then declare a special dividend.

Notes to the Consolidated Financial Statements

Year ended December 31, 1999

\$1,015,000 (1998 - \$1,186,000) of these tax benefits were realized in the year by claiming additional capital cost allowance and reducing income taxes payable. As at December 31, 1999, the Company has unrealized tax benefits of \$9,230,000 (1998 - \$10,245,000).

5. Restructuring

In 1995, the Company implemented a restructuring plan which provided for early retirement and employee termination incentives. The total of such costs incurred in 1999 amounted to \$1,054,000 (1998 - \$1,186,000) of which \$416,000 (1998 - \$207,000) relates to employee termination incentives (Note 6) and \$638,000 (1998 - \$530,000) to early retirement incentives (Note 7).

6. Deferred Charges

	1999	1998
Employee termination incentive costs	\$4,200,000	\$3,784,000
Less accumulated amortization	2,858,000	2,064,000
	<u>1,342,000</u>	<u>1,720,000</u>
Advances under mortgage assistance plan	3,827,000	3,970,000
Other	1,390,000	1,482,000
	<u>\$6,559,000</u>	<u>\$7,172,000</u>

7. Pension Plan

As at December 31, 1999, the estimated surplus of pension plan assets over the estimated obligations for pension benefits amounted to approximately \$20,194,000 (1998 - \$17,546,000). Details are as follows:

	1999	1998
Pension plan assets, at market value	\$87,634,000	\$80,223,000
Actuarial present value of accrued pension benefits	67,440,000	62,677,000
Surplus	<u>\$20,194,000</u>	<u>\$17,546,000</u>

During the year, pension expense amounted to \$933,000 (1998 - \$819,000). The cumulative difference between the funding contributions of \$85,000 (1998 - \$1,027,000) and the amounts expensed has been reflected on the balance sheet as a deferred pension cost in the amount \$4,264,000 (1998 - \$5,112,000).

Deferred pension cost is comprised of the following:

	1999	1998
Early retirement incentive plan costs	\$3,713,000	\$3,075,000
Less accumulated amortization	2,198,000	1,506,000
	<u>1,515,000</u>	<u>1,569,000</u>
Prepaid pension expense	2,749,000	3,543,000
	<u>\$4,264,000</u>	<u>\$5,112,000</u>

8. Bank Indebtedness

	1999	1998
Cash	\$ 966,000	\$ -
Bank overdraft with interest payable at prime - 2.5%, unsecured.	-	4,593,000
Related party note payable bearing interest at a rate of 5.25% unsecured, which is due January 17, 2000.	20,000,000	-
Bankers' acceptances bearing interest at rates ranging from 5.12% to 5.14%, unsecured, the latest of which is due March 8, 1999.	-	18,383,000
	<u>\$19,034,000</u>	<u>\$22,976,000</u>

Notes to the Consolidated Financial Statements

Year ended December 31, 1999

9. Long-Term Debt

Debentures

Maturity Date	Series	Interest Rate	Currency	1999	1998
September 26, 2001	M	10.650%	Can.	\$ 7,000,000	\$ 7,000,000
April 22, 2003	N	8.700%	Can.	20,000,000	20,000,000
November 15, 2004	C	13.000%	Can.	2,420,000	2,420,000
April 17, 2005	O	8.450%	Can.	8,000,000	8,000,000
December 31, 2007	D	10.500%	Can.	5,600,000	5,600,000
April 17, 2008	P	8.450%	Can.	4,000,000	4,000,000
November 9, 2009	L	10.550%	Can.	6,000,000	6,000,000
September 12, 2012	Q	7.070%	Can.	5,000,000	5,000,000
September 12, 2017	R	7.270%	Can.	15,000,000	15,000,000
August 14, 2018	A2	6.550%	Can.	17,500,000	17,500,000
				<u>90,520,000</u>	<u>90,520,000</u>
June 1, 2002	F	8.375%	US	3,247,000	3,247,000
July 15, 2004	G	10.250%	US	2,341,000	2,341,000
January 15, 2006	H	14.310%	US	11,041,000	11,041,000
June 1, 2006	I	15.200%	US	3,660,000	3,660,000
July 1, 2007	J	15.600%	US	1,844,000	1,844,000
March 15, 2013	K	12.480%	US	967,000	967,000
				<u>23,100,000</u>	<u>23,100,000</u>
Adjustment to current exchange rate				10,241,000	12,536,000
				<u>33,341,000</u>	<u>35,636,000</u>
Total debentures				123,861,000	126,156,000
Royal Bank term loan repayable in monthly instalments of \$12,500 plus interest at 12.85% per annum, maturing June 20, 2001, secured by a general security agreement covering the assets of a subsidiary company				225,000	375,000
Obligations under capital leases (Note 15)				2,728,000	2,781,000
				<u>126,814,000</u>	<u>129,312,000</u>
Less amounts due within one year				572,000	605,000
				<u>\$126,242,000</u>	<u>\$128,707,000</u>

The debentures are unsecured and subject to the following redemption terms:

Series A to K	Not redeemable by the Company prior to maturity.
Series A2 and L to R	Redeemable at the Company's option at the higher of the Canada Yield Price (as defined below) and the principal amount plus accrued interest.

The Canada Yield Price is calculated to provide a yield to maturity equal to the Government of Canada Yield in effect at the date of redemption plus 0.5% in the case of the Series L to N debentures, 0.4% in the case of the Series O and P debentures, 0.2% in the case of the series Q and R debentures, and 0% in the case of the Series A2 debentures.

Principal payments required in each of the next five years are approximately as follows:

2000	\$ 572,000
2001	7,382,000
2002	4,925,000
2003	20,036,000
2004	5,834,000

Notes to the Consolidated Financial Statements

Year ended December 31, 1999

10. Income Taxes

A reconciliation of the combined statutory federal and provincial income tax rate in Canada to the effective income tax rate is as follows:

	1999	1998
Combined statutory income tax rate	43.8 %	43.8 %
Tax on large corporations	2.1 %	2.6 %
Amortization of provision for future losses (Note 11)	(0.7) %	(5.0) %
Allowance for funds on construction	(2.5) %	(1.5) %
Other	0.4 %	0.7 %
Effective income tax rate	<u>43.1 %</u>	<u>40.6 %</u>

Details of Northwestel Inc.'s income taxes are as follows:

Income Taxes		
Current	\$6,997,000	\$6,590,000
Deferred	2,916,000	433,000
	<u>\$9,913,000</u>	<u>\$7,023,000</u>

Deferred income taxes result principally from deductions for tax purposes, in respect of buildings, plant and equipment, in excess of amounts charged to operations.

11. Provision for Future Losses

Effective July 1, 1992, the Company acquired from Bell Canada its Eastern Northwest Territories operations and became responsible for the provision of telecommunication services to the Eastern Northwest Territories.

Bell Canada provided \$18,082,000 as compensation to the Company in recognition of provision for future losses to be incurred by the Company in servicing the Eastern Northwest Territories for the period ending in the year 2001. The Company will amortize this provision for future losses into income based on an annual application to be made to the CRTC.

For the year ended December 31, 1999, the Company amortized \$367,000 (1998 - \$2,000,000) of the provision for future losses into income leaving an unamortized balance of nil (1998 - \$367,000).

12. Preferred Shares

Authorized
Unlimited number of preferred shares

	1999	1998
Issued		
6,016 (1998 - 6,498) preferred shares (redeemable at \$1,000 per share)	<u>\$ 6,016,000</u>	<u>\$ 6,498,000</u>

The preferred shares are non-voting and bear an annual cumulative dividend rate of 5.54% to April 30, 2001, a floating monthly rate of 70% of Royal Bank of Canada prime from May 1, 2001 to July 1, 2001 and a floating monthly rate of Royal Bank of Canada prime thereafter. The shares are redeemable in whole or in part by the Company at any time after April 30, 2001 and retractable by the holders at any time after April 30, 1997 in whole or in minimum amounts of \$250,000. The preferred shares were issued on April 30, 1996 as part of a business acquisition. Due to the retractable terms of the shares, the Company is required to disclose them as a liability for financial reporting.

During the year, 482 preferred shares were redeemed. Of these, 341 were redeemed for cash proceeds of \$341,000 while the remaining 141 shares were redeemed as a result of an arbitration decision which reduced the consideration the Company provided on April 30, 1996 by \$141,000 as part of a business acquisition.

13. Common Shares

Authorized
Unlimited number of common shares without par value

	1999	1998
Issued		
874,232 common shares (1998 - 874,232)	<u>\$ 56,500,000</u>	<u>\$ 56,500,000</u>

Notes to the Consolidated Financial Statements

Year ended December 31, 1999

14. Net Change in Non-Cash Balances Relating to Operations

	1999	1998
Accounts receivable and contracts receivable	\$ (2,421,000)	\$ 868,000
Materials and supplies	(477,000)	402,000
Income taxes recoverable	700,000	(2,004,000)
Other current assets	563,000	909,000
Accounts payable	1,505,000	(2,173,000)
Customers' deposits	(168,000)	(70,000)
Dividends payable	(42,000)	(52,000)
	<u>\$ (340,000)</u>	<u>\$ (2,120,000)</u>

15. Commitments

Future minimum lease payments under non-cancelable operating and capital leases as at December 31, 1999 are as follows:

	Operating Leases	Capital Leases
2000	\$ 8,014,000	\$ 828,000
2001	2,364,000	641,000
2002	1,771,000	451,000
2003	1,386,000	276,000
2004	1,044,000	276,000
Thereafter	614,000	2,480,000
Total future minimum lease payments	<u>\$15,193,000</u>	<u>\$4,952,000</u>
Less amount representing interest at rates ranging from 5.9% to 13.2%		2,224,000
Present value of obligations under capital leases		2,728,000
Less current portion of obligations under capital leases		424,000
Long-term obligations under capital leases		<u>\$2,304,000</u>

16. Financial Instruments

Financial instruments consist of recorded amounts of receivables and other like amounts which will result in future cash receipts, as well as accounts payable, short-term borrowings and any other amounts that will result in future cash outlays.

Risk management

The financial risk is the risk to the Company's earnings that arises from fluctuations in interest rates and foreign exchange rates, and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to interest and foreign currency risk.

Credit risk

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The Company is exposed to credit risk from customers. However, the Company has a large number of diverse customers which minimizes concentration of credit risk.

Fair value

The estimated fair values approximate amounts at which these instruments could be exchanged in a current transaction between willing parties. Therefore, fair values are based on estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates which reflect varying degrees of risk. Therefore, due to the use of subjective judgement and uncertainties, the aggregate fair value amount should not be interpreted as being realizable in an immediate settlement of the instruments. As at December 31, 1999, the carrying value of financial instruments of the Company was not materially different than the estimated fair value at that date with the exception of the item summarized below.

	Carrying Value	Fair Value
Long-term debt	\$126,814,000	\$139,869,000

Notes to the Consolidated Financial Statements

Year ended December 31, 1999

17. Related Party Transactions

In the normal course of business, and under terms similar to transactions with unrelated parties, the Company has transactions with the parent company and its significantly controlled affiliates. Details of transactions conducted during the year were:

- a) purchased plant and equipment, satellite services, materials, directory services and supplies for approximately \$10,758,000 (1998 - \$10,764,000);
- b) incurred personnel, pension plan administration, treasury, training, and other administrative support services at a cost of approximately \$500,000 (1998- \$642,000);
- c) included in accounts payable is \$836,000 (1998 - \$439,000) owing to these companies; and
- d) included in accounts receivable is \$637,000 (1998 - \$453,000) due from these companies.

18. Supplementary Information to the Consolidated Statement of Cash Flow

Net cash flow arising from interest, dividends, and income taxes paid are as follows:

	1999	1998
Interest	\$13,934,000	\$14,015,000
Dividends	8,751,000	8,930,000
Income taxes	6,297,000	8,597,000

Capital expenditures

During the period, capital expenditures were made at an aggregate cost of \$31,041,000 (1998 - \$34,276,000) of which \$502,000 (1998 - \$876,000) were by means of capital leases. Cash payments of \$30,539,000 (1998 - \$33,400,000) were made to acquire capital assets.

19. Uncertainty Due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.

Northwestel Operating Area



Calling Cards

Northwestel continued its successful prepaid calling card program in 1999. The second series entitled "Wild North" features a series of animals which reflect Northwestel's

unique northern environment. The \$5 card features a caribou calf beside the Beaufort Sea, while the \$10 card shows a tundra wolf on the open barrenlands. The \$20 card features a polar bear and cub on the Hudson Bay sea ice, and the

\$50 card displays a bearded seal on the beach at Herschel Island. The cards can be used to make calls from any touch-tone phone in North America.

*Cover: Yukon Government (l), Earl Brown (bottom), Foto Flight, (top and r); Inside Front Cover: Up Here magazine (l), Robert Redshaw (r);
Page 2: Kevin Johnston (top), Roy Tanami, Ursus Photography (bottom); Page 3: Up Here magazine (l), Cathie Archbould (r);
Page 4: Up Here magazine; Page 5: Cathie Archbould; Page 6: Terry Parker; Page 7: Robert Redshaw (l), Up Here magazine (r); Page 8: Wayne Lynch;
Page 9: Cathie Archbould (top l & r), GNWT, (lower l), Up Here magazine (lower r)*

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