

Integration accelerates

Third quarter report

(Period ending September 30, 2001)

Aliant achieved strong growth in the third quarter in the face of increasing competition and a softening economy. Revenue and EBITDA both increased by 13% over the same period in 2000.

Reflecting our focus on continuing this solid performance and creating value for shareholders, we have announced two strategic initiatives to better position Aliant for sustained profitable growth in 2002 and beyond.

Aliant is implementing an aggressive plan to reduce costs and accelerate the ongoing consolidation of our operations to offset the anticipated effects of market conditions and recent negative regulatory changes in the telecommunications industry impacting 2002.

In a separate move to enhance our growth opportunities and maintain our leadership position in the telecommunications industry in Atlantic Canada, we are strengthening Aliant Telecom's ties with the Bell family. There are many ways for our companies to cooperate that will allow us to improve our services, to expand into new markets, and to enhance shareholder value.

With these strategic initiatives, we remain on track to meet our financial targets for 2001 and to achieve our growth objectives in the coming years.

FINANCIAL HIGHLIGHTS

In the third quarter, total revenues for Aliant Inc. increased to \$641 million from \$567 million in the third quarter of 2000. The gain was achieved primarily by growth in our remote communications line of business and by organic growth across all lines of business. For the year to date, Aliant's revenues increased 17% to \$1.9 billion compared with \$1.7 billion for the same period of 2000.

Total cash operating expenses before cost of revenues for the quarter were \$224 million compared with \$210 million for the third quarter of 2000. For the year to date, expenses increased 12% to \$713 million from \$639 million in the same period last year, primarily as a result of expanded operations from acquisitions made late in 2000.

Over the comparable period in 2000, EBITDA for the quarter increased 13% to \$250 million from \$221 million and for the year to date it increased 11% to \$712 million from \$641 million.

INTEGRATION ACTION PLAN

Aliant's management team is implementing an aggressive action plan to accelerate the second-stage efficiencies resulting from the successful merger that created Aliant Inc. Cost savings initiatives will result in a one-time charge in the fourth quarter of \$111 million. Management estimates pre-tax cost savings of approximately \$56 million annually, a level that will be reached in early 2002.

The \$56 million annual cost savings help offset a negative EBITDA impact of approximately \$66 million, anticipated in 2002. This expected decline is attributable to the Canadian Radio-Television and Telecommunications Commission's (CRTC) new contribution regime and cost subsidy rules.

INDIVIDUAL STRENGTH
TEAM PERFORMANCE



Financial highlights (dollars in millions)

	Three months		Nine months	
	2001	2000	2001	2000
Revenues	\$ 640.5	\$ 567.2	\$1,937.7	\$1,661.7
Cash operating expenses	\$ 390.8	\$ 347.9	\$1,225.9	\$1,022.1
EBITDA*	\$ 249.7	\$ 221.1	\$ 711.8	\$ 641.4
Net income applicable to common shares	\$ 43.6	\$ 58.9	\$ 119.8	\$ 157.9

* Earnings before interest, taxes, depreciation and amortization





Stephen Wetmore
President and Chief Executive Officer

Highlights this quarter include a strategic plan to position our company for future growth, accelerated integration of operations, stronger ties with Bell Canada to create new business opportunities, and continued strong financial performance (revenue and EBITDA both up 13%).

Our pro-active moves to realize accelerated synergies will position Aliant for continued strong performance. In spite of difficult economic and competitive conditions, this year we expect to achieve consolidated revenue and EBITDA growth in excess of 15%.

CLOSER TIES WITH BELL

While our companies currently enjoy a close working relationship, the Aliant merger has progressed to a stage where we can pursue further opportunities for both revenue enhancement and cost reductions with the Bell family. These initiatives, that will be put in place over the coming months, will allow us to create new growth opportunities for our companies, enable us to enhance our services and make our operations more efficient.

LINES OF BUSINESS

TELECOMMUNICATIONS

In the quarter, Aliant Telecom achieved solid performance with revenues increasing by 6% (before the impact of the CRTC contribution decision) or \$27 million over last quarter. Of this increase, \$15 million was the result of wireless and Internet revenue growth. In the quarter, telecommunications EBITDA increased 13% to \$228 million from \$201 million in the same period last year. Year to date EBITDA is \$642 million, reflecting a growth of 10%.

Despite the industry's challenging climate, the growth in Telecom is expected to remain steady in the fourth quarter keeping the Company on track to meet its target Telecom 2001 revenues of between \$1.85 and \$1.9 billion, and full-year EBITDA growth within its target range of 8-11% (\$850 to \$875 million).

To address the impact of recent regulatory changes, Aliant Telecom is introducing new pricing measures and taking aggressive steps – the most significant of which is the restructuring charge to accelerate its plans to realize further synergies from the integration of its operations.

EMERGING BUSINESS UNIT

Last year, emerging business benefited from a one-time software sale in the third quarter. These types of sales are intermittent in nature and have not been repeated this quarter. Therefore, year-over-year emerging business revenues have decreased by 30%. Excluding the one-time sales, on a year to date basis, revenues improved by 33%.

As a result of revenue reductions primarily in Innovatia's Interactive Knowledge division, guidance for 2001 has been revised to revenues of \$130 to \$150 million, down from \$200 to \$230 million. Management has revised EBITDA guidance for 2001 from between \$25 and \$30 million to between \$5 and \$10 million.

INFORMATION TECHNOLOGY

Aliant's information technology business, operated by its wholly

owned subsidiary, **xwave**, grew revenues by 8% in the third quarter, largely due to organic growth. **xwave** is on track to deliver expected 2001 revenues in the range of \$370 to \$390 million, an increase of 12-18% over 2000. However, higher operating expenses and less demand for systems integration services have resulted in an anticipated shortfall from **xwave's** target EBITDA. We are revising guidance for 2001 to between \$40 and \$45 million from between \$50 and \$55 million. Because management believes the economic conditions causing the slowdown in demand will persist for some time, it has implemented cost reduction measures.

REMOTE COMMUNICATIONS

Stratos Global Corporation, Aliant's 61%-owned remote communications business, was recognized this quarter as the top-ranked company on Deloitte & Touche's prestigious "Canadian Fast 50" program. As such, Stratos has been a key contributor to growth in revenue and EBITDA at Aliant in 2001. Year to date, improved gross margins and lower operating costs at Stratos contributed to expanded EBITDA margins of 22%. On October 1, Stratos announced workforce reductions due to both additional synergies from its acquisitions and slowing economic conditions.

DIVIDEND

The Board is committed to providing a regular return to shareholders. On October 22, Aliant's Board of Directors declared a common share dividend of \$0.225 per common share, and a preferred share dividend of \$0.340625 per preferred share, both are payable on December 30, 2001 to shareholders of record on December 14, 2001.

This quarter, Gerry Pond announced his intention to retire after 35 years in the telecommunications industry. He has given generously of his wisdom and vision and has propelled the industry forward through his leadership. Mr. Pond will remain with Aliant until the end of the year to assist with the transition.

In closing, I believe we have taken the right steps to ensure our company will continue to grow in spite of a slowing economy and a changing competitive environment. Management's willingness to take pro-active steps to maintain the financial strength of the company is part of the reason why your investment in Aliant is the right choice – for today and for the years ahead.

Yours sincerely,

Stephen Wetmore
President and Chief Executive Officer
October 23, 2001

Management's discussion and analysis

This document contains statements and information about potential future circumstances and developments. Such statements and information are qualified by any of the inherent risks and uncertainties surrounding future expectations generally and may differ materially from Aliant's actual future experience. Aliant disclaims any intention or obligation to update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise.

HIGHLIGHTS OF ALIANT'S THIRD QUARTER AND NINE-MONTH RESULTS

Aliant Inc. (Aliant or the Company) earned consolidated revenues of \$640.5 million for the third quarter of 2001, growing by 12.9% from \$567.2 million in 2000. Revenue growth has slowed from that seen in the previous two quarters, however, this pattern was anticipated as the acquisition growth included in the first half of the year will not continue its impact through the second half. Earnings before interest, taxes, depreciation and amortization (EBITDA) for the quarter was \$249.7 million compared with \$221.1 million for the third quarter of 2000, showing growth of 13.0%. The normalized EBITDA growth trend in the third quarter was actually 18.7% as the third quarter of 2000 included a \$10.7 million intellectual property sale. Aliant's 2001 earnings guidance issued on March 28 forecasted revenue and EBITDA growth in the 15-20% range. With year-over-year revenue growth of 16.6% and EBITDA growth of 11.0% for three-quarters of the year, management continues to expect to meet this guidance for the full year, but weakening general economic conditions will probably mean results will be closer to the lower end of the indicated range.

There are issues on the horizon that present challenges for the Company as 2002 approaches. As witnessed by slowing revenue growth, the economic environment has been deteriorating and there is an increasing likelihood that these softer conditions will persist into 2002. In addition, recent contribution and banding decisions by the CRTC will negatively impact financial results next year. The Company has announced an immediate action plan to reduce costs through an accelerated integration program across Aliant's operations, and by strengthening ties with parent Bell Canada Holdings.

Aliant is implementing an aggressive plan to reduce costs and accelerate the ongoing consolidation of its operations to better position the Company for continued solid performance. With the formation of Aliant in 1999, management initiated a plan to achieve significant operating synergy targets, which have all since been met or surpassed. There has also been significant progress in achieving synergies from acquisitions made by Aliant's lines of business over the last year. Even further long-term opportunities for efficiency and cost savings have been identified and plans made to reap these benefits over a number of years. The action being taken now is an acceleration of these long-term plans, advancing the pace of staff reductions and other restructuring initiatives

necessary across Aliant's lines of business to increase productivity and reduce operating costs. These measures will help defend against margin erosion in the face of anticipated regulatory impacts on Aliant Telecom in 2002 and slower growth that is now being seen in operating revenues. The cost of this further restructuring is estimated to be \$111 million on a consolidated basis and will be taken as a special charge against earnings in the fourth quarter. It is anticipated that the majority of this amount will be spent over the next three months on severance payments for employees and necessary systems changes to allow for the more efficient workforce. Annual operating expense savings of \$56 million will be realized, this run-rate being achieved early in 2002.

In a separate move to enhance growth opportunities and maintain Aliant Telecom as the leading Atlantic Canadian telecommunications company, it is strengthening ties with Bell Canada. There are many ways for the companies to cooperate to tap into additional synergies and additional revenue opportunities – a mutually beneficial move that will allow both companies to leverage assets, enhance product and service mix, and expand into new markets. Aliant anticipates implementing plans to realize these opportunities over the next several months. With these strategic initiatives, Aliant will remain on track to meet our financial targets for the year and will continue to drive growth in future years through more efficient and competitive operations.

Aliant is maintaining its year-end targets for capital investments, having already put in place much of the infrastructure necessary to expand and optimize its wireless and Internet protocol (IP) networks. These investments brought telecom capital spending to \$282.7 million for the first three-quarters of 2001, up from \$268.1 million in 2000. Capital expenditures in the telecom segment for 2001 will be in the range of \$375-400 million, with approximately half allocated to broadband and wireless infrastructure. This investment in broadband is critical to the future growth of Aliant – this IP network is required to meet the needs of high-speed Internet customers and deliver an enhanced line-up of applications, which are expected to significantly augment future revenues. Aliant does not expect the long-term growth in demand for broadband services to be dampened by the current economic slowdown, however short-term cutbacks in consumer spending may slow the growth in demand for such premium services for a time.

Throughout 2001 Aliant has been implementing its plan to strengthen its balance sheet and remove costs to prepare for the possibility of an economic downturn. Management believes the improved financing and operating leverage position will enable Aliant to weather the current conditions without severe adverse effects on the Company's financial results. Prior acquisitions and capital investment are impacting Aliant's 2001 earnings through higher interest, depreciation and goodwill amortization charges. Management reiterates its guidance that 2001 consolidated depreciation and amortization expense will increase by \$75-80 million over 2000 and interest expense will be \$35-40 million higher.

Impact of contribution regime changes (millions of dollars)

	Quarter ended September 30, 2001	Nine months ended September 30, 2001
Decreased local revenues	\$ (2.0)	\$ (10.3)
Decreased long-distance revenues	(5.4)	(16.5)
Total revenue impact	(7.4)	(26.8)
Decreased settlement expense	(2.3)	(8.9)
Decreased contribution expense	(9.2)	(32.7)
Total cost of revenues impact	(11.5)	(41.6)
Net EBITDA impact	\$ 4.1	\$ 14.8

The non-recognition of tax benefits associated with the current operating losses of Aliant's 61%-owned subsidiary, Stratos Global Corporation (Stratos Global) is also resulting in lower reported net income in 2001. The future tax benefit of Stratos Global's operating losses, if recognized, would have led to a reduction in the consolidated tax provision of approximately \$14.5 million year-to-date (\$4.8 million for first nine-months of 2000) and increased Aliant's net income by its proportionate share, or approximately \$8.9 million year-to-date (\$2.9 million in 2000).

Consolidated net income applicable to common shares was \$43.6 million, or \$0.32 per share in the quarter, compared with \$58.9 million and \$0.44 per share for the third quarter of 2000. Year-to-date earnings are \$0.89 per share compared with \$1.20 per share last year. Following is a discussion and analysis of the results and this quarter's developments in the operating environment for each line of business.

TELECOMMUNICATIONS

The telecommunications line of business is comprised of the operations of Aliant Telecom, its subsidiaries and Aliant's telephone directory publishing business. Telecommunications revenues increased 4.5% in the third quarter of 2001 to \$464.9 million with trends consistent throughout the first three-quarters of this year. This rate of increase was achieved through continued strong growth in wireless and Internet revenues and stable results from local and long-distance revenues despite the negative impact on these revenues from a regulatory change as discussed below. Telecom revenues for the first three-quarters of \$1.4 billion have increased 5.6% and remain on track to meet the expected range of \$1.8 to \$1.9 billion for the full year.

EBITDA increased a strong 13.2% from \$201.4 million in the third quarter of 2000 to \$228.1 million in 2001, improving on the growth experienced in the first half of the year. EBITDA margins showed continued strength at 49.1% for the quarter. Telecom EBITDA year-to-date has increased 9.7% to \$642.1 million. With stable growth expected to continue over the fourth quarter, Aliant's telecom segment is on-pace to achieve its targeted full-year EBITDA growth in the 8-11% range.

Revenues for the quarter and year-to-date are negatively impacted, while EBITDA is positively impacted, by changes to the contribution regime required by the Canadian Radio-television and Telecommunications Commission (CRTC or the Commission). Effective January 1, 2001, all service providers must pay a flat 4.5% tax on certain of their telecommunications revenues into a national contribution pool. Local service providers are then able to draw from the pool to help offset the costs of providing basic local services in high-cost areas. These changes have reduced Aliant Telecom's revenues by \$7.4 million for the quarter and \$26.8 million year-to-date. Without this, revenue growth would have been 6.1% quarter-over-quarter and 7.7% year-to-date. Related costs of revenues are also being reduced as a result of implementing the decision, with the decrease in costs more than offsetting decreased revenues. The positive impact for 2001 EBITDA associated with the change in net contribution pool revenues is expected to be approximately \$19 million. The impact for the quarter and year-to-date is detailed in the table on page 3.

Any positive impact from the contribution decision will affect the current year only, as starting in 2002 expected changes to the calculation of the cost of service will lower the net contribution amount that Aliant Telecom will be eligible to receive. Earlier in the year the CRTC announced its "banding" decision, defining high-cost service areas. As a result of this decision, there will be a significant reduction in the amount of net subsidy Aliant Telecom will receive in 2002. The combined effects of the contribution and banding decisions are anticipated to reduce Aliant Telecom's net subsidies, and therefore EBITDA, by approximately \$66 million in 2002 (compared with 2001). Pricing measures taken this year should reduce this EBITDA gap to approximately \$40 million, the remainder necessitating a redesign of Aliant Telecom's cost structure. Work processes in operations and corporate support functions are being restructured, further rationalization of common infrastructure will occur and service points will be improved through on-line channels where possible. The special charge that will be taken in the fourth quarter (\$71 million related to telecom) will provide for planned staff reductions. Annual expense savings of an estimated \$31 million will be reached in early 2002, with a payback period for the charges of approximately two years.

Telecommunications operating results (thousands of dollars)

	Quarter ended September 30			Nine months ended September 30		
	2001	2000	% change	2001	2000	% change
Local	\$ 219,341	\$ 209,102	4.9	\$ 649,463	\$ 635,290	2.2
Long distance	100,392	110,091	(8.8)	306,587	330,121	(7.1)
Wireless	68,317	59,898	14.1	183,814	157,079	17.0
Other	76,887	65,977	16.5	237,355	181,410	30.8
Total revenues	464,937	445,068	4.5	1,377,219	1,303,900	5.6
Cost of revenues	57,698	66,000	(12.6)	177,182	186,138	(4.8)
Net operating revenues	407,239	379,068	7.4	1,200,037	1,117,762	7.4
Operating expenses	179,167	177,644	0.9	557,943	532,236	4.8
EBITDA	228,072	201,424	13.2	642,094	585,526	9.7
Depreciation and amortization	86,140	72,455	18.9	261,865	230,150	13.8
Operating income	\$ 141,932	\$ 128,969	10.1	\$ 380,229	\$ 355,376	7.0

Telecommunications operating statistics

For the quarter ended and as at September 30	2001		2000		% change
	% market share*	Number	% market share*	Number	
Network access services (NAS)					
Residence	98.4	944,959	99.5	953,730	(0.9)
Business	96.5	614,301	97.5	605,020	1.5
Cellular customers	75.0	450,134	74.6	357,928	25.8
Internet customers					
Dial-up	69.4	187,058	66.0	164,000	14.1
High-speed	61.8	61,111	49.5	27,303	123.8
Long-distance minutes (in thousands)	87.5	849,438	87.5	807,523	5.2

* Estimated

REVENUES

Local

Local revenues are earned through the provision of voice and data network access, telephone set rentals, enhanced service options and contribution payments. Total local revenues increased by 4.9% to \$219.3 million for the third quarter and by 2.2% to \$649.5 million for the first three-quarters of 2001. Without the loss of revenues from the January 1 implementation of the CRTC contribution changes, local revenues would have increased 5.9% for the quarter and 3.9% year-to-date.

Local voice NAS revenue for the quarter increased by 2.3% to \$116.3 million as residential price increases implemented during the second and third quarters this year took effect. Management estimates these price increases will add \$4-5 million to local revenues this year, and \$10-12 million in 2002. NAS growth has slowed (0.03% increase over September 30, 2000) with some small market share losses earlier this year, however Aliant Telecom's overall market share for local services remains strong and unchanged from the previous quarter at 98%. CRTC proceedings are currently underway to consider a proposal by Aliant Telecom for potential price increases for customers in rural communities. These price increases are desired to better offset the cost of providing access services in these areas, a move that is precipitated by the loss of subsidies from contribution payments in 2002.

Data access revenues increased to \$24.5 million for the quarter, showing growth of 4.4% as solid growing demand for data circuits is being offset by price reductions. Although data access revenues show modest growth due to price reductions (up 4.0% year-to-date), the growing importance of data overall is seen in the significant increases in Internet and e-commerce revenues.

Revenues from enhanced local service options increased 18.0% to \$22.1 million for the quarter, a combined result of price increases earlier this year and continued growth in penetration of bundled services. The growth of acceptance of bundled service offerings is slowing as penetration, now at approximately 27% amongst residential customers, will reach a saturation point. Business customer penetration, at approximately 2%, is still expected to grow rapidly as new bundled offerings have recently been introduced. Terminal rental revenue declined \$0.2 million, or 1.1%, compared with the third quarter of 2000 due to the continued conversion of the rental set base to outright sales.

Long distance

Aliant Telecom's minute volumes in the third quarter increased by 5.2% from 807.5 million in 2000 to 849.4 million in 2001. This brings year-to-date minute volumes to 2.6 billion, up 6.7% from the first three-quarters of 2000. The large base of call-centre customers located in the Atlantic region continues to be a significant driver of minute growth in the toll-free market. Bundled service offerings, including a flat-rate long-distance component, continue to drive up calling volumes in the residential market.

Lower average per-minute prices continue to offset the impact of demand growth on long-distance revenues. Before considering the changes to toll settlement rates required under the new CRTC contribution regime, long-distance revenues declined 3.9% for the third quarter and 2.1% year-to-date. With the reduction in toll settlement rates resulting from the contribution decision, there was a year-over-year decline in third-quarter long distance revenues of

8.8% and a decline in the year-to-date revenues of 7.1%.

Wireless

Aliant Telecom's wireless business continued its steady strong growth, resulting in increased revenues of 14.1% compared with the third quarter last year and 17.0% growth year-to-date. Aliant maintains an industry-leading market share for cellular services, and continued new demand for these services is being reflected in customer growth. Aliant's cellular customers numbered over 450,000 at September 30, 2001, representing growth of 25.8% over the last year and encompassing a 234% increase in digital subscribers. This growth is being accomplished while maintaining lower-than-average customer churn rates and customer acquisition costs. Customer churn has averaged 1.5% per month through the first nine months of 2001, unchanged from 2000 levels.

Part of the growing demand for cellular services, including new digital services, is being stimulated by declining overall prices. The greater penetration of cellular service in the population therefore leads to lower average revenues per customer, which declined by 7.9% to \$44.94 per month during the first nine months of 2001 compared with \$48.80 per month for the same period last year. Also, the softening economic conditions may have a moderating affect on new cellular customer growth as, unlike wireline services, these services are still considered to be somewhat a discretionary item in consumer budgets. This may also negatively impact churn rates and customer acquisition costs. Operating cost reduction measures will mitigate these negative factors and help to preserve wireless EBITDA margins.

Other

Other telecommunications revenues are derived from Internet services, telephone directory advertising, equipment sales, consulting services and new services such as *VibeVision* – Aliant Telecom's interactive digital television offering. Total other revenues were up \$10.9 million, or 16.5% for the third quarter, and \$55.9 million or 30.8% so far in 2001.

Internet services continued to generate tremendous growth over the past year as the number of Aliant Telecom's high-speed customers increased by 124% to 61,111 and the number of regular dial-up customers grew by 14% to 187,058. Revenues from Internet services increased 47.0% to \$20.9 million for the third quarter, leading to 44.3% growth year-to-date. Directory advertising revenues were \$9.0 million, up 9.7% from the third quarter of 2000. Outright sales of telecom equipment increased only 1.8% to \$26.9 million for the quarter. Growth in cellular set sales by Aliant Telecom's 50% subsidiary, Atlantic Mobility Products Limited and sales of call centre switching equipment was offset by the significant one-time sales of traditional telecom equipment that occurred in the third quarter last year. The \$3.0 million or 17.3% increase in other miscellaneous revenues is a result of strong growth in newer services such as e-commerce, operating an Internet help-desk, digital television services and the export of call centre services. This growth is offset by a \$1.9 million reduction in pole rental revenues during the quarter as 2001 revenues from Newfoundland poles were transferred to Newfoundland Power on the closing of the pole sale transaction.

EXPENSES

Cost of revenues

Cost of revenues includes cost of goods sold, contribution payments and settlement costs paid to other telecommunications carriers to transit and terminate long-distance calls originating on

Other revenue detail (thousands of dollars)

	Quarter ended September 30			Nine months ended September 30		
	2001	2000	% change	2001	2000	% change
Internet	\$ 20,911	\$ 14,228	47.0	\$ 57,089	\$ 39,572	44.3
Product sales	26,869	26,398	1.8	81,920	64,038	27.9
Directory revenues	9,002	8,206	9.7	34,966	33,200	5.3
Other miscellaneous	20,105	17,145	17.3	63,380	44,600	42.1
	\$ 76,887	\$ 65,977	16.5	\$ 237,355	\$ 181,410	30.8

Aliant Telecom's network. The 12.6% decrease in cost of revenues compared with the third quarter of 2000 reflects the impact of lower contribution and settlement payments, partially offset by higher cost of product sales.

Cost of product sales in the third quarter increased by \$3.9 million or 13.7%, related to the growth in revenues from equipment sales plus the costs of operating the Internet help-desk. Contribution costs were lower by \$10.5 million for the quarter and by \$34.0 million for the first nine months, reflecting the lower contribution required by the new CRTC decision. Settlement expense for calls terminating on other companies' networks was lower by \$1.7 million compared to the third quarter of 2000 and down \$8.3 million for the three-quarters. This decline continues to be caused by lower settlement rates, also as a result of the CRTC contribution decision.

Depreciation and amortization

Telecommunications' depreciation and amortization expenses were up \$13.7 million for the quarter and \$31.7 million for the first three-quarters compared to last year. The combined effects of higher capital expenditures in 2000 and 2001 and a conservative approach to depreciating plant and equipment contributed to the increased expense. The focus of capital spending has shifted away from the traditional voice network and toward the broadband and wireless areas with their higher revenue-growth potential.

Aliant Telecom has closed the transaction for the sale of most of its telephone poles in Newfoundland to Newfoundland Power. Under the terms of the sale agreement, Aliant Telecom realized proceeds of \$23 million on closing, with an additional \$23 million to be received between 2002 and 2005. Without the ownership of the poles, future depreciation expense and interest charges will be reduced, however attachment fees paid to Newfoundland Power for access to the poles will be an operating expense. While negative on an EBITDA basis, the transaction is positive economically to Aliant as it both frees capital otherwise committed to legacy infrastructure and results in a more efficient operating arrangement for poles.

Other operating expenses

Other telecommunications operating expenses increased only \$1.5 million or 0.9% for the quarter, bringing the year-to-date growth rate to 4.8%. These expenses include salaries and benefits, property expense, direct operating expenses and other general corporate expenses. Salaries and benefits increased \$9.4 million for the quarter primarily due to increased pay rates for both unionized and non-unionized employees in 2001 and lower salary costs charged to capital as the capital spending program was more heavily weighted to the first half of 2001. Year-to-date salaries and benefits have increased \$20.9 million or 9.6%. Cellular roaming costs continued to rise as well, up \$1.4 million for the quarter and \$4.2 million year-to-date related to growth in revenues. Higher power and fuel costs have added \$1.0 million to the quarter's expenses, and \$2.9 million over nine months. Most other general and administrative operating expenses combined for an overall quarter-over quarter decrease as efficiency gains continue to be realized.

INFORMATION TECHNOLOGY

Aliant's information technology (IT) line of business is operated by its wholly-owned subsidiary, Xwave Solutions Inc. (**xwave**). As a result of both organic growth and one acquisition made during the fourth quarter of 2000, **xwave**'s third quarter revenues increased by \$6.3 million or 8.0% to \$85.3 million. With year-to-date revenue growth of 18.9% to \$286.2 million, **xwave** is on track to deliver the expected full-year 2001 revenues in the range of \$370-\$390 million, an increase of 12-18 % over 2000.

Revenue growth in the third quarter slowed considerably compared with the pace of the first half of the year. Slower growth in the higher-margin IT services business, combined with higher operating expenses and lower utilization levels of IT resources have led to lower EBITDA margins year-to-date. As a result, management now expects to fall short of the previously issued guidance range of \$50-55 million for EBITDA. Lower utilization levels are primarily due to slowing demand for systems integration services industry-wide over the past nine months, and will lead to a \$40 - \$45 million EBITDA range for 2001.

Despite the slowdown in sales, **xwave** expects to be able to achieve improved EBITDA margins going forward as synergies from integrating its various acquired and merged operations come into effect. The integration that has already taken place this year, combined with further measures to be implemented in the fourth quarter will strengthen **xwave**'s position for 2002. **xwave** has chosen to take a one-time charge in the fourth quarter (\$28 million) to provide for severance and other restructuring initiatives to meet these goals. The full annual expected rate of savings of \$20 million from this restructuring is anticipated to be achieved by the end of 2002.

In the third quarter organic growth accounted for approximately \$4.8 million, or 6.1% growth over the third quarter of 2000, while an estimated \$1.5 million of the increase is attributable to acquisitions. **xwave** continues to be an important supplier to other Aliant companies, especially to Aliant Telecom as it makes significant investments in network systems and accelerates its operating efficiency programs. However, external sales growth is outpacing **xwave**'s sales to other Aliant lines of business, thereby resulting in Aliant's consolidated IT revenues increasing 6.8% for the quarter and 20.0% year-to-date, as presented in note 12 to Aliant's consolidated financial statements. Sales made to other Aliant lines of business have increased 7.5% for the quarter and 16.4% year-to-date.

Revenues from IT consulting, technical support services and data processing services grew by 0.4% to \$56.3 million for the third quarter – reflecting both the organic trend and the acquisition of TechKnowledge Inc. in December 2000. Product sales from **xwave**'s IT fulfillment business grew more significantly, 26.5% to \$29.1 million for the quarter, all due to organic growth. The gross margin on product sales decreased from 8.8% for the third quarter of 2000 to 8.3% for the third quarter of 2001. Year-to-date gross margins are 9.4% compared with 9.0% last year.

REMOTE COMMUNICATIONS

Aliant's remote communications line of business is represented by its 61% ownership of Stratos Global. Stratos Global's results in 2001 are

Information technology operating results (thousands of dollars)

	Quarter ended September 30			Nine months ended September 30		
	2001	2000	% change	2001	2000	% change
Services	\$ 56,262	\$ 56,041	0.4	\$ 184,834	\$ 168,827	9.5
Product sales	29,054	22,968	26.5	101,388	71,866	41.1
Total revenues	85,316	79,009	8.0	286,222	240,693	18.9
Cost of product sales	26,633	20,944	27.2	91,904	65,393	40.5
Net operating revenues	58,683	58,065	1.1	194,318	175,300	10.8
Operating expenses	52,096	48,507	7.4	168,085	144,536	16.3
EBITDA	6,587	9,558	(31.1)	26,233	30,764	(14.7)
Depreciation and amortization	4,562	3,170	43.9	11,695	9,760	19.8
Operating income	\$ 2,025	\$ 6,388	(68.3)	\$ 14,538	\$ 21,004	(30.8)

significantly impacted by its December 31, 2000 acquisition of British Telecommunications plc's Aeronautical and Maritime Division (BT A&M), approximately doubling the company's size. During the first three-quarters of 2001 Stratos Global has worked to effectively integrate and consolidate the BT A&M operations. To date the integration is progressing on track and Stratos Global expects to meet all plan milestones for the balance of the year. Stratos Global completed a total of four acquisitions in 2000. Synergies being gained as a result of these integration efforts, as well as a slowing global economy, have resulted in a decision by Stratos Global to make further staff reductions, beyond those that were estimated and provided for at the time of the acquisition. Therefore, Stratos Global has taken a US\$1.2 million one-time charge in the third quarter to allow for additional severance and restructuring costs. Annual savings are US\$3.8 million, a run rate that was achieved effective October 1, 2001.

The \$65.4 million increase in third-quarter revenue from remote communications, and the \$196.2 million increase year-to-date, can be attributed to the four acquisitions Stratos Global made in 2000 and organic growth in the business. The base of business in Stratos Global's telecommunications services, as it existed prior to the BT A&M acquisition, has shown organic growth of an estimated 11% for the third quarter of 2001 compared with the third quarter of 2000, and 12% year-to-date. There was an increase of approximately \$193 million in year-to-date revenues from telecommunications services (\$61 million increase in the third quarter) and a \$3 million increase in network equipment and terminal sales (\$4 million increase in the third quarter).

Gross margin as a percentage of revenue increased to 37.7% for the nine-months ended September 30, 2001 compared to 28.3% for same period in 2000, resulting in a 244.6% increase in net operating revenues. The higher gross margin is attributable to both an improvement in margins in the pre-acquisition business and higher margins in the businesses that were acquired.

Despite the significant increase in scale of Stratos Global's business as a result of the acquisitions, remote communications operating expenses for the quarter increased by only \$3.3 million, evidencing the realization of significant operating synergies in the expanded operations. Operating expenses as a percentage of revenue have declined from 23.9% for the first three-quarters of 2000 to 15.4% so far in 2001. The improved gross margins and lower operating cost percentages have contributed to significant growth in EBITDA this year. EBITDA for the year-to-date has increased by \$66.1 million to \$71.5 million. EBITDA margins improved from 4.3% of

revenue in 2000 to 22.3% of revenue for the first nine months of 2001.

Depreciation expense and goodwill amortization increased \$8.5 million in the quarter, and \$28.7 million year-to-date, due to the 2000 acquisitions. The rise in these expenses, combined with added interest costs and non-recognition of tax benefits for current operating losses, is negatively impacting Stratos Global's bottom line results in 2001. Stratos Global announced a third quarter net loss of US\$4.8 million compared with a US\$6.5 million loss in the third quarter of 2000. These net losses do not reflect the tax benefit of current operating losses.

EMERGING BUSINESS

Aliant's emerging business is made up of the following operating subsidiaries: 100%-owned Innovatia Inc. (Innovatia), 92%-owned Prexar LLC (Prexar) and 57%-owned AMI Offshore Inc. (AMI). Innovatia is focused on the research and development of Internet-based services for broadband networks. Prexar is an Internet services provider operating in the northern New England States. AMI provides process and systems control technical services, logistics and supply chain management and contract manufacturing solutions to the offshore oil and gas and other industries.

Aliant's emerging business revenues decreased 30.2% to \$28.4 million in the third quarter compared to the same period last year, and are down 2.8% to \$102.4 million year-to-date. Emerging business is less predictable than the other lines of business in delivering revenue, EBITDA and net earnings on a quarterly trend basis. Its revenues are derived from a combination of licensing, subscription, transaction and consulting revenues, which have a reasonable degree of consistency, and from the sales of software, intellectual property and joint developments, which are less predictable in terms of timing and magnitude. For those investments considered core to the business, sales are treated as revenues. There have been a number of investment sales, particularly in 2000, which distort year over year comparisons. First quarter 2000 revenues contained a \$7.8 million sale of intellectual property and second quarter 2000 contained \$9.1 million in revenues on the sale of Connectivity. The third quarter of 2000 contained \$10.7 million in revenue on the sale of software. Soft market conditions in 2001 for technology and telecommunications have affected Aliant's ability to realize appropriate value from sales of its intellectual property offerings. This is expected to only be a delay in realizing revenues, as the sales cycle is lengthened. Recurring revenue streams (excluding these sales items) show year-to-date growth of \$24.6 million, or 31.6%.

Remote communications operating results (thousands of dollars)

	Quarter ended September 30			Nine months ended September 30		
	2001	2000	% change	2001	2000	% change
Revenues	\$ 110,831	\$ 45,420	144.0	\$ 320,390	\$ 124,184	158.0
Cost of revenues	69,607	33,334	108.8	199,483	89,097	123.9
Net operating revenues	41,224	12,086	241.1	120,907	35,087	244.6
Operating expenses	15,091	11,761	28.3	49,406	29,695	66.4
EBITDA	26,133	325	—	71,501	5,392	—
Depreciation and amortization	13,719	5,226	162.5	41,680	13,028	219.9
Operating income (loss)	\$ 12,414	\$ (4,901)	—	\$ 29,821	\$ (7,636)	—

Emerging business operating results (thousands of dollars)

	Quarter ended September 30			Nine months ended September 30		
	2001	2000	% change	2001	2000	% change
Revenues	\$ 28,433	\$ 40,743	(30.2)	\$ 102,425	\$ 105,369	(2.8)
Cost of revenues	13,179	17,218	(23.5)	44,978	42,334	6.2
Net operating revenues	15,254	23,525	(35.2)	57,447	63,035	(8.9)
Operating expenses	18,752	12,448	50.6	62,143	34,954	77.8
EBITDA	(3,498)	11,077	—	(4,696)	28,081	—
Depreciation and amortization	2,058	673	205.7	5,203	3,026	72.0
Operating income (loss)	\$ (5,556)	\$ 10,404	—	\$ (9,899)	\$ 25,055	—

Management now anticipates that the 2001 revenue target of \$200-230 million and EBITDA target of \$25-30 million for emerging businesses will not be met, although the impact will not materially affect the realization of Aliant's consolidated targets. Revenues of \$130-150 million are now expected for 2001. Compensating adjustments in operating expenses have been made to reduce the impact of the revenue shortfall, resulting in an expectation of positive EBITDA of \$5-10 million by the end of the year. These changes in cost structure have had to be made rapidly due to the dramatic downturn in the technology industry and its impact on the emerging business group's customers and demands for its products and services. The economic downturn has abruptly slowed revenue growth in all emerging business segments (revenues down 20.5% in the third quarter of 2001 compared with the second quarter), however immediate corrective action has decreased costs quarter-over-quarter by 22.5%. The full impact of the cost containment measures will continue into the fourth quarter and 2002 and, with the further restructuring measures being taken, will offset revenue declines. The restructuring will result in staff reductions at Innovatia and a special charge of \$1.6 million taken in the fourth quarter. An inventory write-off will result in an additional one-time charge of \$5.5 million, bringing the total emerging business charge to approximately \$7.0 million.

This year Innovatia has seen its revenues increase 66.0% to \$30.1 million. This is driven by the early-stage revenues associated with the first of two e-learning contracts with Nortel Networks Corp. (Nortel). Expectations for these contracts have had to be adjusted given the current downturn in the global telecom sector and the resulting sales challenges being faced by Nortel, however cost reduction efforts are being made to balance any negative or delayed-revenue consequences. The revenue value of these two contracts is now expected to be down 25-35% from the original 5-year estimate of \$350-million. The contracts should offer EBITDA margins of approximately 30%. The DMS contract started in September 2000, while the second contract in support of Nortel's UMTS portfolio should begin to generate revenue in the fourth quarter of this year.

Prexar's acquisition of six Internet service providers since August 1, 2000 has given it a significant market presence in New England, with Internet access customers numbering 31,879 at September 30, 2001 and year-to-date revenues of \$12.0 million. This is an increase of \$9.6 million over the first three-quarters of 2000. In the third quarter, Prexar's revenues increased \$1.7 million to \$2.7 million.

AMI's revenues have grown 4.2% to \$57.6 million year-to-date. For the third quarter, revenues of \$17.5 million are down 19.3% from the third quarter last year. AMI's sales in its contract manufacturing business, NewTech, are also being impacted by the downturn in telecom equipment purchasing.

Year over year the operating expenses have increased significantly in both Innovatia and Prexar, reflecting the change in sales mixes of the businesses, as well as the up-front costs associated with their start-up situation. However, expense growth has slowed during the third quarter due to the cost containment initiatives that have already been implemented.

OTHER CONSOLIDATED RESULTS

OTHER INCOME

Aliant's other income (losses) decreased from \$2.3 million in the

third quarter of 2000 to a loss of \$7.2 million for the same period in 2001. Other income includes gains and losses on sales of assets and investments and Aliant's share of earnings and losses in equity-accounted investments. Miscellaneous investment income earned in the quarter was offset by \$1.9 million in costs incurred by Stratos Global in transitioning operations of BT A&M and \$1.6 million for Aliant's share of losses in equity-accounted investments. Year-to-date there is a loss of \$11.0 million compared to income of \$5.7 million in the first three-quarters of 2000.

INTEREST EXPENSE

Consolidated interest expense increased from \$30.0 million in the third quarter of 2000 to \$38.8 million in the third quarter of 2001; year-to-date the increase is from \$91.6 million to \$122.9 million. Higher debt levels related to the acquisitions made by Stratos Global in 2000 drive this increase. Stratos Global's additional debt led to an \$11.3 million increase in Aliant's consolidated interest charges when compared to the third quarter of 2000 and a \$37.3 million increase year-to-date. As capital market conditions improve, Stratos Global will seek an opportunity to refinance this debt and reduce future interest costs.

Interest expense in the telecommunications line of business was reduced by \$0.5 million during the first three-quarters of 2001. This decline is primarily due to Aliant Telecom reducing its overall debt levels during 2001. Also, the refinancing of higher-cost debt issues in recent years has been reducing Aliant Telecom's average interest rates on its long-term debt. There is a \$0.5 million non-cash component to Aliant Telecom's 2001 interest expense as four long-term bond issues have been called prior to their maturity. This represents prior years' unamortized issue discounts being recognized in interest expense this year as these bond issues are refinanced.

The combined interest expense in all other lines of business and on holding company borrowings has declined overall in the last year. The issuance of \$175 million in preferred shares by Aliant during the second quarter and the application of the net proceeds to reducing debt is having a mitigating impact on interest costs. Aliant's consolidated interest coverage ratios for the twelve-month periods ended September 30, 2001 and September 30, 2000 were 3.5 times and 4.7 times, respectively. The lower coverage is a result of the growth in net operating income being more than offset by higher interest expense.

TAXES

Aliant's consolidated income tax provision increased by 1.6% from \$52.4 million in the third quarter of 2000 to \$53.2 million in 2001, and by 0.8% from \$139.0 million in the first three-quarters of 2000 to \$140.2 million so far in 2001. This was despite a decline in net income before income taxes. Notwithstanding a decline in the statutory combined tax rates, the effective tax rate appears higher in 2001 due to the non-deductibility of certain expense items, like increased amortization of goodwill, for tax purposes and the operating losses of Stratos Global, for which the future tax benefit is not currently being recognized.

LIQUIDITY AND CAPITAL RESOURCES

OPERATING ACTIVITIES

Aliant's operating cash flow for the third quarter of 2001, before changes in working capital, was \$155.6 million, up 30.5% from the same period in 2000. This increase is primarily due to increased cash earnings

Capital expenditures (thousands of dollars)

	Quarter ended September 30			Nine months ended September 30		
	2001	2000	% change	2001	2000	% change
Telecommunications	\$ 66,653	\$ 106,225	(37.3)	\$ 282,727	\$ 268,124	5.5
Information technology	5,783	2,598	122.6	10,953	6,896	58.8
Remote communications	7,478	2,374	215.0	15,974	13,693	16.7
Emerging business	9,212	2,126	333.3	29,090	4,815	—
Other	932	202	361.4	1,158	833	39.0
Total capital expenditures	\$ 90,058	\$ 113,525	(20.7)	\$ 339,902	\$ 294,361	15.5

from operations and changes in non-cash items such as pension costs and deferred taxes, which affected net income in the quarter. Year-to-date operating cash flow before working capital changes increased 13.0% to \$443.1 million. Management's focus to improve working capital balances continued to see results in the third quarter. Working capital balances were improved by \$43.4 million during the third quarter, bringing growth in working capital to \$83.9 million year-to-date compared with \$109.9 million in 2000. This contributed to an increase in Aliant's net cash flow from operations of 27.2% to \$359.2 million year-to-date.

INVESTING ACTIVITIES

Aliant's consolidated net capital expenditures were \$90.1 million in the third quarter and \$339.9 million year-to-date. This represents a 20.7% decrease over the third quarter last year, but 15.5% growth for the first nine months. Both these trends are primarily attributable to variation in spending in the telecommunications business. Aliant Telecom accelerated its significant investments in broadband and wireless networks during the latter part of 2000 and first quarter of 2001 in order to meet customer demand for high-speed Internet, digital television and cellular services. The 2001 plan for expansion of high-speed Internet has been refocused to service needs in the major urban areas, concentrating on increasing penetration rather than geographic coverage. The 124% increase in Aliant's high-speed Internet customers and increased market share is evidence of both the strong demand for these services and Aliant's success in meeting those demands. Investment is also being made in 2001 to expand the coverage of digital wireless services to 48% of the population, to transition customer contact points to new web-based self-serve applications and to acquire additional PCS spectrum. Similar to the trend seen in the second and third quarters, capital spending will slow down through the remainder of 2001, bringing Aliant Telecom's total capital spending for the year to \$375-400 million.

In the other lines of business capital spending increased during the quarter. Stratos Global's capital spending reflects the expanded operations after last year's acquisitions, while higher expenditures in IT are related to **xwave's** office space consolidation and related costs. In the emerging business segment Prexar is investing in its high-speed Internet network in New England and Innovatia is investing in the e-learning content being developed to meet its contract requirements to Nortel.

FINANCING ACTIVITIES

Telecommunications

Aliant Telecom retired three debt issues totaling \$135 million during the quarter: (i) on July 23rd a maturing debenture for \$55 million was repaid; (ii) on August 2nd a \$50 million mortgage bond issue was redeemed and (iii) on September 24th a \$30 million debenture was redeemed. This long-term debt repayment was financed through a combination of cash from operations, short-term financing from Aliant and proceeds from the sale of Newfoundland poles. These issues were not re-financed with additional long-term debt as it is anticipated Aliant Telecom's free cash flow over the next year will be sufficient to repay the temporary increased indebtedness to Aliant.

Information technology

xwave's use of short-term debt decreased by approximately \$6.5 million in the third quarter, bringing the year-to-date decrease in net

debt to \$3.5 million. The decline this quarter was a result of continued successful efforts to improve working capital balances.

Remote communications

There were no significant financing activities by Stratos Global during the quarter, but year-to-date \$25 million of debt was repaid on the bridge loan facility put in place to finance the BT A&M acquisition. Aliant has guaranteed US\$150 million of Stratos Global's obligations under the debt facilities put in place to complete the BT A&M acquisition. The guarantee by Aliant assisted Stratos Global in securing the necessary financing. Stratos Global's credit facilities contain various covenants relating to future financial results. Stratos Global is currently meeting all of its financial covenant requirements and in the second quarter received a six-month extension of its bridge loan facility to January 2003.

Corporate financing

Aliant issued \$24.2 million in common equity during the quarter by way of its employee share purchase plan, dividend reinvestment plan (DRP) and the exercise of options under its employee stock option plan. Total dividends paid by Aliant to its common shareholders in the third quarter rose from 2000 levels due to the increased number of shares outstanding. Aliant maintained its common dividend payment rate per share at \$0.225 for the quarter. Aliant also paid preferred share dividends, which totaled \$2.4 million for the quarter.

Aliant only issued \$1.0 million in short-term debt in the third quarter, as cash from operations and common share proceeds were sufficient for debt repayment, dividends and investing needs. Aliant maintains lines of credit totaling \$725 million in aggregate with its bankers of which \$350 million is a committed facility supporting the Company's commercial paper program and \$225 million is a total of three committed bank lines held in reserve in support of the guarantee of Stratos Global's debt. The other \$150 million is a total of Aliant's uncommitted operating lines. As at September 30, 2001, Aliant had issued a total of \$127.4 million in commercial paper and had nothing outstanding on its operating lines.

CAPITAL STRUCTURE

The BT A&M acquisition by Stratos Global contributed in large part to the 56.5% debt level in Aliant's capital structure at December 31, 2000. Also, the accelerated rollout of Aliant Telecom's 2001 capital expenditure program added to the debt requirements of the Company in the first quarter of 2001. The issuance of preferred shares in the second quarter and growth in cash flow from operations has offset this and improved the debt levels to where they stand at September 30, 2001. Aliant's consolidated debt ratio at the end of the third quarter was 50.3%, returning Aliant's balance sheet to a very strong position relative to the industry. By the end of the year, it is expected that the debt level will remain at approximately 50% of Aliant's capital structure.

In addition to the favourable capital structure position, interest and fixed charges coverage ratios are very strong. It is anticipated that Aliant will continue to generate sufficient internal cash flow to provide for dividend payments, as and when such dividends are declared, and to fund its capital expenditures as well as new investments. Also, Aliant has sufficient capacity in its existing and available financing arrangements to provide liquidity for existing operations and planned future growth.

Consolidated capital structure (thousands of dollars)

	September 30, 2001		December 31, 2000	
Common equity	\$ 1,438,539	42.5%	\$ 1,343,403	41.0%
Preferred equity	172,455	5.1%	—	—
Non-controlling interest	71,841	2.1%	82,486	2.5%
Long-term debt (including current portion)	1,544,686	45.6%	1,568,271	47.9%
Short-term debt (including bank indebtedness)	160,217	4.7%	282,143	8.6%
	\$ 3,387,738	100.0%	\$ 3,276,303	100.0%

Consolidated financial statements

Consolidated balance sheets (unaudited)

<i>(Thousands of dollars)</i>	As at September 30, 2001	As at December 31, 2000
ASSETS		
Current assets		
Cash	\$ 25,031	\$ 70,444
Accounts receivable	703,043	638,425
Inventory	46,080	45,528
Prepayments	46,718	30,247
	820,872	784,644
Capital assets – net (note 4)	2,324,426	2,355,145
Other assets		
Long-term investments (note 5)	69,566	80,058
Deferred charges	131,355	47,733
Future income tax asset	660	9,439
Goodwill (note 6)	427,768	452,616
	629,349	589,846
Total assets	\$ 3,774,647	\$ 3,729,635
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness	\$ 32,834	\$ 46,826
Notes payable (note 7)	127,383	235,317
Payables and accruals	334,524	396,871
Long-term debt due within one year (note 8)	53,321	58,880
	548,062	737,894
Long-term debt (note 8)	1,491,365	1,509,391
Future income tax liability	7,864	5,631
Accrued benefit obligation	34,454	42,063
Deferred credits	10,067	8,767
Non-controlling interest (note 9)	71,841	82,486
Shareholders' equity		
Capital stock (note 10)	1,161,365	922,601
Contributed surplus	69,320	69,320
Retained earnings	380,309	351,482
	1,610,994	1,343,403
Total liabilities and shareholders' equity	\$ 3,774,647	\$ 3,729,635

See accompanying notes to the consolidated financial statements

Signed on behalf of the board of directors



Charles White
Chairman



Edward Reevey
Director

Consolidated statements of income (unaudited)

For the period ended September 30 (thousands of dollars)	Three months		Year to date	
	2001	2000	2001	2000
Operating revenues (note 12)	\$ 640,501	\$ 567,231	\$ 1,937,707	\$ 1,661,746
Expenses				
Cost of operating revenues	167,117	137,495	512,730	382,961
Operating expenses	223,696	210,454	713,177	639,153
Amortization	108,472	83,746	326,405	262,340
	499,285	431,695	1,552,312	1,284,454
Operating income	141,216	135,536	385,395	377,292
Other income (expenses)	(7,207)	2,271	(10,956)	5,681
Interest charges				
Interest on long-term debt	36,043	25,914	113,885	78,908
Other interest	2,713	4,078	8,966	12,650
	38,756	29,992	122,851	91,558
Income before underlisted items	95,253	107,815	251,588	291,415
Income taxes	53,179	52,357	140,219	139,038
Income before non-controlling interest	42,074	55,458	111,369	152,377
Non-controlling interest (share of losses)	(3,920)	(3,462)	(12,704)	(5,545)
Net Income	\$ 45,994	\$ 58,920	\$ 124,073	\$ 157,922
Earnings per common share (note 13)				
Basic	\$ 0.32	\$ 0.44	\$ 0.89	\$ 1.20
Diluted	\$ 0.31	\$ 0.43	\$ 0.87	\$ 1.19

See accompanying notes to the consolidated financial statements

Consolidated statements of retained earnings (unaudited)

For the period ended September 30 (thousands of dollars)	2001	2000
Balance, beginning of period	\$ 351,482	\$ 253,636
Net Income	124,073	157,922
Preferred share dividends	(4,235)	—
Common share dividends	(91,011)	(89,049)
Balance, end of period	\$ 380,309	\$ 322,509

See accompanying notes to the consolidated financial statements

Consolidated statements of cash flows (unaudited)

For the period ended September 30 (thousands of dollars)	Three months		Year to date	
	2001	2000	2001	2000
Cash and cash equivalents from (used in) operations				
Net income	\$ 45,994	\$ 58,920	\$ 124,073	\$ 157,922
Add (deduct) non-cash items				
Amortization	110,204	83,836	329,018	262,637
Other non cash items	1,730	(21,061)	(1,820)	(24,826)
Share in earnings of equity accounted investments	1,612	973	4,524	2,043
Non-controlling interest share of losses	(3,920)	(3,462)	(12,704)	(5,545)
	155,620	119,206	443,091	392,231
Change in non-cash working capital balances related to operations	43,433	47,505	(83,916)	(109,892)
	199,053	166,711	359,175	282,339
Cash and cash equivalents from (used in) financing				
Proceeds from issue of preferred shares	(23)	—	172,433	—
Proceeds from issue of common shares	24,248	9,377	66,331	223,299
Net (repayment) proceeds from long-term debt	(135,653)	1,119	(49,745)	(74,073)
Preferred dividends	(2,384)	—	(4,235)	—
Common dividends	(30,557)	(30,182)	(91,011)	(89,049)
Increase (decrease) in non-controlling interest	64	(3,029)	2,059	52,691
Increase (decrease) in notes payable	1,047	41,041	(133,848)	129,599
	(143,258)	18,326	(38,016)	242,467
Cash and cash equivalents from (used in) investing				
Capital expenditures	(90,058)	(113,525)	(339,902)	(294,361)
Increase (decrease) in other deferred charges	(50,113)	(22,588)	(82,322)	(19,980)
Proceeds on sale of investments	31,606	13,014	53,197	45,630
Purchase of subsidiaries' net assets and goodwill (note 3)	—	(27,229)	(2,539)	(152,932)
Investments	13,647	(22,724)	18,986	(29,385)
	(94,918)	(173,052)	(352,580)	(451,028)
Change in cash and cash equivalents	(39,123)	11,985	(31,421)	73,778
Cash and cash equivalents, beginning of period	31,320	48,157	23,618	(13,636)
Cash and cash equivalents, end of period	\$ (7,803)	\$ 60,142	\$ (7,803)	\$ 60,142
Cash and cash equivalents consist of:				
Cash	\$ 25,031	\$ 86,936	\$ 25,031	\$ 86,936
Bank indebtedness	\$ (32,834)	\$ (26,794)	\$ (32,834)	\$ (26,794)
	\$ (7,803)	\$ 60,142	\$ (7,803)	\$ 60,142
Supplementary disclosure				
Interest paid	\$ 40,763	\$ 33,566	\$ 121,531	\$ 96,276
Income taxes paid	\$ 38,663	\$ 53,055	\$ 122,799	\$ 111,265

See accompanying notes to the consolidated financial statements

Notes to the consolidated financial statements

NOTE 1

INTERIM FINANCIAL STATEMENTS

The accounting policies and methods followed for interim reporting purposes are consistent with those in effect as at December 31, 2000, except for earnings per share as

explained below, and these unaudited interim financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2000.

NOTE 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidated financial statements

The consolidated financial statements include the accounts of Aliant Inc. (the "Company") and all entities which are controlled by the Company.

At September 30, 2001, the principal subsidiaries of the Company include: Aliant Telecom Inc., Aliant Information Technology Inc., Xwave Solutions Inc., Aliant Horizons Inc., Stratos Global Corporation, AMI Offshore Inc., Innovatia Inc., Prexar LLC, Aliant Properties Inc., and Aliant Energy Services Inc.

The Company accounts for its interest in Joint Ventures by proportionate consolidation.

Use of accounting estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Regulation

Aliant Telecom Inc., the Company's major telecommunications subsidiary, is subject to regulation by the Canadian Radio-Television and Telecommunications Commission ("CRTC").

Capital assets

Capital assets are recorded at cost. Depreciation is computed on a straight-line basis or declining balance basis at rates (outlined in the table below) over the useful lives of the assets.

Asset	Method	Rate
Buildings	Declining balance	4-5%
Plant	Straight line	15 years
Machinery and equipment	Straight line	3-5 years

Gains and losses on the disposal of capital assets are included in income in the year they occur.

Income taxes

The Company follows the liability method of accounting for income taxes in accordance with the new recommendations of the Canadian Institute of Chartered Accountants. Under this method future income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using substantively enacted tax rates and laws that are expected to be in effect in the periods in which the future tax assets or liabilities are expected to be realized or settled. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income in the period that the change occurs.

Inventory

Inventory is valued at the lower of cost and net realizable value.

Investments

The Company accounts for its investments in affiliated companies over which it has significant influence on the equity basis of accounting,

whereby the investments are initially recorded at cost, and subsequently adjusted to recognize the Company's share of earnings or losses of the investee companies and reduced by dividends received. The excess of the cost of equity investments over the underlying book value at the date of acquisition is amortized over the estimated useful lives of the underlying assets to which it is attributed.

Portfolio investments are accounted for on the cost basis. Declines in market value below cost are recognized when such declines are considered to be other than temporary.

Foreign currency translation

Assets and liabilities of the Company's integrated foreign operations (including Stratos Global Corporation) are translated using the temporal method whereby monetary items are translated at exchange rates prevailing at the balance sheet date, which was US\$1.00 = Canadian \$1.58 at September 30, 2001 (US\$1.00 = Canadian \$1.50 at December 31, 2000) and non-monetary items at historical rates. Revenues and expenses are translated at the average exchange rate. Exchange gains and losses arising from the translation of foreign currency items are included in income, except that gains or losses which arise from the translation of long term monetary items are deferred and amortized to income over the life of the related monetary item.

Deferred charges

Deferred charges include debt issue costs, and deferred foreign exchange losses associated with United States denominated debt, which are amortized on a straight-line basis over the term of the related debt.

Goodwill

Goodwill represents the excess at the dates of acquisition of the costs over the fair values of the net tangible assets of subsidiary companies and is amortized on a straight-line basis over the estimated life of ten to twenty years. The Company evaluates the carrying value of goodwill for potential permanent impairment through ongoing review and analysis of fair market value and expected earnings. A permanent impairment in the value of goodwill is written off against earnings in the year such impairment is recognized.

Post employment benefits

The Company maintains both contributory defined contribution and non-contributory defined benefit final average pension plans for the benefit of employees of certain subsidiaries.

The Company also offers other non-pension post employment benefits to employees of certain subsidiaries, including life insurance and health care plans. Obligations under the employee benefit plans are accrued as the employees render the service necessary to earn the pension and other employee future benefits.

The Company accrues its obligations under employee benefit plans and the related costs, net of plan assets. The Company has adopted the following policies for its defined benefit pension plans and other retirement benefits:

- The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro rated on service and management's best estimate of

NOTE 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs
- (b) For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.
 - (c) Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.
 - (d) The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees.
 - (e) When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

Earnings per share

Effective January 1, 2001, the Company implemented the new recommendations of the Canadian Institute of Chartered Accountants with regards to earnings per share. Accordingly, diluted earnings per share

is computed in accordance with the treasury stock method and based on the weighted average number of common share and dilutive common share equivalents. The comparative figures have been presented to conform to the adopted accounting method and presentation.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks, and investments in money market instruments of less than 90 days that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. The Company uses the indirect method to prepare its cash flow statement.

Stock-based compensation plan

The Company has a stock-based compensation plan for directors, executives and certain senior managers, which is described in note 11. No compensation expense is recognized when stock options are issued. Consideration paid on exercise of stock options is credited to share capital. Compensation expense is recognized for the Company's contributions to the employee share purchase plan.

NOTE 3

ACQUISITIONS

The Company made the following acquisitions for cash consideration:

(Thousands of dollars)

Subsidiary acquired	Acquisition date	% acquired	September 30, 2001		
			Purchase price	Net assets acquired	Goodwill
Emerging business					
Lamere.Net – asset purchase (Internet access provider)	January 1	100	\$ 2,146	\$ 1,239	\$ 907
Internet Maine – asset purchase (Internet access provider)	April 12	100	1,327	194	1,133
			3,473	1,433	2,040
Less : cash in subsidiary at time of acquisition			934	934	—
Acquisition, net of cash acquired			\$ 2,539	\$ 499	\$ 2,040

These acquisitions have been accounted for using the purchase method of accounting. Goodwill resulting from the acquisitions is being amortized on a straight-line basis consistent with the policy

outlined in note 2. The consolidated statements of income include the results of operations from the date of acquisition.

NOTE 4

CAPITAL ASSETS

(Thousands of dollars)

	September 30, 2001			December 31, 2000		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	\$ 17,066	\$ —	\$ 17,066	\$ 17,629	\$ —	\$ 17,629
Buildings	321,242	154,797	166,445	341,838	171,410	170,428
Plant	3,993,150	2,368,402	1,624,748	3,817,539	2,213,756	1,603,783
Machinery and equipment	840,911	371,288	469,623	783,561	300,523	483,038
Plant under construction	38,067	—	38,067	60,743	—	60,743
Materials and supplies	8,477	—	8,477	19,524	—	19,524
Total capital assets	\$ 5,218,913	\$ 2,894,487	\$ 2,324,426	\$ 5,040,834	\$ 2,685,689	\$ 2,355,145

NOTE 5

LONG-TERM INVESTMENTS

(Thousands of dollars)

	September 30, 2001	December 31, 2000
Investments subject to significant influence	\$ 23,885	\$ 30,853
Portfolio investments	45,681	49,205
	\$ 69,566	\$ 80,058

NOTE 6

GOODWILL

<i>(Thousands of dollars)</i>	September 30, 2001	December 31, 2000
Goodwill, at cost	\$ 481,914	\$ 484,786
Accumulated amortization	(54,146)	(32,170)
	\$ 427,768	\$ 452,616

NOTE 7

NOTES PAYABLE

At September 30, 2001 the Company has lines of credit available of \$725 million. These lines consist of \$350 million in committed lines supporting the Company's commercial paper program, \$225 million in

committed lines supporting a Stratos loan guarantee and \$150 million in uncommitted operating lines.

NOTE 8

LONG-TERM DEBT

(Thousands of dollars)

	Interest rate	Maturity	September 30, 2001	December 31, 2000
Telecommunications				
Notes	6.459% – 12.25%	2002-2009	\$ 500,000	\$ 350,032
Bonds	8.76% – 12.25%	2005-2019	197,500	301,500
Debentures	6.40% – 11.125%	2001-2025	315,000	400,000
Other			2,765	—
			1,015,265	1,051,532
Present value of obligation under capital leases			1,648	3,465
Total – Telecommunications			1,016,913	1,054,997
Information technology				
Mortgages			2,316	2,745
Present value of obligation under capital leases			335	354
Total – Information technology			2,651	3,099
Remote communications				
Acquisition facility	LIBOR + 3.75%	2005	315,700	270,855
Term debt	LIBOR + 3.75%	2002	197,313	224,513
Other	8.75%	2006	2,775	5,427
Total – Remote communications			515,788	500,795
Emerging business				
Mortgages			1,520	2,238
Bank loans			5,249	4,811
Present value of obligation under capital leases			464	516
Other			2,101	1,815
Total – Emerging business			9,334	9,380
Total long-term debt			1,544,686	1,568,271
Less: Portion due within one year			53,321	58,880
			\$ 1,491,365	\$ 1,509,391

NOTE 9

NON-CONTROLLING INTEREST

The non-controlling interest consists of common equity of subsidiary companies held by third parties.

(Thousands of dollars)

	September 30, 2001	December 31, 2000
Stratos Global Corporation	\$ 64,503	\$ 75,016
TechKnowledge Inc.	847	181
Atlantic Mobility Products Ltd.	940	412
Prexar LLC	1,220	2,413
Sablecom	533	1,094
Transtech Engineering Inc.	43	57
AMI Offshore Limited	3,755	3,313
	\$ 71,841	\$ 82,486

NOTE 10

CAPITAL STOCK

Authorized

Unlimited number of preference shares, issuable in series.

Unlimited number of common shares.

Issued

(Thousands of dollars)

	September 30, 2001		December 31, 2000	
	Number of shares	Value	Number of shares	Value
Preference shares, series 2	7,000,000	\$ 172,433	—	\$ —
Common shares without par value	136,614,406	988,932	134,336,983	922,601
		\$ 1,161,365		\$ 922,601

Share transactions

Preference shares

On April 20, 2001 the Company issued seven million cumulative redeemable preference shares (Series 2) at the price of \$25 per share and with a fixed annual dividend rate of \$1.3625 per share. These shares are non-voting, except under certain conditions, and are redeemable at the price of \$25 (plus any unpaid dividends) at the

Company's option on June 30, 2006 or on June 30 each fifth year thereafter.

Preference shareholders (Series 2) may convert Series 2 preference shares to Series 3 preference shares on June 30, 2006 or on June 30 each fifth year thereafter, provided that the Company has not delivered a notice of redemption.

The Company issued the following shares:

(Thousands of dollars)

	September 30, 2001		December 31, 2000	
	Number of shares	Value	Number of shares	Value
For cash:				
Stock option plan (note 11)	218,253	\$ 3,299	546,502	\$ 8,856
Common shareholder dividend reinvestment and stock purchase plan	1,243,047	36,623	129,928	4,827
Issued for cash – May 2000	—	—	5,620,000	196,196
Employees' stock savings plan (note 11)	816,123	26,409	560,440	20,309
Shares issued in relation to acquisition activities	—	—	45,662	1,000
	2,277,423	\$ 66,331	6,902,532	\$ 231,188

Under the provisions of the Company's common shareholder dividend reinvestment and stock purchase plan and employees' stock

savings plan, shareholders purchase additional common shares in lieu of receiving corporate dividends in the form of cash.

NOTE 11

STOCK-BASED COMPENSATION PLANS

At September 30, 2001 the Company has the following stock based compensation plans.

Stock option plan

Under the stock option plan, the Company may grant options to plan members for up to 6,500,000 shares of common stock. The exercise price of each option equals the market price of the Company's

stock on the date of grant and an option's maximum term is ten years. Options become fully vested three years from the date they are granted under the plan.

A summary of the status of the Company's stock option plan as of September 30, 2001 and December 31, 2000, and changes during the periods ended on those dates is presented below:

(Thousands of dollars)

	September 30, 2001		December 31, 2000	
	Number of shares	Weighted-average exercise price	Number of shares	Weighted-average exercise price
Option outstanding at beginning of period	2,478,674	\$ 23.26	2,202,906	\$ 17.60
Granted	414,520	35.33	822,270	33.73
Exercised	218,253	15.12	546,502	16.20
Options outstanding at end of period	2,674,941	26.19	2,478,674	23.26
Options exercisable at end of period	1,612,927	\$ 22.24	1,292,081	\$ 18.13

NOTE 11**STOCK-BASED COMPENSATION PLANS (continued)**

The following table summarizes information about stock options outstanding at September 30, 2001:

Range of exercise prices	Number outstanding at September 30, 2001	Options outstanding		Options exercisable	
		Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at September 30, 2001	Weighted-average exercise price
\$10.625 to \$38.10	2,674,941	7.3 years	\$26.19	1,612,927	\$22.24

The Company expects that approximately 95% of the nonvested awards at September 30, 2001 will eventually vest.

Employees' stock savings plan

Under the employees' stock savings plan, the Company is authorized to issue up to 3,500,000 shares of common stock to its full-time employees, nearly all of whom are eligible to participate. Under the terms of the plan, employees can choose each year to have a portion of their annual base earnings withheld to purchase

the Company's common stock. The Company contributes to the plan on behalf of eligible participants based upon a prescribed formula. The purchase price of the stock is the arithmetic average of the closing price of the shares traded on The Toronto Stock Exchange on the last five days up to, and including, the dividend payment date. Over 80% of eligible employees are participating in the plan. Under the plan, the Company sold 816,123 shares to employees from January 1 to September 30, 2001.

NOTE 12**SEGMENTED INFORMATION**

The Company operates through four reportable segments:

Telecommunications – provides a full range of telecommunications services in New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador.

Information Technology – provides systems integration, application development, local area network installation, wide area network management, data center operations, VAR and information technology planning services. Included in this line of business is Xwave Solutions Inc.

Remote Communications – provides a full range of satellite communications services to clients in the international marketplace. Included in this line of business are Stratos Global Corporation and its subsidiaries.

Emerging Business – focused on developing and nurturing new

technology-based products and services such as: (1) computer telephony integration, TV over copper, high-speed e-commerce, and new media. This includes iMagicTV and Innovatia Inc.; and (2) supply and service of the east coast oil and gas industry as conducted by AMI Offshore Limited.

These reportable segments are managed as separate business units as they operate in different industries and require different market strategies and technologies.

The accounting policies of the segments are the same as those described in note 2. The Company evaluates performance based on a number of financial and non-financial indicators including net income, return on equity and revenue growth.

The Company accounts for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current market prices.

(Thousands of dollars)

For the three month period ended September 30, 2001

	Telecommunications	Information technology	Remote communications	Emerging business	All others	Eliminations	Consolidated
Revenue from external customers	\$ 459,485	\$ 48,759	\$ 110,831	\$ 21,347	\$ 79	\$ —	\$ 640,501
Intersegment revenue	5,452	36,557	—	7,086	—	(49,095)	—
Operating revenue	\$ 464,937	\$ 85,316	\$ 110,831	\$ 28,433	\$ 79	\$ (49,095)	\$ 640,501
Other income (expenses)	1,072	166	(6,412)	(1,884)	2,817	(2,966)	(7,207)
Operating expenses	323,005	83,291	98,417	33,989	5,713	(45,130)	499,285
Interest expense	25,097	532	13,673	607	1,814	(2,967)	38,756
Income taxes	54,274	1,393	2,524	(2,250)	(1,832)	(930)	53,179
Non-controlling interest	291	(10)	(3,965)	(236)	—	—	(3,920)
Net income (loss)	\$ 63,342	\$ 276	\$ (6,230)	\$ (5,561)	\$ (2,799)	\$ (3,034)	\$ 45,994
Total assets	\$ 2,660,571	\$ 270,455	\$ 817,430	\$ 167,943	\$ 1,663,624	\$ (1,805,376)	\$ 3,774,647
Capital expenditures	\$ 66,653	\$ 5,783	\$ 7,478	\$ 9,212	\$ 932	\$ —	\$ 90,058
Goodwill acquired	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Depreciation and amortization	\$ 86,140	\$ 4,562	\$ 13,719	\$ 2,058	\$ 86	\$ 1,907	\$ 108,472

NOTE 12

SEGMENTED INFORMATION (continued)

(Thousands of dollars)

For the three month period ended September 30, 2000

	Telecommunications	Information technology	Remote communications	Emerging business	All others	Eliminations	Consolidated
Revenue from external customers	\$ 440,632	\$ 45,654	\$ 45,420	\$ 33,301	\$ 2,224	\$ —	\$ 567,231
Intersegment revenue	4,436	33,355	—	7,442	570	(45,803)	—
Operating revenue	\$ 445,068	\$ 79,009	\$ 45,420	\$ 40,743	\$ 2,794	\$ (45,803)	\$ 567,231
Other income (expenses)	1,249	466	(4,625)	4,627	3,762	(3,208)	2,271
Operating expenses	316,099	72,621	50,321	30,339	6,323	(44,008)	431,695
Interest expense	24,270	342	2,361	419	5,807	(3,207)	29,992
Income taxes	48,844	2,875	(2,160)	5,189	(2,391)	—	52,357
Non-controlling interest	65	16	(3,502)	(41)	—	—	(3,462)
Net income (loss)	\$ 57,039	\$ 3,621	\$ (6,225)	\$ 9,464	\$ (3,183)	\$ (1,796)	\$ 58,920
Total assets	\$ 2,635,751	\$ 209,649	\$ 342,997	\$ 124,123	\$ 1,631,386	\$ (1,214,271)	\$ 3,729,635
Capital expenditures	\$ 106,225	\$ 2,598	\$ 2,374	\$ 2,126	\$ 202	\$ —	\$ 113,525
Goodwill acquired	\$ —	\$ 1,713	\$ 23,267	\$ 2,192	\$ —	\$ —	\$ 27,172
Depreciation and amortization	\$ 72,455	\$ 3,170	\$ 5,226	\$ 673	\$ 426	\$ 1,796	\$ 83,746

(Thousands of dollars)

For the nine month period ended September 30, 2001

	Telecommunications	Information technology	Remote communications	Emerging business	All others	Eliminations	Consolidated
Revenue from external customers	\$ 1,363,137	\$ 176,921	\$ 320,390	\$ 76,594	\$ 665	\$ —	\$ 1,937,707
Intersegment revenue	14,082	109,301	—	25,831	—	(149,214)	—
Operating revenue	\$ 1,377,219	\$ 286,222	\$ 320,390	\$ 102,425	\$ 665	\$ (149,214)	\$ 1,937,707
Other income (expenses)	2,340	299	(13,226)	74	8,606	(9,049)	(10,956)
Operating expenses	996,990	271,684	290,569	112,324	18,268	(137,523)	1,552,312
Interest expense	75,497	1,628	43,886	1,605	9,283	(9,048)	122,851
Income taxes	140,908	7,342	6,049	(3,502)	(7,883)	(2,695)	140,219
Non-controlling interest	582	(101)	(13,173)	(12)	—	—	(12,704)
Net income (loss)	\$ 165,582	\$ 5,968	\$ (20,167)	\$ (7,916)	\$ (10,397)	\$ (8,997)	\$ 124,073
Total assets	\$ 2,660,571	\$ 270,455	\$ 817,430	\$ 167,943	\$ 1,663,624	\$ (1,805,376)	\$ 3,774,647
Capital expenditures	\$ 282,727	\$ 10,953	\$ 15,974	\$ 29,090	\$ 1,158	\$ —	\$ 339,902
Goodwill acquired	\$ —	\$ —	\$ —	\$ 2,040	\$ —	\$ —	\$ 2,040
Depreciation and amortization	\$ 261,865	\$ 11,695	\$ 41,680	\$ 5,203	\$ 240	\$ 5,722	\$ 326,405

(Thousands of dollars)

For the nine month period ended September 30, 2000

	Telecommunications	Information technology	Remote communications	Emerging business	All others	Eliminations	Consolidated
Revenue from external customers	\$ 1,291,214	\$ 147,376	\$ 124,184	\$ 92,050	\$ 6,922	\$ —	\$ 1,661,746
Intersegment revenue	12,686	93,317	—	13,319	1,709	(121,031)	—
Operating revenue	\$ 1,303,900	\$ 240,693	\$ 124,184	\$ 105,369	\$ 8,631	\$ (121,031)	\$ 1,661,746
Other income (expenses)	3,231	622	(4,625)	3,571	11,579	(8,697)	5,681
Operating expenses	948,524	219,689	131,820	80,314	19,991	(115,884)	1,284,454
Interest expense	75,995	1,776	6,577	1,218	14,690	(8,698)	91,558
Income taxes	131,043	8,663	(2,300)	8,866	(7,234)	—	139,038
Non-controlling interest	181	205	(5,918)	(13)	—	—	(5,545)
Net income (loss)	\$ 151,388	\$ 10,982	\$ (10,620)	\$ 18,555	\$ (7,237)	\$ (5,146)	\$ 157,922
Total assets	\$ 2,635,751	\$ 209,649	\$ 342,997	\$ 124,123	\$ 1,631,386	\$ (1,214,271)	\$ 3,729,635
Capital expenditures	\$ 268,124	\$ 6,896	\$ 13,693	\$ 4,815	\$ 833	\$ —	\$ 294,361
Goodwill acquired	\$ 4,128	\$ 31,815	\$ 30,886	\$ 2,192	\$ —	\$ —	\$ 69,021
Depreciation and amortization	\$ 230,150	\$ 9,760	\$ 13,028	\$ 3,026	\$ 1,228	\$ 5,148	\$ 262,340

NOTE 12

SEGMENTED INFORMATION (continued)

Revenue by product and service

For the period ended September 30 (thousands of dollars)	Three months		Year to date	
	2001	2000	2001	2000
Local	\$ 219,341	\$ 209,102	\$ 649,463	\$ 635,290
Long distance	96,032	107,076	296,238	321,821
Wireless	68,317	59,898	183,814	157,059
Other telecommunications	75,795	64,556	233,622	177,044
	459,485	440,632	1,363,137	1,291,214
Information technology	48,759	45,654	176,921	147,376
Remote communications	110,831	45,420	320,390	124,184
Emerging business	21,347	33,301	76,594	92,050
Other	79	2,224	665	6,922
	\$ 640,501	\$ 567,231	\$ 1,937,707	\$ 1,661,746

NOTE 13

EARNINGS PER COMMON SHARE

For the period ended September 30 (thousands except per share amounts)	Three months		Year to date	
	2001	2000	2001	2000
Reconciliation of net income available to common shareholders				
Net income	\$ 45,994	\$ 58,920	\$ 124,073	\$ 157,922
Preferred shared dividends	(2,384)	—	(4,235)	—
	\$ 43,610	\$ 58,920	\$ 119,838	\$ 157,922
Basic				
Average number of common shares outstanding	135,975	134,032	135,216	130,860
Per share amount	\$ 0.32	\$ 0.44	\$ 0.89	\$ 1.20
Diluted				
Average number of common shares outstanding	135,975	134,032	135,216	130,860
Impact of outstanding stock options	2,260	2,341	2,260	2,341
	138,235	136,373	137,476	133,201
Per share amount	\$ 0.31	\$ 0.43	\$ 0.87	\$ 1.19

NOTE 14

CONTINGENCIES

An international arbitration action for approximately US\$8.0 million was initiated in 1999 against certain subsidiaries of the Company claiming breach of contract. In December 2000 an arbitrator rejected the claimant's arguments, but adopted a new theory that the subsidiaries breached the agreement. The arbitrator has required the subsidiaries to submit data for the damages phase. The subsidiaries have paid US\$0.5 million to the claimant in 2000 and accrued an additional US\$0.8 million as a special charge. The subsidiaries do not believe that the outcome will

exceed this amount.

An action has been commenced against the Company by 132 former employees who took early retirement under the 1998 early retirement incentive program. The former employees seek damages in the amount of the difference between what they received upon retirement in 1998, and what they would have received had they retired under the 1999 early retirement incentive program. The outcome of this matter is not determinable at this time.

NOTE 15

SUBSEQUENT EVENT

Subsequent to the period end, the Company announced its intention to restructure operations. The cost of restructuring, estimated

to be \$111 million, will be charged to operations in the fourth quarter.

NOTE 16

RESTATEMENT OF COMPARATIVE FIGURES

The comparative financial information has been restated to conform to the presentation adopted for 2001.

Shareholder information

We're here to help

To learn more about Aliant visit our Web site at www.aliant.ca.

For additional financial information contact Aliant investor relations.

Phone: 1.877.248.3113

Fax: 1.877.498.2464

E-mail: investor.relations@aliant.ca

For information about the dividend reinvestment and stock purchase plan (DRP) and for answers to shareholder inquiries contact our transfer agent, CIBC Mellon Trust Company.

Phone: 1.800.387.0825

E-mail: inquiries@cibcmellon.com

Dividend dates

<i>Record dates</i>	<i>Payment dates</i>
September 15, 2001	September 30, 2001
December 14, 2001	December 30, 2001
March 15, 2002*	March 30, 2002
June 15, 2002*	June 30, 2002

* Subject to approval by the board of directors

Performance numbers

For the quarter ended and as at September 30

	2001	2000	% change
Network access services – landlines	1,559,260	1,558,750	0.0
Network access services – cellular	450,134	357,928	25.8
Internet subscribers – high-speed	61,111	27,303	123.8
Internet subscribers – dial-up	187,058	164,000	14.1
Long-distance conversation minutes	849,438,000	807,523,000	5.2
Employees	10,502	10,050	4.5
Quarter-end stock price	\$ 30.97	\$ 37.20	(16.7)

INDIVIDUAL STRENGTH TEAM PERFORMANCE

The Aliant *Premium* model

Our path to growth is defined by the Aliant *Premium* model, a business strategy that emphasizes the individual strengths of our four lines of business. And, by combining their capabilities, we provide unique solutions for customers and extra value for shareholders.

